CAPITAL ADEQUACY (E) TASK FORCE

Capital Adequacy (E) Task Force Aug. 14, 2023, Minutes
- Capital Adequacy (E) Task Force June 30, 2023, Minutes (Attachment One)
  - Proposal 2023-02-P(MOD) (Attachment One-A)
  - Proposal 2023-09-IRE (Attachment One-B)
  - Proposal 2023-10-IRE (Attachment One-C)
  - Proposal 2022-09-CA(MOD) (Attachment One-D)
  - Proposal 2022-16-CA (Attachment One-E)
  - Proposal 2023-01-CA (Attachment One-F)
- Capital Adequacy (E) Task Force April 28, 2023, Minutes (Attachment Two)
  - Proposal 2023-02-P (Underwriting Risk Line 1 Factors) (Attachment Two-A)
  - Proposal 2023-03-IRE (Revised Residual Structure for Life) (Attachment Two-B)
  - Proposal 2023-04-IRE (Residual Sensitivity Test for Life) (Attachment Two-C)
  - Proposal 2023-05-L (Remove Dual Trend Test) (Attachment Two-D)
  - Proposal 2023-06-L (C-2 Mortality Risk Structure Changes) (Attachment Two-E)
  - Proposal 2023-07-L (CM6 & CM7 Mortgages Structures Changes) (Attachment Two-F)
- Health Risk-Based Capital (E) Working Group (RBC) July 25, 2023, Minutes (Attachment Three)
  - Health Risk-Based Capital (E) Working Group (RBC) May 17, 2023, Minutes (Attachment Three-A)
  - Health Risk-Based Capital (E) Working Group (RBC) April 17, 2023, Minutes (Attachment Three-B)
    - Graphical Representation of the Initial Analysis Results of the Health Care Receivables Project (Attachment Three-B1)
  - 2023 Health Risk-Based Capital Newsletter (Attachment Three-C)
  - 2022 Health RBC Statistics (Attachment Three-D)
  - Health Test Proposal (Attachment Three-E)
  - Update Letter from the Academy of Actuaries (Academy) on the H2 – Underwriting Risk Review (Attachment Three-F)
- Life Risk-Based Capital (E) Working Group Aug. 13, 2023, Minutes (Attachment Four)
  - Life Risk-Based Capital (E) Working Group June 22, 2023, Minutes (Attachment Four-A)
    - Proposal 2023-08-L (Attachment Four-A1)
  - Life Risk-Based Capital (E) Working Group April 14, 2023, Minutes (Attachment Four-B)
    - Comment Letter from ACLI Regarding Academy Proposal for Life C-2 Structural and Instruction Updates and a New Financial Statement Note (Attachment Four-B1)
  - 2023 Life RBC Newsletter (Attachment Four-C)
  - 2022 Life RBC Statistics (Attachment Four-D)
- Property and Casualty Risk-Based Capital (E) Working Group July 27, 2023, Minutes (Attachment Five)
  - Property and Casualty Risk-Based Capital (E) Working Group June 16, 2023, Minutes (Attachment Five-A)
  - Property and Casualty Risk-Based Capital (E) Working Group April 14, 2023, Minutes (Attachment Five-B)
    - Blanks Proposal 2023-01BWG (Attachment Five-B1)
    - Referral to Blanks (E) Working Group Regarding Deferral of Adoption of Blanks Proposal 2023-01BWG (Attachment Five-B2)
    - Blanks Proposal 2022-15BWG (Attachment Five-B3)
  - Catastrophe Risk (E) Subgroup July 17, 2023, Minutes (Attachment Five-C)
    - Presentation from Verisk on a Severe Convective Storms Model Update and Technical Review (Attachment Five-C1)
    - Presentation from the NAIC on the National Flood Insurance Program Update (Attachment Five-C2)
    - Presentation from Milliman on the U.S. Private Flood Market (Attachment Five-C3)
  - 2023 P/C RBC newsletter (Five-D)
  - Presentation on Current P/C RBC Projects from the Academy (Attachment Five-E)

Draft: 8/22/23

Capital Adequacy (E) Task Force
Seattle, Washington
August 14, 2023

The Capital Adequacy (E) Task Force met Aug. 14, 2023. The following Task Force members participated: Judith L. French, Chair, represented by Tom Botsko and Dale Bruggeman (OH); Grace Arnold, Vice Chair, represented by Fred Andersen (MN); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Sheila Travis (AL); Ricardo Lara represented by Laura Clements (CA); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Bradley Trim (FL); Doug Ommen represented by Mike Yanacheak (IA); Dana Popish Severinghaus represented by Bruce Sartain (IL); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Vicki Lloyd (KY); Kathleen A. Birrane represented by Lynn Beckner (MD); Chlora Lindley-Myers represented by John Rehagen and Debbie Doggett (MO); Troy Downing represented by Erin Snyder (MT); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Margaret Garrison and Michael Muldoon (NE); D.J. Bettencourt represented by Jennifer Li and Christian Citarella (NH); Justin Zimmerman represented by David Wolf (NJ); Glen Mulready represented by Diane Carter (OK); Michael Wise represented by Will Davis (SC); Cassie Brown represented by Jamie Walker (TX); Mike Kreidler represented by Steve Drutz (WA); and Nathan Houdek and Amy Malm (WI).

1. <u>Adopted its June 30 and April 28 Minutes</u>

Botsko said the Task Force met June 30 and April 28. During its June 30 meeting, the Task Force took the following action:1) adopted proposals: a) 2023-02-P (MOD) (Underwriting Risk Line 1 Factor Modification); b) 2023-09-IRE (Residual Factor for Life) and 2023-10-IRE (Residual Sensitivity Test Factor for Life); c) adopted proposal 2022-09-CA (MOD) (Revised Affiliated Investments Structure and Instructions); d) 2022-16-CA (Underwriting Risk Factors – Investment Income Adjustment); and e) 2023-01-CA (Stop Loss Premiums); 2) adopted the Generator of Economic Scenarios (E/A) Subgroup charges; 3) discussed the current turmoil in the banking sector; 4) received an update from its Risk Evaluation Ad Hoc Group.

During its April 28 meeting, the Task Force took the following action: 1) adopted its Spring National Meeting minutes; 2) discussed the current turmoil in the banking sector; 3) adopted proposals: a) 2023-02-P (Underwriting Risk Line 1 Factors); b) 2023-03-IRE (Revised Residual Structure for life); c) 2023-04-IRE (Residual Sensitivity Test for Life); d) 2023-05-L (Remove Dual Trend Test); e) 2023-06-L (C-2 Mortality Risk Structure Changes); and f) 2023-07-L (CM6 & CM7 Mortgages Structures Changes); 4) exposed proposals: a) 2022-16-CA (Underwriting Risk Factors Investment Income Adjustment); and b) 2023-01-CA (Stop Loss Premiums) for a 30-day public comment period ending May 27; 3) discussed a referral from the Valuation of Securities (E) Task Force; and 4) received an update from its Risk Evaluation Ad Hoc Group.

Eft made a motion, seconded by Davis, to adopt the Task Force's June 30 (Attachment One) and April 28 minutes (Attachment Two). The motion passed unanimously.

2. <u>Adopted the Reports of its Working Groups</u>

   A. <u>Health Risk-Based Capital (E) Working Group</u>

Drutz said the Health Risk-Based Capital (E) Working Group met July 25 and took the following action: 1) adopted its May 17 and April 17 minutes, which included the following action: a) adopted its Spring National Meeting minutes; b) referred proposal 2023-01-CA to the Capital Adequacy (E) Task Force for exposure; c) received an update from the American Academy of Actuaries (Academy) on the health care receivables and H2-underwriting risk review projects; d) discussed pandemic risk; and e) exposed the proposal on the health test language for a 45-day public comment period ending June 30; 2) adopted its 2023 health risk-based capital (RBC) newsletter; 3) adopted its 2022 health RBC statistics report; 4) exposed proposal 2023-11-H (XR014 Fee-for-Service & Other Risk Revenue-Medicare & Medicaid) for a 30-day public comment period ending Aug. 24. The proposal was drafted to include Medicare and Medicaid fee-for-service and other risk revenue amounts in Column (1), Lines (4) and (10) on pages XR014 and XR013; 5) received comments from the New York Department of Financial Services on the health test language proposal. The Working Group referred the proposal to the Blanks (E) Working Group; 6) received an update from the Academy on the health care receivables and H2-underwriting risk review projects. The Working Group agreed to reach out to companies where there are questions related to the reporting of health care receivables. The Working Group agreed to expose the Academy's update letter on the H2-underwriting risk review and work with the Academy to address the questions provided in its letter; 7) adopted its 2023 working agenda; 8) received an update on the work being performed by the Excessive Growth Charge Ad Hoc group; and 9) discussed a way forward on evaluating pandemic risk in the health RBC formula.

B. Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Barlow said the RBC Investment Risk and Evaluation (E) Working Group met Aug. 13 and took the following action: 1) adopted its June 14, May 17, April 20, and Spring National Meeting minutes, which included the following action: a) discussed comments received on proposed structural and factor changes for residual tranches; and b) adopted structural changes and factors for the base factor and a sensitivity test for residual tranches; 2) received updates from the Valuation of Securities (E) Task Force and the Statutory Accounting Principles (E) Working Group; and 3) heard a presentation from the Academy on principles for structured securities RBC.

C. Life Risk-Based Capital (E) Working Group

Barlow also said the Life Risk-Based Capital (E) Working Group met Aug. 13 and took the following action: 1) adopted its June 22, April 14, and Spring National Meeting minutes, which included the following action: a) adopted the Generator of Economic Scenarios (GOES) (E/A) Subgroup charges; b) discussed proposal 2023-08-L (Custody Control Accounts); c) discussed its working agenda; d) adopted proposals: i) 2023-05-L (C-2 Mortality Structure and Instruction Changes); ii) 2023-07-L (CM6 & CM7 Mortgage Structure Change); iii) 2023-08-L (Custody Control Accounts); and e) discussed C-2 mortality risk; 2) adopted its 2023 life RBC newsletter; 3) adopted its 2022 life RBC statistics report; 4) adopted its working agenda; 5) heard a presentation from the American Council of Life Insurers (ACLI) on repurchase agreements and exposed it for a 45-day public comment period.

D. Property and Casualty Risk-Based Capital (E) Working Group

Botsko said the Property and Casualty Risk-Based Capital (E) Working Group met July 27 and took the following action: 1) adopted its June 16 and April 24 minutes, which included the following action: a) adopted its Spring National Meeting Minutes; b) adopted proposal 2023-02-P (UW Risk Line 1 Factors); c) adopted proposal 2023-02-P-MOD (UW Risk Line 1 Factors Modification), which updated the H/F, WC, and CMP reserve factors due to an incorrect calculation; 2) adopted the report of the Catastrophe Risk (E) Subgroup, which took the following action: a) adopted its Spring National Meeting minutes; b) discussed its working agenda; c) received a status update from its Catastrophe Model Technical Review Ad Hoc Group; d) discussed wildfire peril impact analysis; e) heard a presentation from Verisk on severe convective storms model update and technical review; and f) discussed the flood insurance market; 3) adopted its 2023 property/casualty (P/C) RBC newsletter; 4) discussed its 2022 P/C RBC statistics report; 5) discussed its working agenda; and 6) heard an update on current P/C RBC projects from the Academy.

Drutz made a motion, seconded by Travis, to adopt the reports of the Health Risk-Based Capital (E) Working Group (Attachment Three), the Life Risk-Based Capital (E) Working Group (Attachment Four), the Property and Casualty Risk-Based Capital (E) Working Group (Attachment Five), and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (Attachment Six). The motion passed unanimously.

3. Adopted its Working Agenda

Botsko summarized the changes to the 2023 working agenda. He said the following items were updated in the Life Risk-Based Capital (E) Working Group section: 1) item L3 was changed to "provide recommendation for the appropriate treatment of longevity risk transfers by updated longevity factors and consider expanding the scope to include all payout annuities"; 2) item L4, which is "monitor the economic scenario governance framework, review material economic scenario generator updates, key economic conditions and metrics, support the implementation of an economic scenario generator for use in statutory reserve and capital calculations and develop and maintain acceptance criteria," was added to the ongoing life RBC section; 3) the original item L5, which is "work with the Life Actuarial (A) Task Force and Conning to develop the economic scenario generator for implementation," was removed; and 4) the last item of the life RBC carryover section was updated to "work with the Academy on creating guidance for the adopted C-2 mortality treatment for 2023 and next steps." Botsko stated that there is no change on the Risk-Based Capital Investment Risk and Evaluation (E) Working Group section in the working agenda.

Regarding the Property and Casualty Risk-Based Capital (E) Working Group section, he said the working agenda included the following substantial changes: 1) update the Sept. 26 comment from "conduct a review on different convective storm models" and add an additional comment of "the SG is finishing reviewing the following SCS vendor models: RMS, Verisk, KCC and Corelogic" in the comment section in item P1; 2) remove item # P5 as the proposal 2022-07-P has been adopted at the 2022 Fall National Meeting; and 3) add a new item P8 for adding pet insurance line in the RBC formula due to the adoption of the Annual Statement Blanks proposal 2023-01BWG.

Botsko also said the Health Risk-Based Capital (E) Working Group agenda item was revised to incorporate the following changes: 1) item X1 was updated to reference the adoption of proposal 2022-16-CA; 2) item X3 was updated to reference the adoption of proposal 2023-01-CA; 3) item X4 was updated to include the work with the Academy on the health care receivables; and 4) items X5 and X10 were deleted because these items have been completed.

Lastly, Botsko stated that the Task Force working agenda was updated as follows: 1) items CA1 and CA5 were updated to reference the adoption of proposals: a) 2022-09-CA; b) 2022-09-CA-MOD; and c) 2022-13-CA. These two items will be removed from the working agenda due to the adoption of the proposal; 2) the comment for CA4 was updated to reflect that the Task Force forwarded the responses to the Restructuring Mechanism (E) Subgroup at the Spring National Meeting. This item is considered completed, and it will also be removed from the working agenda shortly; and 3) add a new item, CA6, for establishing the Risk Evaluation Ad Hoc Group at the Spring National Meeting.

Drutz made a motion, seconded by Andersen, to adopt the Task Force's revised 2023 working agenda (Attachment Seven). The motion passed unanimously.

4. Exposed its 2024 Proposed Charges

Botsko said the only added item in the 2024 proposed charges is the establishment of a new subgroup, which is the Generator of Economic Scenarios (GOES) (E/A) Subgroup of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force. He encouraged the interested parties to review the charges of the new subgroup, and he welcomed any comments during the exposure period.

The Task Force agreed to expose its 2024 proposed charges for a 30-day public comment period ending Sept. 13.

5. Exposed its Revised Procedures Document

Botsko said the purpose of the revision is to allow the exposure deadline to be extended to March 15 for either the Task Force or Working Groups in only rare instances when the structure is urgent. He encouraged the interested parties to review the revision and welcomed any comments during the exposure period.

The Task Force agreed to expose its revised procedure documents for a 30-day public comment period ending Sept. 13.

6. Received an Update from its Risk Evaluation Ad Hoc Group

Botsko said the Risk Evaluation Ad Hoc Group met July 26 and decided to establish three subgroups to potentially streamline the process of making progress on specific topics: 1) Asset Concentration Ad Hoc Subgroup; 2) RBC Purposes and Guidelines Ad Hoc Subgroup; and 3) Geographic Concentration Ad Hoc Subgroup. He encouraged all interested parties to contact NAIC staff if anyone is interested in joining the ad hoc subgroups. Also, Botsko announced that the ad hoc subgroups will start meeting regularly after the Summer National Meeting and will provide monthly updates to the Risk Evaluation Ad Hoc Group.

7. Discussed the Implications of the Recent Market Turmoil and Their Impact on Insurer Investments

Ed Toy (Risk & Regulatory Consulting—RRC) provided an update on the banking situation, noting that it continues to evolve. This has included banking regulators announcing increased regulation for larger banks that are below the largest bank. He stated that the July 2023 Senior Loan Officer Opinion Survey on bank lending practices reported tightening of lending to all businesses and household categories. The impact on commercial real estate also continues to evolve. There have been announcements of major investors selling properties at significant losses or letting lenders take properties upon debt defaults, and national index values of commercial real estate were already hitting a dip beginning the end of last year. Office properties have dropped as much as 30% in the last 12 months.

Toy also addressed some comments on the Fitch Ratings downgrade of the U.S. Federal Government debt from AAA to AA+ on Aug. 1. He said he believes that the ratings change does not trigger material impact within the RBC framework, as U.S. full faith and credit obligation is in an exempt category under the RBC guidance. However, agencies that are not backed by full faith and credit of the U.S. government (such as Fannie Mae and Freddie Mac) may have a change in factors, but the overall RBC impact should be relatively immaterial.

Botsko said the Task Force appreciates Toy continuing to provide updates in upcoming meetings. He also reiterated that the Task Force is open to hearing thoughts or information that affects RBC. He encouraged parties to contact him or NAIC staff if they are interested in presenting any topics during a Task Force meeting.

8. Discussed Other Matters

   A. RBC Statistics Operational Risk Component

Botsko said during the Health Risk-Based Capital (E) Working Group meeting on July 25, the interested parties suggested that adding the operational risk component will provide a complete picture of the RBC formula. Without hearing any objections, the Task Force agreed to include the operational risk amount in the 2023 RBC statistics for all lines of business.

B. Negative IMR

Bruggeman said the Statutory Accounting Principles (E) Working Group adopted the short-term interpretation project during its meeting at this Summer National Meeting. He stated that this project is good through year-ending 2025 to give the industry, regulators, and other interested parties time to hash out a long-term approach. Bruggeman also stated that the adopted short-term interpretation reflects the following: 1) requirement for RBC ratio over 300% after adjustment to remove admitted positive goodwill, electronic data processing (EDP) equipment and operating system software, deferred tax assets (DTAs), and admitted negative interest maintenance reserve (IMR); 2) allowance to admit up to 10% of adjusted capital and surplus; 3) application guidance for admitting/recognizing IMR in both the general and separate accounts; 4) there is no exclusion for derivatives losses included in negative IMR, if the company can demonstrate historical practice in which realized gains from derivatives were also reversed to IMR and amortized; and 5) inclusion of a new reporting entity attestation, which continues the existing practice that losses cannot be deferred as a result of a forced sale due to liquidity issues, along with commentary that assets were sold as part of prudent asset management.

In addition, Bruggeman said the Statutory Accounting Principles (E) Working Group adopted the principles-based bond definition, to be effective Jan. 1, 2025, along with creating an expanded Schedule D, Part 1 to Schedule D, Part 1, Section 1 and Schedule D, Part 1, Section 2.

Having no further business, the Capital Adequacy (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/CADTF/2023-2-Summer/Aug 14 CADTF minutes.docx

Draft: 7/14/23

Capital Adequacy (E) Task Force
Virtual Meeting
June 30, 2022

The Capital Adequacy (E) Task Force met June 30, 2023. The following Task Force members participated: Judith L. French, Chair, and Tom Botsko (OH); Grace Arnold, Vice Chair, represented by David Nelson (MN); Mark Fowler represented by Charles Hale (AL); Ricardo Lara represented by Thomas Reedy (CA); Michael Conway represented by Keith Warburton (CO); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Virginia Christy (FL); Doug Ommen represented by Mike Yanacheak (IA); Dana Popish Severinghaus represented by Vincent Tsang (IL); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark (KY); Kathleen A. Birrane represented by Lynn Beckner (MD); Chlora Lindley-Myers (MO); Mike Causey represented by Jessica Price (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Lindsay Crawford (NE); Glen Mulready represented by Andrew Schallhorn (OK); Cassie Brown represented by Jamie Walker (TX); Mike Kreidler represented by Steve Drutz (WA); and Nathan Houdek (WI).

1. Adopted Proposal 2023-02-P(MOD)

Botsko said proposal 2023-02-P(MOD) (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, which was adopted during the Task Force's April 28 meeting. He also stated that the purpose of this modification is to update the H/F, WC, and CMP reserve factors due to an incorrect calculation. The Property and Casualty Risk-Based Capital (E) Working Group and the Catastrophe Risk (E) Subgroup conducted an e-vote to adopt this proposal on June 16.

Chou made a motion, seconded by Drutz, to adopt proposal 2023-02-P(MOD) (Attachment One-A). The motion passed unanimously.

2. Adopted Proposals 2023-09-IRE and 2023-10-IRE

Barlow said the purpose of proposals 2023-09-IRE (Residual Factor for Life) and 2023-04-IRE (Residual Sensitivity Test Factor for Life) is to apply RBC factors for residual tranches and sensitivity tests in the life RBC formula. He stated that during the RBC Investment Risk and Evaluation (E) Working Group's June 14 meeting, the Working Group adopted: 1) the residual tranches factor of 30% for year-end 2023 and then 45% for year-end 2024 with consideration of positive or negative adjustment based on additional information; and 2) the sensitivity factor of 15% for year-end 2023. He also indicated that both proposals passed unanimously in the Working Group's last meeting. Lastly, Botsko stated that these two proposals will only apply to the life formula. The Working Group will evaluate the P/C and health formulas in the near future.

Barlow made a motion, seconded by Hemphill, to adopt proposals 2023-09-IRE (Attachment One-B) and 2023-10-IRE (Attachment One-C). The motion passed unanimously.

3. Adopted the Generator of Economic Scenarios (E/A) Subgroup Charges

Barlow said the Life Risk-Based Capital (E) Working Group adopted the Generator of Economic Scenarios (E/A) Subgroup charges during its June 22 meeting. He asked the Task Force to consider adoption of the proposed charges.

Barlow made a motion, seconded by Yanacheak, to adopt the Generator of Economic Scenarios (E/A) Subgroup's proposed charges (*Financial Condition (E) Committee* Attachment One-B). The motion passed unanimously.

4. Adopted Proposal 2022-09-CA(MOD)

Botsko said the purpose of proposal 2022-09-CA(MOD) (Revised Affiliated Investments Structure and Instructions) is to provide editorial changes to: 1) clarify the examples provided in the indirectly owned alien insurance affiliates/subsidiaries section; and 2) add a footnote to the "% owned" column in the blank.

Chou made a motion, seconded by Warburton, to adopt proposal 2022-09-CA(MOD) (Attachment One-D). The motion passed unanimously.

5. Adopted Proposal 2022-16-CA

Drutz said the purpose of proposal 2022-16-CA (Underwriting Risk Factors – Investment Income Adjustment) is to update the underwriting risk factors for the annual investment income adjustment to the comprehensive medical, Medicare supplement, and dental and vision factors. He also stated that the Task Force received no comments during a 30-day public comment period.

Drutz made a motion, seconded by Chou, to adopt proposal 2022-16-CA (Attachment One-E). The motion passed unanimously.

6. Adopted Proposal 2023-01-CA

Drutz said the purpose of proposal 2023-01-CA (Stop Loss Premiums) is to clarify the instructions for the stop loss business in the health RBC formula and align the life and P/C RBC formulas with these changes. He also stated that the Task Force received no comments during a 30-day public comment period.

Drutz made a motion, seconded by Chou, to adopt proposal 2023-01-CA (Attachment One-F). The motion passed unanimously.

7. Discussed the Current Turmoil in the Banking Sector

Ed Toy (Risk & Regulatory Consulting LLC—RRC) said the Democrats in the U.S. House of Representatives (House) have proposed a raft of bills to deal with recent banking problems. He stated that four items focus on reforms or improvements to banking regulation: 1) closing the Enhanced Prudential Standards Loophole Act; 2) closing the Chief Risk Officer Enforcement and Accountability Act; 3) closing the Effective Bank Regulation Act; and 4) closing the Secure and Faire Enforcement (SAFE) Banking Act. He said he believes the SAFE Banking Act may have the most immediate impact if the bills pass as proposed since the affected banks will need to market investments that have heretofore been exempted. Botsko said the Task Force welcomes Toy to provide constant updates regarding this issue.

Botsko said the Task Force is open to hearing thoughts or information that affects RBC. He encouraged parties to contact him or NAIC staff if they are interested in presenting any topics during a Task Force meeting.

8. Received an Update from its Risk Evaluation Ad Hoc Group

Botsko said the Risk Evaluation Ad Hoc Group met June 14 and May 22. During these two meetings, the Ad Hoc Group discussed: 1) the purpose of the RBC; and 2) the possibility of developing a process or guidelines for reviewing, adding, or deleting factors to the RBC formulas. Botsko also stated that the Ad Hoc Group agreed that it should focus on reviewing items such as risk factors in different RBC components, company size, geographic concentration, reinsurance, purpose of RBC, deferred tax asset, covariance, and benchmark. He said this Ad Hoc Group will meet once every other week before the Summer National Meeting. The next meeting is scheduled for July 12. Botsko welcomed all interested parties to actively participate in the Ad Hoc Group discussion during the upcoming meeting.

Having no further business, the Capital Adequacy (E) Task Force adjourned.

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Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ Investment RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☒ P/C RBC (E) Working Group ☐ RBC Investment Risk & Evaluation (E) Working Group

		FOR NAIC USE ONLY
DATE:	3/22/23	Agenda Item # 2023-02-P(MOD) Year 2023
CONTACT PERSON:	**Eva Yeung**	**DISPOSITION**
TELEPHONE:	**816-783-8407**	**ADOPTED:** ☒ TASK FORCE (TF) 6/30/23 (MOD) ☐ WORKING GROUP (WF) ____ ☐ SUBGROUP (SG) ____
EMAIL ADDRESS:	**eyeung@naic.org**	**EXPOSED:** ☐ TASK FORCE (TF) ____ ☒ WORKING GROUP (WG) 5/15/23 ☐ SUBGROUP (SG) ____
ON BEHALF OF:	**P/C RBC (E) Working Group**	**REJECTED:** ☐ TF ☐ WG ☐ SG ____
NAME:	**Tom Botsko**	**OTHER:** ☐ DEFERRED TO ____ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) ____
TITLE:	**Chair**	
AFFILIATION:	**Ohio Department of Insurance**	
ADDRESS:	**50 West Town Street, Suite 300** **Columbus, OH 43215**	

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

☐ Health RBC Blanks ☒ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER ____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The proposed change would provide routine annual update of the industry underwriting factors (premium and reserve) in the PCRBC formula.

Additional Staff Comments:

4-25-23 TF adopted proposal
5-15-23 PCRBC WG re-expose the proposal for seven days due to the incorrect calculation of H/F, WC, and CMP reserve factors.
6-30-23 TF adopted Modified proposal

** **This section must be completed on all forms.** **Revised 2-2023**

PR017 Line 1 Reserves

Schedule P Line of Business	LOB	Proposed for adoption - 2023 Industry Average Development Ratio	2022 Industry Average Development	2021 Industry Average Development	2020 Industry Average Development	2019 Industry Average Development	2018 Industry Average Development	2017 Industry Average Development	2016 Industry Average Development	2015 Industry Average Development	2014 Industry Average Development
H/F	A	**0.999**	1.001	0.998	0.993	0.989	0.989	0.984	0.972	0.962	0.967
PPA	B	**1.047**	1.022	1.025	1.035	1.026	1.022	1.012	1.002	1.002	0.994
CA	C	**1.106**	1.082	1.083	1.078	1.087	1.060	1.034	1.015	0.987	0.979
WC	D	**0.873**	0.906	0.912	0.916	0.955	0.952	0.971	0.971	0.961	0.986
CMP	E	**1.026**	1.037	0.999	1.016	0.992	0.967	0.956	0.942	0.938	0.941
MM Occurrence	F1	**0.906**	0.887	0.874	0.861	0.864	0.871	0.868	0.841	0.966	0.966
MM Clms Made	F2	**0.984**	0.983	0.973	0.940	0.907	0.886	0.854	0.822	0.839	0.808
SL	G	**0.994**	0.990	0.976	0.963	0.938	0.933	0.926	0.919	0.975	0.990
OL	H	**0.969**	0.995	0.964	0.968	0.971	0.966	0.952	0.929	0.923	0.916
Fidelity / Surety	K	**0.852**	0.842	0.915	0.907	0.995	0.996	1.016	1.035	1.016	1.050
Special Property	I	**0.983**	0.993	0.978	0.977	0.972	0.971	0.982	0.973	0.991	0.992
Auto Physical Damage	J	**1.016**	1.011	0.989	0.993	0.996	1.000	1.001	0.995	0.995	1.005
Other (Credut, A&H)	L	**0.946**	0.955	0.965	0.971	0.973	0.976	0.981	0.986	1.041	1.061
Financial / Mortgage Guaranty	S	**0.674**	0.694	0.723	0.682	0.788	0.870	0.820	0.853	1.185	1.444
Intl	M	**2.414**	3.041	1.104	1.162	1.037	0.851	0.855	0.897	1.350	0.742
Rein. Property & Financial Lines	NP	**0.924**	0.917	0.893	0.886	0.872	0.834	0.814	0.814	1.002	0.976
Rein. Liability	O	**1.024**	1.008	0.989	0.985	0.955	0.945	0.914	0.896	0.938	0.905
PL	R	**0.874**	0.867	0.879	0.900	0.913	0.921	0.935	0.937	1.072	1.018
Warranty	T	**0.995**	0.998	1.007	1.013	1.017	1.015	0.989	0.977	0.994	1.040

PR018 Line 1 Premiums

Schedule P Line of Business	LOB	Proposed 2023 Industry Average Loss & Expense	2022 Industry Average Loss & Expense Ratio	2021 Industry Average Loss & Expense Ratio	2020 Industry Average Loss & Expense Ratio	2019 Industry Average Loss & Expense Ratio	2018 Industry Average Loss & Expense Ratio	2017 Industry Average Loss & Expense Ratio	2016 Industry Average Loss & Expense Ratio	2015 Industry Average Loss & Expense Ratio	2014 Industry Average Loss & Expense Ratio
H/F	A	**0.679**	0.665	0.681	0.678	0.681	0.687	0.688	0.701	0.701	0.713
PPA	B	**0.791**	0.793	0.795	0.810	0.810	0.806	0.800	0.792	0.786	0.780
CA	C	**0.777**	0.761	0.761	0.759	0.737	0.724	0.706	0.689	0.684	0.676
WC	D	**0.651**	0.664	0.682	0.705	0.726	0.744	0.751	0.752	0.751	0.749
CMP	E	**0.671**	0.661	0.673	0.672	0.666	0.664	0.647	0.648	0.655	0.652
MM Occurrence	F1	**0.767**	0.750	0.731	0.726	0.730	0.780	0.777	0.767	0.880	0.883
MM Clms Made	F2	**0.815**	0.829	0.821	0.797	0.768	0.747	0.722	0.691	0.697	0.680
SL	G	**0.578**	0.585	0.593	0.603	0.593	0.569	0.567	0.572	0.630	0.645
OL	H	**0.641**	0.637	0.635	0.639	0.638	0.633	0.629	0.618	0.616	0.617
Fidelity / Surety	K	**0.363**	0.366	0.394	0.384	0.399	0.417	0.430	0.464	0.462	0.473
Special Property	I	**0.550**	0.547	0.559	0.553	0.554	0.563	0.555	0.559	0.571	0.572
Auto Physical Damage	J	**0.727**	0.718	0.726	0.732	0.730	0.732	0.727	0.711	0.703	0.686
Other (Credit, A&H)	L	**0.702**	0.698	0.693	0.684	0.682	0.709	0.712	0.699	0.706	0.754
Financial / Mortgage Guaranty	S	**0.209**	0.203	0.252	0.513	0.811	1.099	1.175	1.293	1.096	1.242
Intl	M	**1.136**	1.166	0.769	0.758	0.795	0.584	0.565	0.607	1.150	1.131
Rein. Property & Financial Lines	NP	**0.578**	0.566	0.558	0.534	0.522	0.486	0.459	0.512	0.723	0.764
Rein. Liability	O	**0.743**	0.725	0.713	0.708	0.679	0.666	0.609	0.600	0.749	0.748
PL	R	**0.597**	0.601	0.617	0.645	0.656	0.671	0.670	0.684	0.715	0.716
Warranty	T	**0.652**	0.665	0.681	0.691	0.695	0.732	0.645	0.611	0.799	0.789

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force	☐ Health RBC (E) Working Group	☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup	☐ P/C RBC (E) Working Group	☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup	☐ Economic Scenarios (E/A) Subgroup	☒ RBC Investment Risk & Evaluation (E) Working Group

	DATE: **4/20/23**	**FOR NAIC USE ONLY**
CONTACT PERSON:	**Dave Fleming**	Agenda Item # 2023-09-IRE Year 2023
TELEPHONE:	**816-783-8121**	**DISPOSITION**
EMAIL ADDRESS:	**dfleming@naic.org**	**ADOPTED:** ☐ TASK FORCE (TF) ______ ☒ WORKING GROUP (WG) 6/14 ☐ SUBGROUP (SG) ______
ON BEHALF OF:	**RBC Inv. Risk & Eval. (E) Working Group**	**EXPOSED:** ☐ TASK FORCE (TF) ______ ☒ WORKING GROUP (WG) ______ ☐ SUBGROUP (SG) ______
NAME:	**Philip Barlow**	**REJECTED:** ☐ TF ☐ WG ☐ SG ______
TITLE:	**Associate Commissioner for Insurance**	**OTHER:** ☐ DEFERRED TO ______ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) ______
AFFILIATION:	**District of Columbia**	
ADDRESS:	**1050 First Street, NE Suite 801** **Washington, DC 20002**	

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

☐ Health RBC Blanks	☐ Property/Casualty RBC Blanks	☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions	☐ Property/Casualty RBC Instructions	☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula	☐ Property/Casualty RBC Formula	☐ Life and Fraternal RBC Formula

☐ OTHER ______

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal applies a .45 base RBC factor in the life RBC formula for residual tranches..

Additional Staff Comments:

DF – The Working Group adopted a factor of .30 for yearend 2023.

** **This section must be completed on all forms.** **Revised 2-2023**

OTHER LONG-TERM ASSETS (CONTINUED)

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Schedule BA - Unaffiliated Common Stock						
(42)	Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line 65				X § =	
(43)	Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line 66				X 0.3000 =	
(44)	Total Schedule BA Unaffiliated Common Stock (pre-MODCO/Funds Withheld)	Line (42) + (43)					
(45)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(46)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(47)	Total Schedule BA Unaffiliated Common Stock (including MODCO/Funds Withheld.)	Lines (44) - (45) + (46)					
	Schedule BA - All Other						
(48.1)	BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67					
(48.2)	BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68					
(48.3)	Total Schedule BA Affiliated Common Stock - C-1o	Line (48.1) + (48.2)				X 0.3000 =	
(49.1)	BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69					
(49.2)	Total Sch. BA Affiliated Common Stock - C-1cs	Line (49.1) ~~+ AVR Equity Component Column 1 Line 93~~				X 0.3000 =	
(50)	Schedule BA Collateral Loans	Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999				X 0.0680 =	
(51)	**Total Residual Tranches or Insterests**	**AVR Equity Component Column 1 Line 93**				**X 0.3000 =**	
(52.1)	NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line 94				X 0.0050 =	
(52.2)	NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line 95				X 0.0163 =	
(52.3)	Total Admitted Working Capital Finance Notes	**Line (52.1) + (52.2)**					
(53.1)	Other Schedule BA Assets	AVR Equity Component Column 1 Line 96					
(53.2)	Less NAIC 2 thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines (23) through (27) + Column (1) Lines (33) through (37)					
(53.3)	Net Other Schedule BA Assets	**Line (53.1) less (53.2)**				X 0.3000 =	
(54)	Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (48.3) + (50)+ **(52.3) + (53.3)**					
(55)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(56)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(57)	Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines **(54) - (55) + (56)**					
(58)	Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (47) + (49.2) **+ (51) + (57)**					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line **(53.3)**.

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

Denotes items that must be manually entered on the filing software.

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☒ RBC Investment Risk & Evaluation (E) Working Group

DATE: 4/20/23		**FOR NAIC USE ONLY**
CONTACT PERSON:	Steve Clayburn	Agenda Item # 2023-10-IRE Year 2023
TELEPHONE:	(202)624-2197	**DISPOSITION**
EMAIL ADDRESS:	steveclayburn@acli.com	**ADOPTED:** ☐ TASK FORCE (TF) ______ ☒ WORKING GROUP (WG) 6/14 ☐ SUBGROUP (SG) ______
ON BEHALF OF:	American Council of Life Insurers (ACLI)	**EXPOSED:** ☐ TASK FORCE (TF) ______ ☒ WORKING GROUP (WG) ______ ☐ SUBGROUP (SG) ______
NAME:	Steve Clayburn	**REJECTED:** ☐ TF ☐ WG ☐ SG ______
TITLE:		**OTHER:** ☐ DEFERRED TO ______ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) ______
AFFILIATION:		
ADDRESS:		

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

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER ____________________

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The adoption by the Working Group of proposal 2023-04-IRE provides the structure for this sensitivity test. This proposal is to address the factor to be applied in that test.

Additional Staff Comments:

DF – The Working Group adopted a factor of .15 for yearend 2023.

** **This section must be completed on all forms.** **Revised 2-2023**

SENSITIVITY TESTS - AUTHORIZED CONTROL LEVEL

	Sensitivity Tests Affecting Authorized Control Level Risk-Based Capital	Source	(1) Statement Value	Additional Sensitivity Factor	(2) Additional RBC	(3) Authorized Control Level Before Test	(4) Authorized Control Level After Test
(1.1)	Other Affiliates: Company	LR042 Summary for Affiliated Investments Column (1) Line (13)		0.700			
(1.2)	Other Affiliates: Subsidiaries	LR038 Additional Information Required Column (1) Line (1.2)		0.700			
(1.99)	Total Other Affiliates			0.700			
(2.1)	Noncontrolled Assets - Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (15)		0.020			
(2.2)	Noncontrolled Assets - Subsidiaries	LR038 Additional Information Required Column (1) Line (2.2)		0.020			
(2.99)	Total Noncontrolled Assets			0.020			
(3.1)	Guarantees for Affiliates: Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (24)		0.020			
(3.2)	Guarantees for Affiliates: Subsidiaries	LR038 Additional Information Required Column (1) Line (3.2)		0.020			
(3.99)	Total Guarantees for Affiliates			0.020			
(4.1)	Contingent Liabilities: Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (25)		0.020			
(4.2)	Contingent Liabilities: Subsidiaries	LR038 Additional Information Required Column (1) Line (4.2)		0.020			
(4.99)	Total Contingent Liabilities			0.020			
(5.1)	Long-Term Leases: Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (26)		0.030			
(5.2)	Long-Term Leases: Subsidiaries	LR038 Additional Information Required Column (1) Line (5.2)		0.030			
(5.99)	Total Long-Term Leases			0.030			
(7.1)	Affiliated Investments†: Company	LR038 Additional Information Required Column (1) Line (7.14)		0.100			
(7.2)	Affiliated Investments†: Subsidiaries	LR038 Additional Information Required Column (1) Line (7.2)		0.100			
(7.99)	Total Affiliated Investments			0.100			
(8.1)	**Total Residual Tranches or Interests**	**LR038 Additional Information Required Column (1) Line (11.1)**		**0.150**			

† Excluding affiliated preferred and common stock

Denotes items that must be manually entered on the filing software.

Capital Adequacy (E) Task Force

RBC Proposal Form

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

	DATE: 8/11/22	**FOR NAIC USE ONLY**
CONTACT PERSON:	Eva Yeung	Agenda Item # 2022-09-CA MOD
TELEPHONE:	816-783-8407	Year 2023
EMAIL ADDRESS:	eyeung@naic.org	**DISPOSITION**
ON BEHALF OF:	Capital Adequacy (E) Task Force	[x] ADOPTED 3/23/23
NAME:	Tom Botsko	[ ] REJECTED
TITLE:	Chair	[ ] DEFERRED TO
AFFILIATION:	Ohio Department of Insurance	[ ] REFERRED TO OTHER NAIC GROUP
ADDRESS:	50 West Town Street, Suite 300	[x] EXPOSED 8/11/22, 6/1/23 (MOD)
	Columbus, OH 43215	[ ] OTHER (SPECIFY)

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

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

DESCRIPTION OF CHANGE(S)

The proposed change would revise the instructions and structure for the Affiliated Investments for all lines.

MODIFIED: The Health and P/C instructions and blanks have been modified with an editorial change to clarify the examples provided in the Indirectly Owned Alien Insurance Affiliates/Subsidiaries section and add a footnote to the % Owned column in the blank.

REASON OR JUSTIFICATION FOR CHANGE **

The proposed revisions will improve the risk-based capital formulas and provide consistency to the treatment of affiliates for all lines of business.

Additional Staff Comments:

8/11/22 - The Task Force exposed this proposal for a 60-day public comment period ending Oct, 10.
3/23/23 – The Task Force adopted the proposal on 3/23/23
5/17/23 – EDITORIAL CHANGE to Indirectly Owned Alien Insurance Affiliates/Subsidiaries section and % owned column.
6/1/23 – The Task Force exposed this proposal for a 14-day public comment period ending Jun 14.

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

AFFILIATED/SUBSIDIARY STOCKS
XR002 – XR004

There are nine categories of affiliated/subsidiary investments that are subject to Risk-Based Capital requirements for common stock and preferred stock holdings. Those nine categories are:

1. Directly Owned U.S. Insurance Affiliates/Subsidiaries Subject to a Risk-Based Capital (RBC)-Look-Through Calculation
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
2. Indirectly Owned U.S. Insurance Affiliates/Subsidiaries Subject to RBC-Look-Through Calculation
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
3. Holding Company Value in Excess of Indirectly Owned Insurance Affiliates/Subsidiaries
4. Investment Subsidiaries
5. Directly Owned Alien Insurance Affiliates/Subsidiaries
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
6. Indirectly Owned Alien Insurance Affiliates/Subsidiaries
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
7. Investments in Upstream Affiliate (Parent)
8. Directly Owned U.S. Insurance Affiliates/Subsidiaries Not Subject to RBC
    a. Health Insurance Companies and Health Entities Not Subject to RBC
    b. Property and Casualty Insurance Companies Not Subject to RBC
    c. Life Insurance Companies Not Subject to RBC
9. Non-Insurance Affiliates/Subsidiaries Not Subject to RBC
    a. Entities with a capital requirement imposed by a regulatory body
    b. Other Financial Entities without regulatory capital requirements
    c. Other Non-financial entities

Detail Eliminated to Conserve Space

6. <u>Indirectly Owned Alien Insurance Affiliates/Subsidiaries</u>

For Indirectly Owned Alien Insurance Affiliates/Subsidiaries, the carrying value and RBC charge is calculated in a similar manner as for directly owned Alien Insurance Affiliates/Subsidiaries.

1

SSAP No. 97 provides guidance for the reporting and admittance requirements of SCAs. Accordingly, there may be cases where an indirectly owned Alien insurer may not be separately reported in the statutory financial statements (e.g., they are captured within the carrying value of an intermediate holding company). The SSAP No. 97 guidance permits reporting SCAs at the directly owned holding company level or via look-through to the downstream entity (including where the downstream entity is an Alien insurer), but an audit of the entity is required for admittance (i.e. if reporting is at the directly owned holding company level, the holding company must be audited, if the reporting is on a look-through basis then the downstream entity must be audited). Regardless of whether there is a look-through applied pursuant to Statutory Accounting Principles (SAP) for annual financial statement reporting, for RBC purposes the reporting insurer must "look-through" all intermediate holding and subsidiary companies to determine the carrying value and the RBC charge that would be imposed had the Alien insurance affiliate/subsidiary companies been directly held by the reporting insurer. This involves looking down to the first alien insurer affiliate/subsidiary, unless there is an RBC filer in between, and adjusting for percentage ownership of the intermediate entity directly owning the RBC filing affiliate/subsidiary. Both the RBC charge and carrying value of the alien insurer must be reported for RBC purposes, in order to appropriately balance the numerator with the addition to the denominator value. Enter the carrying value of the insurer on Line (6) of the Calculation of Total Adjusted Capital page to satisfy these instructions.

The carrying value of an alien insurance affiliate/subsidiary is deducted from the value of the directly held holding company or other entity that in turn directly owns the U.S. Insurance Affiliate/Subsidiary that is subject to RBC, based on the value reported for each insurance subsidiary on the downstream immediate holding company or non-insurance owner's balance sheet. That value is prescribed by the NAIC Accounting Practices and Procedures Manual (SSAP No. 97, paragraph 22.a.). A similar exercise is required for each RBC filing insurer and each non-U.S. insurer in order to determine the remaining excess value of the holding company.

The RBC charge to be applied to each indirectly owned alien insurance affiliate/subsidiary is the annual statement book adjusted carrying value of the reporting company's interest in the affiliate/subsidiary multiplied by 1.0 and adjusted to reflect the reporting company's ownership on the holding company. For example, assume NEWBIE Insurance Company acquired 100 percent shares of Holder (a holding company), and Holder owns an Alien Life Insurance Company, which represents 50 percent of the book adjusted carrying value of Holder. If Holder has a book adjusted carrying value of $20,000,000, NEWBIE Insurance Company would enter $10,000,000 (1/2 of $20,000,000) as the carrying value of the Alien Life Insurance Company and the RBC charge for the indirect ownership of the alien insurance affiliate/subsidiary would be $10~~5~~,000,000 (~~0.5~~1.000 times $10,000,000). The risk-based capital charge for the parent insurer preparing the calculation is a 30 percent charge against the holding company value in excess of the indirectly owned insurance affiliates/subsidiaries.

XR002 Columns			
(1)	(2)	(5)	(12)
Affiliate/Subsidiary	Affiliate/Subsidiary Type	Book Adjusted Carrying Value (Statement Value) of Affiliate's Common Stock	RBC Required
Alien Life Insurance Company	6c	10,000,000	10,000,000
Holder Holding Company	3	10,000,000	3,000,000

If NEWBIE Insurance Company only acquired 50 percent shares of Holder, NEWBIE Insurance Company would enter $5,000,000 (50 percent of 1/2 of $20,000,000) as the carrying value of the Alien Life Insurance Company and the RBC charge for the indirect ownership of the a~~A~~lien insurance affiliate/subsidiary would be $5,000,000 (1.0 times $5,000,000). Enter information for any indirectly owned alien insurance subsidiaries.

XR002 Columns			
(1)	(2)	(5)	(12)
Affiliate/Subsidiary	Affiliate/Subsidiary Type	Book Adjusted Carrying Value (Statement Value) of Affiliate's Common Stock	RBC Required
Alien Life Insurance Company	6c	5,000,000	5,000,000
Holder Holding Company	3	15,000,000	4,500,000

For each affiliate/subsidiary enter the following information:

- Company Name,
- Alien Insurer Identification Number,
- Book Adjusted carrying value of common and preferred stock,
- ~~Total Outstanding value of common and preferred stock,~~
- Book/adjusted carrying value of the common and preferred stock from Schedule D, Part 6, Section 1, Line 1499999. If no value is reported in the Total Value of Affiliate's Common and preferred stock column.

Detail Eliminated to Conserve Space

~~AFFILIATED COMPANIES RISK - DETAILS~~

DETAILS FOR AFFILIATED STOCKS

	(1) Name of Affiliate	(2) Affil Type ~~Code~~	(3) NAIC Company Code or Alien ID Number	(4) Affiliate's RBC after Covariance Before Basic Operational Risk XR025 Line (37) PR032 Line (67) LR031 Line (67) + (71)	(5) Book/Adjusted Carrying Value (statement value) of Affiliate's Common Stock	(6) Valuation Basis of Col (5) M - Market Value after any "discount" A - All Other	(7) Total Value of Affiliate's Outstanding Common Stock	(8) ~~Total~~ Statutory Surplus of Affiliate Subject to RBC (Adjusted for % Owned)	(9) Book/Adjusted Carrying Value (statement value) of Affiliate's Preferred Stock	(10) Total Value of Affiliate's Outstanding Preferred Stock	(11) Percent Owned* (Cols 5 + 9) / (Cols 7 + 10)	(12) RBC Required (H0 Compoenent)	(13) Market Value Excess Component Affiliated Common Stock RBC Required (H1 Component)
(01)											100.000%		
(02)											100.000%		
(03)											100.000%		
(04)											100.000%		
(05)											100.000%		
(06)											100.000%		
(07)											100.000%		
(08)											100.000%		
(09)											100.000%		
(10)											100.000%		
(11)											100.000%		
(12)											100.000%		
(13)											100.000%		
(14)											100.000%		
(15)											100.000%		
(16)											100.000%		
(17)											100.000%		
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(19)											100.000%		
(20)											100.000%		
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(45)											100.000%		
(46)											100.000%		
(47)											100.000%		
(48)											100.000%		
(49)											100.000%		
(50)											100.000%		
(9999999)	Total	XXX	XXX	0	0	XXX	0	0	0	0	XXX	0	0

Remark: **Subcategory 8a, 8b and 8c are referring to the directly owned insurance affiliates not subject to RBC look-through**
Indirectly owned insurance affiliate not subject to RBC will be included Category 4

***** **Only applies to Affiliate Type 1 and 2.**

~~If Col (2) < 5 and Col (6) = F Do Calculation~~
~~**Calculation**~~
~~Col (12) = Min [Col (4) x Col (11), Col (8) x Col (11)]~~
~~If Col (5) + Col (9) > Max [Col (4) x Col (11), Col (8) x Col (11)] then~~
    ~~Col (13) = Max {[Col (5) + Col (9) - Col (8) x Col (11)] x .225, [Col (4) - Col (8)] x Col (11)}~~
~~If Col (4) x Col (11) > Col (5) + Col (9) > Col (8) x Col (11) then~~
    ~~Col (13) = Col (5) + Col (9) - Col (8) x Col (11)~~
~~Otherwise~~
    ~~Col (13) = 0~~
~~Col (12) and (13) cannot be less than 0~~

SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS
~~AFFILIATED COMPANIES RISK~~

	~~Type of Affiliate~~ Affiliate Type	Type Code	Basis	(1) Number of Companies	(2) Total RBC Required
(1)	Directly Owned Health Insurance Companies or Health Entities	1a	~~Affiliate's RBC*~~ Sub's RBC After Covariance	0	$0
(2)	Directly Owned Property and Casualty Insurance Affiliates	1b	~~Affiliate's RBC*~~ Sub's RBC After Covariance	0	$0
(3)	Directly Owned Life Insurance Affiliates	1c	~~Affiliate's RBC*~~ Sub's RBC After Covariance	0	$0
(4)	Indirectly Owned Health Insurance Companies or Health Entities	2a	~~Affiliate's RBC*~~ Sub's RBC After Covariance	0	$0
(5)	Indirectly Owned Property and Casualty Insurance Affiliates	2b	Sub's RBC After Covariance	0	$0
(6)	Indirectly Owned Life Insurance Affiliates	2c	Sub's RBC After Covariance	0	$0
(7)	Holding Company in Excess of Indirect Subs	3	0.300	0	$0
(8)	Investment Subsidiary	4	0.300	0	$0
(9)	Directly Owned Alien Health Insurance Companies or Health Entities	5a	1.000	0	$0
(10)	Directly Owned Alien Property and Casualty Insurance Affiliates	5b	1.000	0	$0
(11)	Directly Owned Alien Life Insurance Affiliates	5c	1.000	0	$0
(12)	Indirectly Owned Alien Health Insurance Companies or Health Entities	6a	1.000	0	$0
(13)	Indirectly Owned Alien Property and Casualty Insurance Affiliates	6b	1.000	0	$0
(14)	Indirectly Owned Alien Life Insurance Affiliates	6c	1.000	0	$0
(15)	Investment in Upstream Affiliate (Parent)	7	0.300	0	$0
(16)	Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	8a	0.300	0	$0
(17)	Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	8b	0.300	0	$0
(18)	Directly Owned Life Insurance Companies Not Subject to RBC	8c	0.300	0	$0
(19)	Non-Insurance Entities with a Capital Equirement Imposed by a Egulatory Body	9a	0.300	0	$0
(20)	Non-Insurance Other Financial Entities without Regulatory Capital Requirements	9b	0.300	0	$0
(21)	Other Non-financial Entites	9c	0.300	0	$0
(22)	Total			0	$0

~~CROSSCHECKING FOR AFFILIATED INVESTMENTS~~

SUMMARY FOR SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS FOR CROSS-CHECKING STATEMENT VALUES

	Affiliated Preferred Stock Schedule D Part 6 Section 1 C7	Annual Statement Line Number	(1) Annual Statement Total Preferred Stock	(2) Total From RBC Report	(3) Difference
(1)	Parent	0199999	0		0
(2)	U.S. P&C Insurer	0299999	0		0
(3)	U.S. Life Insurer	0399999	0		0
(4)	U.S. Health Insurer	0499999	0		0
(5)	Alien Insurer	0599999	0		0
(6)	Non-Insurer Which Controls Insurer	0699999	0		0
(7)	Investment Subsidiary	0799999	0		0
(8)	Other Affiliates	0899999			0
(9)	Subtotal	0999999	0	0	0

	Affiliated Common Stock Schedule D Part 6 Section 1 C7	Annual Statement Line Number	(1) Annual Statement Total Common Stock	(2) Total From RBC Report	(3) Difference
(10)	Parent	1099999			0
(11)	U.S. P&C Insurer	1199999			0
(12)	U.S. Life Insurer	1299999			0
(13)	U.S.Health Insurer	1399999			0
(14)	Alien Insurer	1499999			0
(15)	Non-Insurer Which Controls Insurer	1599999			0
(16)	Investment Subsidiary	1699999			0
(17)	Other Affiliates	1799999			0
(18)	Subtotal	1899999	0	0	0

EQUITY ASSETS

		Annual Statement Source	(1) Bk/Adj Carrying Value	Factor	(2) RBC Requirement
	PREFERRED STOCK - UNAFFILIATED				
(1)	NAIC 01 Preferred Stock	Included in Schedule D, Part 2, Section 1		0.003	$0
(2)	NAIC 02 Preferred Stock	Included in Schedule D, Part 2, Section 1		0.010	$0
(3)	NAIC 03 Preferred Stock	Included in Schedule D, Part 2, Section 1		0.020	$0
(4)	NAIC 04 Preferred Stock	Included in Schedule D, Part 2, Section 1		0.045	$0
(5)	NAIC 05 Preferred Stock	Included in Schedule D, Part 2, Section 1		0.100	$0
(6)	NAIC 06 Preferred Stock	Included in Schedule D, Part 2, Section 1		0.300	$0
(7)	Total - Unaffiliated Preferred Stock	Sum of Lines (1) through (6)	$0		$0
	(Should equal Page 2, Column 3, Line 2.1 less Sch D Sum, Column 1, Line 18)				
	COMMON STOCK - UNAFFILIATED				
(8)	Federal Home Loan Bank Stock	Company Records		0.023	$0
(9)	Total Common Stock	Schedule D, Summary, Column 1, Line 25			
(10)	Affiliated Common Stock	Schedule D, Summary, Column 1, Line 24			
(11)	Other Unaffiliated Common Stock	Lines (9) - (8) - (10)	$0	0.150	$0
(12)	**Market Value Excess Affiliated Common Stock**	**XR002 C(13) L(9999999)**			$0
(13)	Total Unaffiliated Common Stock	Lines (8) + (11) **+ (12)**	$0		$0

CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

			(1) RBC Amount
H0 - INSURANCE AFFILIATES AND MISC. OTHER AMOUNTS			
(1)	Off-Balance Sheet Items	XR005, Off-Balance Sheet Page, Line (21)	$0
(2)	**Directly Owned Health Insurance Companies or Health Entities**	**XR003, Affiliates Page, Column (2), Line (1)**	$0
(3)	**Directly Owned Property and Casualty Insurance Affiliates**	**XR003, Affiliates Page, Column (2), Line (2)**	$0
(4)	**Directly Owned Life Insurance Affiliates**	**XR003, Affiliates Page, Column (2), Line (3)**	$0
(5)	**Indirectly Owned Health Insurance Companies or Health Entities**	**XR003, Affiliates Page, Column (2), Line (4)**	$0
(6)	**Indirectly Owned Property and Casualty Insurance Affiliates**	**XR003, Affiliates Page, Column (2), Line (5)**	$0
(7)	**Indirectly Owned Life Insurance Affiliates**	**XR003, Affiliates Page, Column (2), Line (6)**	$0
(8)	**Affiliated Alien Insurers - Directly Owned**	**XR003, Affiliates Page, Column 2, Line (9) + (10) + (11)**	**$0**
(9)	**Affiliated Alien Insurers - Indirectly Owned**	**XR003, Affiliates Page, Column 2, Line (12) + (13) + (14)**	**$0**
(10)	Total H0	**Sum Lines (1) through (9)**	$0
H1 - ASSET RISK - OTHER			
~~(11)~~	~~Investment Affiliates~~	~~XR003, Affiliates Page, Line (5)~~	~~$0~~
~~(12)~~	~~Holding Company Excess of Subsidiaries~~	~~XR003, Affiliates Page, Line (6)~~	~~$0~~
~~(13)~~	~~Investment in Parent~~	~~XR003, Affiliates Page, Line (9)~~	~~$0~~
~~(14)~~	~~Other Affiliates~~	~~XR003, Affiliates Page, Line (10)~~	~~$0~~
~~(15)~~	~~Fair Value Excess Affiliate Common Stock~~	~~XR003, Affiliates Page, Line (11)~~	~~$0~~
(11)	**Holding Company in Excess of Indirect Subs**	**XR003, Affiliates Page, Column (2), Line (7)**	$0
(12)	**Investment Subsidiary**	**XR003, Affiliates Page, Column (2), Line (8)**	$0
(13)	**Investment in Upstream Affiliate (Parent)**	**XR003, Affiliates Page, Column (2), Line (15)**	$0
(14)	**Directly Owned Health Insurance Companies or Health Entities No**	**XR003, Affiliates Page, Column (2), Line (16)**	$0
(15)	**Directly Owned Property and Casualty Insurance Companies Not S**	**XR003, Affiliates Page, Column (2), Line (17)**	$0
(16)	**Directly Owned Life Insurance Companies Not Subject to RBC**	**XR003, Affiliates Page, Column (2), Line (18)**	$0
(17)	Affiliated Non-Insurer	**XR003, Affiliates Page, Column 2, Line (19) + (20) + (21)**	$0
(18)	Fixed Income Assets	XR006, Off-Balance Sheet Collateral, Lines (27) + (37) + (38) + (39) + XR008, Fixed Income Assets Page Line (51)	$0
(19)	Replication & Mandatory Convertible Securities	XR009, Replication/MCS Page, Line (9999999)	$0
(20)	Unaffiliated Preferred Stock	XR006, Off-Balance Sheet Collateral, Line (34) + XR010, Equity Assets Page, Line (7)	$0
(21)	Unaffiliated Common Stock	XR006, Off-Balance Sheet Collateral, Line (35) + XR010, Equity Assets Page, **Line (13)**	$0
(22)	Property & Equipment	XR006, Off-Balance Sheet Collateral, Line (36) + XR011, Prop/Equip Assets Page, Line (9)	$0
(23)	Asset Concentration	XR012, Grand Total Asset Concentration Page, Line (27)	$0
(24)	Total H1	**Sum Lines (11) through (23)**	$0
H2 - UNDERWRITING RISK			
(25)	Net Underwriting Risk	XR013, Underwriting Risk Page, Line (21)	$0
(26)	Other Underwriting Risk	XR015, Underwriting Risk Page, Line (25.3)	$0
(27)	Disability Income	XR015, Underwriting Risk Page, Lines (26.3) + (27.3) + (28.3) + (29.3) + (30.6) + (31.3) + (32.3)	$0
(28)	Long-Term Care	XR016, Underwriting Risk Page, Line (41)	$0
(29)	Limited Benefit Plans	XR017, Underwriting Risk Page, Lines (42.2) + (43.6) + (44)	$0
(30)	Premium Stabilization Reserve	XR017, Underwriting Risk Page, Line (45)	$0
(31)	Total H2	**Sum Lines (25) through (30)**	$0

CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

			(1) RBC Amount
H3 - CREDIT RISK			
(32)	Total Reinsurance RBC	XR020, Credit Risk Page, Line (17)	$0
(33)	Intermediaries Credit Risk RBC	XR020, Credit Risk Page, Line (24)	$0
(34)	Total Other Receivables RBC	XR021, Credit Risk Page, Line (30)	$0
(35)	Total H3	**Sum Lines (32) through (34)**	$0
H4 - BUSINESS RISK			
(36)	Administrative Expense RBC	XR022, Business Risk Page, Line (7)	$0
(37)	Non-Underwritten and Limited Risk Business RBC	XR022, Business Risk Page, Line (11)	$0
(38)	Premiums Subject to Guaranty Fund Assessments	XR022, Business Risk Page, Line (12)	$0
(39)	Excessive Growth RBC	XR022, Business Risk Page, Line (19)	$0
(40)	Total H4	**Sum Lines (36) through (39)**	$0
(41)	RBC after Covariance Before Basic Operational Risk	H0 + Square Root of ($H1^2 + H2^2 + H3^2 + H4^2$)	$0
(42)	Basic Operational Risk	0.030 x Line **(41)**	$0
(43)	C-4a of U.S. Life Insurance Subsidiaries	Company Records	
(44)	Net Basic Operational Risk	Line **(42) - (43)** (Not less than zero)	$0
(45)	RBC After Covariance Including Basic Operational Risk	**Lines (41) + (44)**	$0
(46)	Authorized Control Level RBC	.50 x Line **(45)**	$0

CALCULATION OF TOTAL ADJUSTED CAPITAL

		Annual Statement Source	(1) Amount	Factor	(2) Adjusted Capital
Company Amounts					
(1)	Capital and Surplus	Page 3, Column 3, Line 33		1.000	$0
Subsidiary Adjustments					
(2)	AVR - Life Subs	Affiliate's Statement §		1.000	$0
(3)	Dividend Liability - Life Subsidiaries	Affiliate's Statement		0.500	$0
(4)	Tabular Discounts - P&C Subsidiaries	Affiliate's Statement		-1.000	$0
(5)	Non-Tabular Discounts - P&C Subsidiaries	Affiliate's Statement		-1.000	$0
(6)	**Carrying Value of Non-Admitted Insurance Affiliates**	**Included in XR002 Column 5 and Column 9**	0	**1.000**	**$0**
(7)	Total Adjusted Capital, Post-Deferred Tax				$0
SENSITIVITY TEST:					
(8)	DTA Value for Company	Page 2, Column 3, Line 18.2		1.000	$0
(9)	DTL Value for Company	Page 3, Column 3, Line 10.2		1.000	$0
(10)	DTA Value for Insurance Subsidiaries	Company Records		1.000	$0
(11)	DTL Value for Insurance Subsidiaries	Company Records		1.000	$0
(12)	Total Adjusted Capital, Pre-Deferred Tax (Sensitivity)	**Lines (7) - (8) + (9) - (10) + (11)**			$0
Ex DTA ACL RBC Ratio Sensitivity Test					
(13)	Deferred Tax Asset	Page 2 Column 3, Line 18.2		1.000	$0
(14)	Total Adjusted Capital Less Deferred Tax Asset	**Lines (7) less (13)**			$0
(15)	Authorized Control Level RBC	XR027 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4)			$0
(16)	Ex DTA ACL RBC Ratio	**Line (14)/(15)**			0.000%

§ The portion of the AVR that can be counted as capital is limited to the amount not utilized in asset adequacy testing in support of the Actuarial Opinion for reserves.

AFFILIATED/SUBSIDIARY STOCKS
PR003 – PR005

There are nine categories of affiliated/subsidiary investments that are subject to Risk-Based Capital requirement for common stock and preferred stock holdings. Those nine categories are:

1. Directly Owned U.S. Insurance Affiliates/Subsidiaries Subject to a Risk-Based Capital (RBC)-Look-Through Calculation
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
2. Indirectly Owned U.S. Insurance Affiliates/Subsidiaries Subject to RBC-Look-Through Calculation
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
3. Holding Company Value in Excess of Indirectly Owned Insurance Affiliates/Subsidiaries
4. Investment Subsidiaries
5. Directly Owned Alien Insurance Affiliates/Subsidiaries
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
6. Indirectly Owned Alien Insurance Affiliates/Subsidiaries
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
7. Investments in Upstream Affiliate (Parent)
8. Directly Owned U.S. Insurance Affiliates/Subsidiaries Not Subject to RBC
    a. Health Insurance Companies or Health Entities Not Subject to RBC
    b. Property and Casualty Insurance Companies Not Subject to RBC
    c. Life Insurance Companies Not Subject to RBC
9. Non-Insurance Affiliates/Subsidiaries Not Subject to RBC
    a. Entities with a capital requirement imposed by a regulatory body
    b. Other Financial Entities without regulatory capital requirements
    c. Other Non-financial entities

Detail Eliminated to Conserve Space

6. <u>Indirectly Owned Alien Insurance Affiliates/Subsidiaries</u>

For Indirectly Owned Alien. Insurance Affiliates/Subsidiaries, the carrying value and RBC charge is calculated in a similar manner as for directly owned Alien Insurance Affiliates/Subsidiaries.

SSAP No. 97 provides guidance for the reporting and admittance requirements of SCAs. Accordingly, there may be cases where an indirectly owned Alien insurers may not be separately reported in the statutory financial statements (e.g., they are captured within the carrying value of an intermediate holding company). The SSAP No. 97 guidance permits reporting SCAs at the directly owned holding company level or via look-through to the downstream entity (including where the downstream entity is an Alien insurer), but an audit of the entity is required for admittance (i.e. if reporting is at the directly owned holding company level, the holding company must be audited, if the reporting is on a look-through basis then the downstream entity must be audited). Regardless of whether there is a look-through applied pursuant to Statutory Accounting Principles (SAP) for annual financial statement reporting, for RBC purposes the reporting insurer must "look-through" all intermediate holding and subsidiary companies to determine the carrying value and the RBC charge that would be imposed had the alien insurance affiliate/subsidiary companies been directly held by the reporting insurer. This involves looking down to the first alien insurer affiliate/subsidiary, unless there is an RBC filer in between and adjusting for percentage ownership of the intermediate entity directly owning the RBC filing affiliate/subsidiary. Both the RBC charge and carrying value of the alien insurer must be reported for RBC purposes, in order to appropriately balance the numerator with the addition to the denominator value. Enter the carrying value of the insurer on Line XXX of the Calculation of Total Adjusted Capital page to satisfy these instructions.

The carrying value of an alien insurance Affiliate/Subsidiary is deducted from the value of the directly held holding company or other entity that in turn directly owns the U.S. Insurance Affiliate/Subsidiary that is subject to RBC, based on the value reported for each insurance subsidiary on the downstream immediate holding company or non-insurance owner's balance sheet. That value is prescribed by the NAIC Accounting Practices and Procedures Manual (SSAP No. 97, paragraph 22.a.). A similar exercise is required for each non-U.S. insurer in order to determine the remaining excess value of the holding company.

The RBC charge to be applied to each indirectly owned alien insurance affiliate/subsidiary is the annual statement book adjusted carrying value of the reporting company's interest in the affiliate/subsidiary multiplied by 0.500 and adjusted to reflect the reporting company's ownership on the holding company. For example, assume NEWBIE Insurance Company acquired 100 percent shares of Holder (a holding company), and Holder owns an Alien Life Insurance Company, which represents 50 percent of the book adjusted carrying value of Holder. If Holder has a book adjusted carrying value of $20,000,000, NEWBIE Insurance Company would enter $10,000,000 (1/2 of $20,000,000) as the carrying value of the Alien Life Insurance Company and the RBC charge for the indirect ownership of the a~~A~~lien insurance affiliate/subsidiary would be $5,000,000 (0.500 times $10,000,000). The risk-based capital charge for the parent insurer preparing the calculation is a 22.5 percent charge against the holding company value in excess of the indirectly owned insurance affiliates/subsidiaries.

PR003 Columns			
(1)	(2)	(5)	(12)
Affiliate/Subsidiary	Affiliate/Subsidiary Type	Book Adjusted Carrying Value (Statement Value) of Affiliate's Common Stock	RBC Required
Alien Life Insurance Company	6c	10,000,000	5,000,000
Holder Holding Company	3	10,000,000	2,250,000

2

If NEWBIE Insurance Company only acquired 50 percent shares of Holder, NEWBIE Insurance Company would enter $5,000,000 (50 percent of 1/2 of $20,000,000) as the carrying value of the Alien Life Insurance Company and the RBC charge for the indirect ownership of the Alien insurance affiliate/subsidiary would be $2,500,000 (0.500 times $5,000,000). Enter information for any indirectly owned alien insurance subsidiaries.

PR003 Columns			
(1)	(2)	(5)	(12)
Affiliate/Subsidiary	Affiliate/Subsidiary Type	Book Adjusted Carrying Value (Statement Value) of Affiliate's Common Stock	RBC Required
Alien Life Insurance Company	6c	5,000,000	2,500,000
Holder Holding Company	3	15,000,000	3,375,000

For each affiliate/subsidiary enter the following information:

- Company Name,
- Alien Insurer Identification Number,
- Book Adjusted carrying value of common and preferred stock,
- ~~Total Outstanding value of common and preferred stock,~~
- Book/adjusted carrying value of the common and preferred stock from Schedule D, Part 6, Section 1, Line 1499999. If no value is reported in the Total Value of Affiliate's Common and preferred stock column.

DETAILS FOR AFFILIATED STOCKS PR003

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	Name of Affiliate	Affil Type	NAIC Company Code or Alien ID Number	Affiliate's RBC After Covariance before Basic Operational Risk* LR031 L67 + L71 PR032 L67 XR025 L37	Book/Adjusted Carrying Value (statement value) of Affiliate's Common Stock**	Valuation Basis of Column (5) M - Market Value after any "discount" A - All Other	Total Value of Affiliate's Outstanding Common Stock	Statutory Surplus of Affiliate Subject to RBC (Adjusted for % Owned)	Book/Adjusted Carrying Value (statement value) of Affiliate's Preferred Stock	Total Value of Affiliate's Outstanding Preferred Stock	Percent Owned*	RBC Required (R0 Component)	Market Value Excess Component Affiliate Common Stock RBC Required (R2 Component)
0000001											100.000%	0	0
0000002											100.000%	0	0
0000003											100.000%	0	0
0000004											100.000%	0	0
0000005											100.000%	0	0
0000006											100.000%	0	0
0000007											100.000%	0	0
0000008											100.000%	0	0
0000009											100.000%	0	0
0000010											100.000%	0	0
0000011											100.000%	0	0
0000012											100.000%	0	0
0000013											100.000%	0	0
0000014											100.000%	0	0
0000015											100.000%	0	0
0000016											100.000%	0	0
0000017											100.000%	0	0
0000018											100.000%	0	0
0000019											100.000%	0	0
0000020											100.000%	0	0
0000021											100.000%	0	0
0000022											100.000%	0	0
0000023											100.000%	0	0
0000024											100.000%	0	0
0000025											100.000%	0	0
0000026											100.000%	0	0
0000027											100.000%	0	0
0000028											100.000%	0	0
0000029											100.000%	0	0
0000030											100.000%	0	0
0000031											100.000%	0	0
0000032											100.000%	0	0
0000033											100.000%	0	0
0000034											100.000%	0	0
0000035											100.000%	0	0
0000036											100.000%	0	0
0000037											100.000%	0	0
0000038											100.000%	0	0
0000039											100.000%	0	0
0000040											100.000%	0	0
0000041											100.000%	0	0
0000042											100.000%	0	0
0000043											100.000%	0	0
0000044											100.000%	0	0
0000045											100.000%	0	0
0000046											100.000%	0	0
0000047											100.000%	0	0
0000048											100.000%	0	0
0000049											100.000%	0	0
0000050											100.000%	0	0
(9999999)	Total	XXX	XXX	0	0	XXX	XXX	XXX	0	XXX		0	0

Remark: Subcategory 8a, 8b and 8c are referring to the directly owned insurance affiliates not subject to RBC look-through
Indirectly owned insurance affiliate not subject to RBC will be included Category 4

* **Only applies to Affiliate Type 1 and 2.**

Note: PR007 L12 should now refers to PR003 C(13) L9999999

#REF!

SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS PR004

	Affiliate Types	Affil Code	RBC Basis	(1) Number of Companies	(2) Total RBC Required
(1)	Directly Owned Health Insurance Companies or Health Entities	1a	Sub's RBC After Covariance	0	0
(2)	Directly Owned Property and Casualty Insurance Affiliates	1b	Sub's RBC After Covariance	0	0
(3)	Directly Owned Life Insurance Affiliates	1c	Sub's RBC After Covariance	0	0
(4)	Indirectly Owned Health Insurance Companies or Health Entities	2a	Sub's RBC After Covariance	0	0
(5)	Indirectly Owned Property and Casualty Insurance Affiliates	2b	Sub's RBC After Covariance	0	0
(6)	Indirectly Owned Life Insurance Affiliates	2c	Sub's RBC After Covariance	0	0
(7)	Holding Company in Excess of Indirect Subs	3	0.225	0	0
(8)	Investment Subsidiary	4	0.225	0	0
(9)	Directly Owned Alien Health Insurance Companies or Health Entities	5a	0.5	0	0
(10)	Directly Owned Alien Property and Casualty Insurance Affiliates	5b	0.5	0	0
(11)	Directly Owned Alien Life Insurance Affiliates	5c	0.5	0	0
(12)	Indirectly Owned Alien Health Insurance Companies or Health Entities	6a	0.5	0	0
(13)	Indirectly Owned Alien Property and Casualty Insurance Affiliates	6b	0.5	0	0
(14)	Indirectly Owned Alien Life Insurance Affiliates	6c	0.5	0	0
(15)	Investment in Upstream Affiliate (Parent)	7	0.225	0	0
(16)	Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	8a	0.225	0	0
(17)	Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	8b	0.225	0	0
(18)	Directly Owned Life Insurance Companies Not Subject to RBC	8c	0.225	0	0
(19)	Non-Insurance Entities with a Capital Eequirement Imposed by a Eegulatory Body	9a	0.225	0	0
(20)	Non-Insurance Other Financial Entities without Regulatory Capital Requirements	9b	0.225	0	0
(21)	Other Non-financial Entites	9c	0.225	0	0
(22)	Total			0	0

SUMMARY FOR SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS FOR CROSS-CHECKING STATEMENT VALUES PR005

	Affiliated Preferred Stock		(1)	(2)	(3)
	Schedule D Part 6 Section 1 C7	Annual Statement Line Number	Annual Statement Total Preferred Stock	Total From RBC Report	Difference
(1)	Parent	0199999	0	0	0
(2)	U.S. P&C Insurer	0299999	0	0	0
(3)	U.S. Life Insurer	0399999	0	0	0
(4)	U.S. Health Insurer	0499999	0	0	0
(5)	Alien Insurer	0599999	0	0	0
(6)	Non-Insurer Which Controls Insurer	0699999	0	0	0
(7)	Investment Subsidiary	0799999	0	0	0
(8)	Other Affiliates	0899999		0	0
(9)	Subtotal	0999999	0	0	0

	Affiliated Common Stock		(1)	(2)	(3)
	Schedule D Part 6 Section 1 C7	Annual Statement Line Number	Annual Statement Total Common Stock	Total From RBC Report	Difference
(10)	Parent	1099999		0	0
(11)	U.S. P&C Insurer	1199999		0	0
(12)	U.S. Life Insurer	1299999		0	0
(13)	U.S.Health Insurer	1399999		0	0
(14)	Alien Insurer	1499999		0	0
(15)	Non-Insurer Which Controls Insurer	1599999		0	0
(16)	Investment Subsidiary	1699999		0	0
(17)	Other Affiliates	1799999		0	0
(18)	Subtotal	1899999	0	0	0

UNAFFILIATED PREFERRED AND COMMON STOCK PR007

	Unaffiliated Preferred Stock	Annual Statement Source	(1) Book/Adjusted Carrying Value	Factor	(2) RBC Requirement
(1)	NAIC 01 Preferred Stock	Sch D Pt 2 Sn 1	0	0.003	0
(2)	NAIC 02 Preferred Stock	Sch D Pt 2 Sn 1	0	0.010	0
(3)	NAIC 03 Preferred Stock	Sch D Pt 2 Sn 1	0	0.020	0
(4)	NAIC 04 Preferred Stock	Sch D Pt 2 Sn 1	0	0.045	0
(5)	NAIC 05 Preferred Stock	Sch D Pt 2 Sn 1	0	0.100	0
(6)	NAIC 06 Preferred Stock	Sch D Pt 2 Sn 1	0	0.300	0
(7)	**TOTAL** - UNAFFILIATED PREFERRED STOCK (should equal P2 L2.1 C3 less Sch D-Sum C1 L18)	Sum of Ls (1) through (6)	0		0
	Unaffiliated Common Stock				
(8)	Total Common Stock	Sch D - Summary C1 L25	0		
(9)	Affiliated Common Stock	Sch D - Summary C1 L24	0		
(10)	Non-Admitted Unaffilated Common Stock	P2 C2 L2.2 - Sch D Pt6 Sn1 C9 L1899999	0		
(11)	Admitted Unaffiliated Common Stock	L(8) - L(9) - L(10)	0	0.150	0
(12)	**Market** Value Excess Affiliated Common Stock	PR003 C(**13**) L(9999999)			0
(13)	Total Unaffiliated Common Stock	L(11) + L(12)	0		0

Denotes items that must be manually entered on the filing software.

#####

CALCULATION OF TOTAL ADJUSTED CAPITAL **PR029**

		Annual Statement Reference	(1) Statement Value*	Factor	(2) Adjusted Capital
(1)	Capital and Surplus	P3 C1 L37	0	1.000	0
(2)	Non-Tabular Discount - Losses	Sch P P1-Sum C32 L12	0	1.000	0
(3)	Non-Tabular Discount - Expense	Sch P P1-Sum C33 L12	0	1.000	0
(4)	Discount on Medical Loss Reserves Reported as Tabular in Schedule P	Company Records	0	1.000	0
(5)	Discount on Medical Expense Reserves Reported as Tabular in Schedule P	Company Records	0	1.000	0
(6)	P&C Subs Non-Tabular Discount - Losses	Subs' Sch P Pt1-Sum C32 L12	0	1.000	0
(7)	P&C Subs Non-Tabular Discount - Expense	Subs' Sch P Pt1-Sum C33 L12	0	1.000	0
(8)	P&C Subs Discount on Medical Loss Reserves Reported as Tabular in Schedule P	Subs' Company Records	0	1.000	0
(9)	P&C Subs Discount on Medical Expense Reserves Reported as Tabular in Schedule P	Subs' Company Records	0	1.000	0
(10)	AVR - Life Subs §	Subs P3 C1 L24.01 §	0	1.000	0
(11)	Dividend Liability - Life Subs	Subs P3 C1 L6.1 + L6.2	0	0.500	0
(12)	Carrying Value of Non-Admitted Insurance Affiliates	Included in PR003 Column 5 and Column 9	0	1.000	0
(13)	Total Adjusted Capital Before Capital Notes	L(1)-L(2)-L(3)-L(4)-L(5)-L(6)-L(7)-L(8)-L(9)+L(10)+L(11)+L(12)			0
	Credit for Capital Notes				
(14.1)	Surplus Notes	Page 3 Column 1 Line 33	0		
(14.2)	Limitation on Capital Notes	0.5x[Line(13)-Line(14.1)]-Line 14.1, but not less than zero	0		
(14.3)	Capital Notes Before Limitation	PR028 Column (4) Line (18)	#REF!		
(14.4)	Credit for Capital Notes	Lesser of Column (1) Line(14.2) or Line (14.3)			#REF!
(15)	Total Adjusted Capital (Post-Deferred Tax)	Line (13) + Line (14.4)			#REF!
	Sensitivity Test :				
(16)	Deferred Tax Assets	Page 2, Column 3, Line 18.2	0	1.000	0
(16.1)	Deferred Tax Liabilities	Page 3, Column 1, Line 7.2	0	1.000	0
(17)	Deferred Tax Assets for Subsidiary	Company Record	0	1.000	0
(17.1)	Deferred Tax Liabilities for Subsidiary	Company Record	0	1.000	0
(18)	Total Adjusted Capital For Sensitivity Test	Line (15) - Line (16)+(16.1)-(17)+(17.1)			#REF!
	Ex DTA ACL RBC Ratio Sensitivity Test				
(19)	Deferred Tax Asset	Page 2 Column 3 Line 18.2	0	1.000	0
(20)	Total Adjusted Capital Less Deferred Tax Asset	Line (15) less Line (19)			#REF!
(21)	Authorized Control Level RBC	PR034 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4)			#REF!
(22)	Ex DTA ACL RBC Ratio	Line (20) / Line (21)			#REF!

* Report amounts in this column as whole dollars.

Denotes items that must be manually entered on the filing software.

§ The portion of the AVR that can be counted as capital is limited to the amount not utilized in asset adequacy testing in support of the Actuarial Opinion for reserves.

CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE PR030 R0-R1

			(1)
R0 –-Subsidiary Insurance Companies and Misc. Other Amounts		PRBC O&I Reference	RBC Amount
(1)	Affiliated US P&C Insurers - Directly Owned	PR004 L(2)C(2)	0
(2)	Affiliated US P&C Insurers - Indirectly Owned	PR004 L(5)C(2)	0
(3)	Affiliated US Life Insurers - Directly Owned	PR004 L(3)C(2)	0
(4)	Affiliated US Life Insurers - Indirectly Owned	PR004 L(6)C(2)	0
(5)	Affiliated US Health Insurer - Directly Owned	PR004 L(1)C(2)	0
(6)	Affiliated US Health Insurer - Indirectly Owned	PR004 L(4)C(2)	0
(7)	Affiliated Alien Insurers - Directly Owned	PR004 L(9)+L(10)+L(11)C(2)	0
(8)	Affiliated Alien Insurers - Indirectly Owned	PR004 L(12)+L(13)+L(14)C(2)	0
(9)	Misc Off-Balance Sheet - Non-Controlled Assets	PR014 L(15) C(3)	0
(10)	Misc Off-Balance Sheet - Guarantees for Affiliates	PR014 L(16) C(3)	0
(11)	Misc Off-Balance Sheet - Contingent Liabilities	PR014 L(17) C(3)	0
(12)	Misc Off-Balance Sheet - SSAP No.101 Par. 11A DTA	PR014 L(19) C(3)	0
(13)	Misc Off-Balance Sheet - SSAP No.101 Par. 11B DTA	PR014 L(20) C(3)	0
(14)	Total R0	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)+L(7)+L(8)+L(9)+L(10)+L(11)+L(12)+L(13)	0
R1 - Asset Risk - Fixed Income			
(15)	Bonds Subject to Size Factor	PR006 L(27)C(5)	0
(16)	Bond Size Factor RBC	PR006 L(30)C(5)	0
(17)	Off-balance Sheet Collateral & Sch DL, PT1 - Total Bonds	PR015 L(27)C(4)	0
(18)	Off-balance Sheet Collateral & Sch DL, PT1 - Cash, & Short-Term Investments and Mort Loans on Real Est.	PR015 L(38)+(39)C(4)	0
(19)	Other Long- Term Assets - Mortgage Loans, LIHTC & WCFI	PR008 L(10)+L(13)+L(14)+L(15)+L(16)+L(17)+L(20)+L(21)C(2)	0
(20)	Misc Assets - Collateral Loans	PR009 L(13)C(2)	0
(21)	Misc Assets - Cash	PR009 L(3)C(2)	0
(22)	Misc Assets - Cash Equivalents	PR009 L(7)C(2)	0
(23)	Misc Assets - Other Short-Term Investments	PR009 L(10)C(2)	0
(24)	Replication -Synthetic Asset: One Half	PR010 L(9999999)C(7)	0
(25)	Asset Concentration RBC - Fixed Income	PR011 L(21)C(3) Grand Total Page	0
(26)	Total R1	L(15)+L(16)+L(17)+L(18)+L(19)+L(20)+L(21)+L(22)+L(23)+L(24)+L(25)	0

PR030

#REF!

CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE PR031 R2-R3

R2 - Asset Risk - Equity		PRBC O&I Reference	RBC Amount
(27)	Common & Preferred- Affiliate Investment Subsidiary	PR004 L(8)C(2)	0
(28)	Common & Preferred- Affiliate Hold. Company. in excess of Ins. Subs.	PR004 L(7)C(2)	0
(29)	Common & Preferred- Investment in Parent	PR004 L(15)C(2)	0
(30)	Common & Preferred- Aff'd US P&C Not Subj to RBC	PR004 L(17)C(2)	0
(31)	Common & Preferred- Affil US Life Not Subj to RBC	PR004 L(18)C(2)	0
(32)	Common & Preferred- Affil US Health Insurer Not Subj to RBC	PR004 L(16)C(2)	0
(33)	Common & Preferred- Aff'd Non-insurer	PR004 L(19)+L(20)+L(21)C(2)	0
~~**(34)**~~	~~Preferred - Aff'd Invest Sub~~	~~PR004 L(7)C(3)~~	~~0~~
~~**(35)**~~	~~Preferred - Aff'd Hold. Co. in excess of Ins. Subs.~~	~~PR004 L(10)C(3)~~	~~0~~
~~**(36)**~~	~~Preferred - Investment in Parent~~	~~PR004 L(11)C(3)~~	~~0~~
~~**(37)**~~	~~Preferred - Affil US P&C Not Subj to RBC~~	~~PR004 L(12)C(3)~~	~~0~~
~~**(38)**~~	~~Preferred - Affil US Life Not Subj to RBC~~	~~PR004 L(13)C(3)~~	~~0~~
~~**(39)**~~	~~Preferred - Affil US Health Insurer Not Subj to RBC~~	~~PR004 L(14)C(3)~~	~~0~~
~~**(40)**~~	~~Preferred - Affil Non-insurer~~	~~PR004 L(15)C(3)~~	~~0~~
(34)	Unaffiliated Preferred Stock	PR007 L(7)C(2)+PR015 L(34)C(4)	0
(35)	Unaffiliated Common Stock	PR007 L(13)C(2)+PR015 L(35)C(4)	0
(36)	Other Long -Term Assets - Real Estate	PR008 L(7)C(2)	0
(37)	Other Long-Term Assets - Schedule BA Assets	PR008 L(19)C(2)+PR015 L(36)+L(37)C(4)	0
(38)	Misc Assets - Receivable for Securities	PR009 L(1)C(2)	0
(39)	Misc Assets - Aggregate Write-ins for Invested Assets	PR009 L(2)C(2)	0
(40)	Misc Assets - Derivatives	PR009 L(14)C(2)	0
(41)	Replication - Synthetic Asset: One Half	PR010 L(9999999)(7)	0
(42)	Asset Concentration RBC - Equity	PR011 L(**33**)C(3) Grand Total Page	0
(43)	Total R2	**L(27)+L(28)+L(29)+L(30)+L(31)+L(32)+L(33)+L(34) +L(35)+L(36)+L(37)+L(38)+L(39)+L(40)+L(41)+L(42) +L(43)~~+L(44)+L(45)+L(46)+L(47)+L(48)+L(49)~~**	0
R3 - Asset Risk - Credit			
(44)	Other Credit RBC	PR012 L(8))-L(1)-L(2)C(2)	0
(45)	One half of Rein Recoverables	0.5 x (PR012 L(1)+L(2)C(2))	0
(46)	Other half of Rein Recoverables	**If R4 L(51)>(R3 L(45) + R3 L(46)), 0, otherwise, R3 L(46)**	0
(47)	Health Credit Risk	PR013 L(12)C(2)	0
(48)	Total R3	**L(45) + L(46) + L(47) + L(48)**	0

CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE PR032 R4-Rcat

			(1)
R4 - Underwriting Risk - Reserves		PRBC O&I Reference	RBC Amount
(49)	One half of Reinsurance RBC	If R4 L(51)>(R3 L(45) + R3 L(46)), R3 L(46), otherwise, 0	0
(50)	Total Adjusted Unpaid Loss/Expense Reserve RBC	PR0017 L(15)C(20)	0
(51)	Excessive Premium Growth - Loss/Expense Reserve	PR016 L(13) C(8)	0
(52)	A&H Claims Reserves Adjusted for LCF	PR024 L(5) C(2) + PR023 L(6) C(4)	0
(53)	Total R4	**L(50)+L(51)+L(52)+L(53)**	0
R5 - Underwriting Risk - Net Written Premium			
(54)	Total Adjusted NWP RBC	PR018 L(15)C(20)	0
(55)	Excessive Premium Growth - Written Premiums Charge	PR016 L(14)C(8)	0
(56)	Total Net Health Premium RBC	PR022 L(21)C(2)	0
(57)	Health Stabilization Reserves	PR025 L(8)C(2) + PR023 L(3) C(2)	0
(58)	Total R5	**L(54)+L(56)+L(57)+L(58)**	0
Rcat- Catastrophe Risk			
(59)	Total Rcat	PR027 L(3) C(1)	0
(60)	Total RBC After Covariance Before Basic Operational Risk = R0+SQRT(R1^2+R2^2+R3^2+R4^2+R5^2+Rcat^2)		0
(61)	BasicOperational Risk = 0.030 x L(61)		0
(62)	C-4a of U.S. Life Insurance Subsidiaries (from Company records)		0
(63)	**Net Basic Operational Risk = Line (62) - Line (63) (Not less than zero)**		0
(64)	**Total RBC After Covariance including Basic Operational Risk = L(61)+ L(64)**		0
(65)	Authorized Control Level RBC including Basic Operational Risk = .5 x L(65)		0

Capital Adequacy (E) Task Force

RBC Proposal Form

[x] Capital Adequacy (E) Task Force	[ ] Health RBC (E) Working Group	[ ] Life RBC (E) Working Group
[ ] Catastrophe Risk (E) Subgroup	[ ] Investment RBC (E) Working Group	[ ] Longevity Risk (A/E) Subgroup
[ ] Variable Annuities Capital. & Reserve (E/A) Subgroup	[ ] P/C RBC (E) Working Group	[ ] RBC Investment Risk & Evaluation (E) Working Group

		FOR NAIC USE ONLY
	DATE: 01-30-23	Agenda Item # 2022-16-CA
CONTACT PERSON:	Crystal Brown	Year 2023
TELEPHONE:	816-783-8146	DISPOSITION
EMAIL ADDRESS:	cbrown@naic.org	[ ] ADOPTED
ON BEHALF OF:	Health Risk-Based Capital (E) Working Grp	[ ] REJECTED
NAME:	Steve Drutz	[ ] DEFERRED TO
TITLE:	Chief Financial Analyst/Chair	[ ] REFERRED TO OTHER NAIC GROUP
AFFILIATION:	WA Office of Insurance Commissioner	[x] EXPOSED 2-7-23
ADDRESS:	5000 Capitol Blvd SE	[ ] OTHER (SPECIFY)
	Tumwater, WA 98501	

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

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

DESCRIPTION OF CHANGE(S)

Update the underwriting factors for Comprehensive Medical, Medicare Supplement and Dental & Vision on pages XR013, LR019, LR020, PR019 and PR020 for the investment income adjustment.

REASON OR JUSTIFICATION FOR CHANGE **

Annual update of the underwriting factors for Comprehensive Medical, Medicare Supplement and Dental & Vision for investment income adjustment.

Additional Staff Comments:

2-7-23 cgb Exposed for 30-day comment period ending on March 9.
2-28-23 cgb EDITORIAL CHANGE: An editorial correction was made to the Health portion of the instructions to change the investment income adjustment reference from 0.5% to 5.0%.
3-9-23 cgb No comments received.
3-21-23 cgb The WG agreed to refer the proposal to the CapAd TF for exposure for all lines of business.

AMERICAN ACADEMY of ACTUARIES

February 2, 2023

Steve Drutz
Chair, Health Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners (NAIC)

Re: Request for Additional Analysis to Incorporate Investment Income into the Underwriting Risk Component of the Health Risk-Based Capital (HRBC) Formula

Dear Mr. Drutz:

On behalf of the American Academy of Actuaries[1] Health Solvency Subcommittee (the subcommittee), I am pleased to provide this response letter to the NAIC's Health Risk-Based Capital (E) Working Group request to provide additional investment return scenarios within the subcommittee's summary of the Investment Income Adjusted Health H2 Experience Fluctuation Risk Factors. These factors are included within the table below.

Investment Income Adjusted Tiered Risk-Based Capital (RBC) Factors

Assumed Investment Return	Comprehensive Medical (CM)	Medicare Supplement	Dental/Vision
	High Tier (i.e., less than $3Million (M) or less than $25M)		
0.0%	15.00%	10.50%	12.00%
3.5%	14.53%	10.01%	11.63%
4.0%	14.47%	9.94%	11.58%
4.5%	14.40%	9.87%	11.53%
5.0%	14.34%	9.80%	11.48%
5.5%	14.27%	9.73%	11.43%
6.0%	14.21%	9.67%	11.38%
	Low Tier		
0.0%	9.00%	6.70%	7.60%
3.5%	8.56%	6.23%	7.25%
4.0%	8.50%	6.16%	7.20%
4.5%	8.44%	6.09%	7.16%
5.0%	8.38%	6.03%	7.11%
5.5%	8.32%	5.96%	7.06%
6.0%	8.25%	5.90%	7.01%

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

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Please note that the subcommittee updated the claims completion pattern assumptions slightly in this analysis. The impact of this change on the RBC factors is approximately 0.01%. Otherwise, the methodology is unchanged.

*****

If you have any questions or would like to discuss further, please contact Matthew Williams, the Academy's senior health policy analyst, at williams@actuary.org.

Sincerely,

Derek Skoog, MAAA, FSA
Chairperson, Health Solvency Subcommittee
American Academy of Actuaries

Cc: Crystal Brown, Senior Health RBC Analyst & Education Coordinator, Financial Regulatory Affairs, NAIC

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HEALTH

UNDERWRITING RISK - L(1) THROUGH L(21)
XR013

Detail Eliminated to Conserve Space

Line (13) Underwriting Risk Factor. A weighted average factor based on the amount reported in Line (6), Underwriting Risk Revenue. The factors for Column (1) through (3) have incorporated an investment income yield of 5.0~~0.5~~%.

	$0 – $3 Million	$3 – $25 Million	Over $25 Million
Comprehensive Medical & Hospital	0.1434~~93~~	0.1434~~93~~	0.0838~~93~~
Medicare Supplement	0.0980~~1043~~	0.0603~~63~~	0.0603~~63~~
Dental & Vision	0.1148~~95~~	0.0711~~55~~	0.0711~~55~~
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151
Other Health	0.130	0.130	0.130
Other Non-Health	0.130	0.130	0.130

The investment income yield was incorporated into the Comprehensive Medical & Hospital, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned by the insurer. The Working Group incorporated a 0.5% income yield that was based on the yield of a 6-month US Treasury Bond. Each year, the Working Group will identify the yield of the 6-month Treasury bond (U.S. Department of the Treasury) on each Monday through the month of January and determine if further modifications to the 5.0~~0.5~~% adjustment is~~are~~ needed. Any adjustments will be rounded up to the nearest 0.5%.

Detail Eliminated to Conserve Space

LIFE

Underwriting Risk – Experience Fluctuation Risk
LR020

Detail Eliminated to Conserve Space

Line (10) Underwriting Risk Factor
A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue. The factors for Column 1-3 have incorporated investment income.

	$0 - $3 Million	$3 - $25 Million	Over $25 Million
Comprehensive Medical	0.1434~~93~~	0.1434~~93~~	0.0838~~93~~
Medicare Supplement	0.0980~~1043~~	0.0603~~63~~	0.0603~~63~~
Dental	0.1148~~95~~	0.0711~~55~~	0.0711~~55~~
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

Detail Eliminated to Conserve Space

PROPERTY/CASUALTY

LRBC FORMULA APPLICATION FOR P&C COMPANY'S A&H BUSINESS
PR019 – PR026

Detail Eliminated to Conserve Space

Line (10) Underwriting Risk Factor
A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue.

	$0 - $3 Million	$3-$25 Million	Over $25 Million
Comprehensive Medical	0.1434~~93~~	0.1434~~93~~	0.0838~~93~~
Medicare Supplement	0.0980~~1043~~	0.0603~~33~~	0.0603~~63~~
Dental & Vision	0.1148~~95~~	0.0711~~55~~	0.0711~~55~~
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

Detail Eliminated to Conserve Space

UNDERWRITING RISK

Experience Fluctuation Risk

		Line of Business	(1) Comprehensive Medical	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Other Health	(6) Other Non-Health	(7) Total
(1)	†	Premium							
(2)	†	Title XVIII-Medicare		XXX	XXX	XXX	XXX	XXX	
(3)	†	Title XIX-Medicaid		XXX	XXX	XXX	XXX	XXX	
(4)	†	Other Health Risk Revenue		XXX				XXX	
(5)		Medicaid Pass-Through Payments Reported as Premiums		XXX	XXX	XXX	XXX	XXX	
(6)		Underwriting Risk Revenue = Lines (1) + (2) + (3) + (4) - (5)							
(7)	†	Net Incurred Claims						XXX	
(8)		Medicaid Pass-Through Payments Reported as Claims		XXX	XXX	XXX	XXX	XXX	
(9)		Total Net Incurred Claims Less Medicaid Pass-Through Payments Reported as Claims = Lines (7) - (8)						XXX	
(10)	†	Fee-For-Service Offset		XXX				XXX	
(11)		Underwriting Risk Incurred Claims = Lines (9) - (10)						XXX	
(12)		Underwriting Risk Claims Ratio = For Column (1) through (5), Line (11)/(6)						1.000	XXX
(13)		Underwriting Risk Factor*					0.130	0.130	XXX
(14)		Base Underwriting Risk RBC = Lines (6) x (12) x (13)							
(15)		Managed Care Discount Factor						XXX	XXX
(16)		RBC After Managed Care Discount = Lines (14) x (15)						XXX	
(17)	†	Maximum Per-Individual Risk After Reinsurance						XXX	XXX
(18)		Alternate Risk Charge **						XXX	XXX
(19)		Alternate Risk Adjustment						XXX	XXX
(20)		Net Alternate Risk Charge***						XXX	
(21)		Net Underwriting Risk RBC (MAX{Line (16), Line (20)}) for Columns (1) through (5), Column (6), Line (14)							

TIERED RBC FACTORS*

	Comprehensive Medical	Medicare Supplement	Dental & Vision	Stand-Alone Medicare Part D Coverage	Other Health	Other Non-Health
$0 - $3 Million	~~0.1493~~ 0.1434	~~0.1043~~ 0.0980	~~0.1195~~ 0.1148	0.251	0.130	0.130
$3 - $25 Million	~~0.1493~~ 0.1434	~~0.0663~~ 0.0603	~~0.0755~~ 0.0711	0.251	0.130	0.130
Over $25 Million	~~0.0893~~ 0.0838	~~0.0663~~ 0.0603	~~0.0755~~ 0.0711	0.151	0.130	0.130

ALTERNATE RISK CHARGE**

** The Line (18) Alternate Risk Charge is calculated as follows:

LESSER OF:	$1,500,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$150,000 or 6 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	N/A

Denotes items that must be manually entered on filing software.

† The Annual Statement Sources are found on page XR014.

* This column is for a single result for the Comprehensive Medical & Hospital, Medicare Supplement and Dental/Vision managed care discount factor.

*** Limited to the largest of the applicable alternate risk adjustments, prorated if necessary.

UNDERWRITING RISK

Experience Fluctuation Risk

	Line of Business	(1) Comprehensive Medical	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Total
(1.1)	Premium – Individual					
(1.2)	Premium – Group					
(1.3)	Premium – Total = Line (1.1) + Line (1.2)					
(2)	Title XVIII-Medicare†		XXX			
(3)	Title XIX-Medicaid†		XXX			
(4)	Other Health Risk Revenue†		XXX			
(5)	Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)					
(6)	Net Incurred Claims					
(7)	Fee-for-Service Offset†		XXX			
(8)	Underwriting Risk Incurred Claims = Line (6) – Line (7)					
(9)	Underwriting Risk Claims Ratio = Line (8) / Line (5)					XXX
(10.1)	Underwriting Risk Factor for Initial Amounts Of Premium‡	~~0.1493~~ 0.1434	~~0.1043~~ 0.0980	~~0.1195~~ 0.1148	0.251	XXX
(10.2)	Underwriting Risk Factor for Excess of Initial Amount‡	~~0.0893~~ 0.0838	~~0.0663~~ 0.0603	~~0.0755~~ 0.0711	0.151	XXX
(10.3)	Composite Underwriting Risk Factor					XXX
(11)	Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)					
(12)	Managed Care Discount Factor = LR022 Line (17)					XXX
(13)	Base RBC After Managed Care Discount = Line (11) x Line (12)					
(14)	RBC Adjustment For Individual = [{Line(1.1) x 1.2 + Line (1.2)} / Line (1.3)] x Line (13)§					
(15)	Maximum Per-Individual Risk After Reinsurance†					XXX
(16)	Alternate Risk Charge*					
(17)	Net Alternate Risk Charge£					
(18)	Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))					

† Source is company records unless already included in premiums.
‡ For Comprehensive Medical, the Initial Premium Amount is $25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision, the Initial Premium Amount is $3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D, the Initial Premium Amount is $25,000,000 or the amount in Line (1.3) if smaller.
§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).
* The Line (16) Alternate Risk Charge is calculated as follows:

LESSER OF:	$1,500,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$150,000 or 6 x Maximum Individual Risk	Maximum of Columns (1), (2), (3) and (4)

£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

Denotes items that must be manually entered on the filing software.

UNDERWRITING RISK - PREMIUM RISK FOR COMPREHENSIVE MEDICAL, MEDICARE SUPPLEMENT AND DENTAL & VISION PR020

(Experience Fluctuation Risk in Life RBC Formula)

		(1) Comprehensive Medical	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) TOTAL
(1.1)	Premium – Individual	0	0	0	0	0
(1.2)	Premium – Group	0	0	0	0	0
(1.3)	Premium – Total = Line (1.1) + Line (1.2)	0	0	0	0	0
(2)	Title XVIII-Medicare†	0	XXX	XXX	XXX	0
(3)	Title XIX-Medicaid†	0	XXX	XXX	XXX	0
(4)	Other Health Risk Revenue†	0	XXX	0	0	0
(5)	Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)	0	0	0	0	0
(6)	Net Incurred Claims	0	0	0	0	0
(7)	Fee-for-Service Offset†	0	XXX	0	0	0
(8)	Underwriting Risk Incurred Claims = Line (6) – Line (7)	0	0	0	0	0
(9)	Underwriting Risk Claims Ratio = Line (8) / Line (5)	0.0000	0.0000	0.0000	0.000	XXX
(10.1)	Underwriting Risk Factor for Initial Amounts Of Premium‡	~~0.1493~~ 0.1434	~~0.1043~~ 0.0980	~~0.1195~~ 0.1148	0.251	XXX
(10.2)	Underwriting Risk Factor for Excess of Initial Amount‡	~~0.0893~~ 0.0838	~~0.0663~~ 0.0603	~~0.0755~~ 0.0711	0.151	XXX
(10.3)	Composite Underwriting Risk Factor	0.0000	0.0000	0.0000	0.000	XXX
(11)	Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)	0	0	0	0	0
(12)	Managed Care Discount Factor = PR021 Line (12)	0.0000	0.0000	0.0000	0.000	XXX
(13)	Base RBC After Managed Care Discount = Line (11) x Line (12)	0	0	0	0	0
(14)	RBC Adjustment For Individual = [{Line(1.1) x 1.2 + Line (1.2)} / Line (1.3)] x Line (13)§	0	0	0	0	0
(15)	Maximum Per-Individual Risk After Reinsurance†	0	0	0	0	XXX
(16)	Alternate Risk Charge*	0	0	0	0	0
(17)	Net Alternate Risk Charge£	0	0	0	0	0
(18)	Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))	0	0	0	0	0

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical the Initial Premium Amount is $25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision the Initial Premium Amount is $3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D the Initial Premium Amount is $25,000,000 or the amount in Line (1.3) if smaller.

§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).

* The Line (16) Alternate Risk Charge is calculated as follows:

LESSER OF:	$1,500,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$150,000 or 6 x Maximum Individual Risk	Maximum of Columns (1), (2) (3) and (4)

£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

Denotes items that must be manually entered on the filing software.

Capital Adequacy (E) Task Force

RBC Proposal Form

[x] Capital Adequacy (E) Task Force	[ ] Health RBC (E) Working Group	[ ] Life RBC (E) Working Group
[ ] Catastrophe Risk (E) Subgroup	[ ] Investment RBC (E) Working Group	[ ] Longevity Risk (A/E) Subgroup
[ ] Variable Annuities Capital. & Reserve (E/A) Subgroup	[ ] P/C RBC (E) Working Group	[ ] RBC Investment Risk & Evaluation (E) Working Group

		FOR NAIC USE ONLY
	DATE: 03-03-23	Agenda Item # 2023-01-CA
CONTACT PERSON:	**Crystal Brown**	Year 2023
TELEPHONE:	**816-783-8146**	**DISPOSITION**
EMAIL ADDRESS:	**cbrown@naic.org**	[ ] ADOPTED
ON BEHALF OF:	**Health Risk-Based Capital (E) Working Grp**	[ ] REJECTED
NAME:	**Steve Drutz**	[ ] DEFERRED TO
TITLE:	**Chief Financial Analyst/Chair**	[ ] REFERRED TO OTHER NAIC GROUP
AFFILIATION:	**WA Office of Insurance Commissioner**	[x] EXPOSED 4-10-23
ADDRESS:	**5000 Capitol Blvd SE**	[ ] OTHER (SPECIFY)
	Tumwater, WA 98501	

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

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

DESCRIPTION OF CHANGE(S)

Clarify the instructions for stop loss premiums in the Underwriting Risk – Experience Fluctuation Risk, Other Underwriting Risk and Stop Loss Interrogatories.

REASON OR JUSTIFICATION FOR CHANGE **

Provide clarity on reporting stop loss premiums in the RBC formula.

Additional Staff Comments:

3-21-23 cgb The Working Group exposed the proposal for a 20-day comment period ending on 4/10/23.
3-24-23 cgb Editorial changes to: 1) replace i.e. with e.g. and 2) corrected the reference from “treaty” to “contract” in the example provided under the Calendar Year changes.
3-28-23 cgb Editorial correction to proposal # on proposal form from 2022-17-CA to 2023-01-CA

**** This section must be completed on all forms.** **Revised 7-2022**

Detail Eliminated to Conserve Space

UNDERWRITING RISK - L(1) THROUGH L(21)
XR013

Underwriting Risk is the largest portion of the risk-based capital charge for most reporting entities. The Underwriting Risk page generates the RBC requirement for the risk of fluctuations in underwriting experience. The credit that is allowed for managed care in this page comes from the Managed Care Credit Calculation page.

Underwriting risk is present when the next dollar of unexpected claim payments comes directly out of the reporting entity's capital and surplus. It represents the risk that the portion of premiums intended to cover medical expenses will be insufficient to pay such expense. For example, a reporting entity may charge an individual $100 in premium in exchange for a guaranty that all medical costs will be paid by that reporting entity. If the individual incurs $101 in claims costs, the reporting entity's surplus will decline because it did not charge a sufficient premium to pick up the additional risk for that individual.

There are other arrangements where the reporting entity is not at risk for excessive claims payments, such as when an HMO agrees to serve as a third-party administrator for a self-insured employer. The self-insured employer pays for actual claim costs, so the risk of excessive claims experience is borne by the self-insured employer, not the reporting entity. The underwriting risk section of the formula, therefore, requires some adjustments to remove non-underwriting risk business (both premiums and claims) before the RBC requirement is calculated. Appendix 1 contains commonly used terms for general types of health insurance. Refer to INT 05-05: Accounting for Revenue under Medicare Part D Cover for terms specifically used with respect to Medicare Part D coverage of prescription drugs.

Claims Experience Fluctuation

The RBC requirement for claims experience fluctuation is based on the greater of the following calculations:

A. Underwriting risk revenue, times the underwriting risk claims ratio, times a set of tiered factors. The tiered factors are determined by the underwriting risk revenue volume.

or

B. An alternative risk charge that addresses the risk of catastrophic claims on any single individual. The alternative risk charge is equal to multiple of the maximum retained risk on any single individual in a claims year. The maximum retained risk (level of potential claim exposure) is capped at $750,000 per individual and $1,500,000 total for medical coverage; $25,000 per individual and $50,000 total for all other coverage except Medicare Part D coverage and $25,000 per individual and $150,000 total for Medicare Part D coverage. Additionally, for multi-line organizations (e.g., writing more than one coverage type), the alternative risk charge for each subsequent line of business is reduced by the amount of the highest cap. For example, if an organization is writing both comprehensive medical (with a cap of $1,500,000) and dental (with a cap of $50,000), then only the larger alternative risk charge is considered when calculating the RBC requirement (i.e., the alternative risk charges for each line of business are not cumulative).

For RBC reports to be filed by a health organization commencing operations in this reporting year, the health organization shall estimate the initial RBC levels using operating (revenue and expense) projections (considering managed care arrangements) for its first full year (12 months) of managed care operations. The projections, including the risk-based capital requirement, should be the same as those filed as part of a comprehensive business plan that is submitted as part of the application for licensure. The Underwriting, Credit (capitation risk only), and Business Risk sections of the first RBC report submitted shall be completed using the health organization's actual operating data for the period from the commencement of operations until year-end, plus projections for the number of months necessary to provide 12 months of data. The affiliate, asset and portions of the credit risk section that are based on balance sheet information shall be reported using actual data. For subsequent years' reports, the RBC results for all of the formula components shall be calculated using actual data.

L(1) through L(21)

There are six lines of business used in the formula for calculating the RBC requirement for this risk: (1) Comprehensive Medical and Hospital; (2) Medicare Supplement; (3) Dental/Vision; (4) Stand-Alone Medicare Part D Coverage; ~~and~~ (5) Other Health; and (6) Other Non-Health. Each of these lines of business has its own column in the Underwriting Risk – Experience Fluctuation Risk table. The categories listed in the columns of this page include all risk revenue and risk revenue that is received from another reporting entity in exchange for medical services provided to its members. The descriptions of the items are described as follows:

Column (1) - Comprehensive Medical & Hospital. Includes policies providing for medical coverages including hospital, surgical, major medical, Medicare risk coverage (but NOT Medicare Supplement), and Medicaid risk coverage. This category DOES NOT include administrative services contracts (ASC), administrative services only (ASO) contracts, or any non-underwritten business. These programs are reported in the Business Risk section of the formula. Neither does it include Federal Employees Health Benefit Plan (FEHBP) or TRICARE, which are handled in Line 24 of this section. Medicaid Pass-Through Payments reported as premiums should also be excluded from this category and should be reported in Line 25.2 of this section. The alternative risk charge, which is twice the maximum retained risk after reinsurance on any single individual, cannot exceed $1,500,000. Prescription drug benefits included in major medical insurance plans (including Medicare Advantage plans with prescription drug coverage) should be reported in this line. These benefits should also be included in the Managed Care Credit calculation.

Column (2) - Medicare Supplement. This is business reported in the Medicare Supplement Insurance Experience Exhibit of the annual statement and includes Medicare Select. Medicare risk business is reported under comprehensive medical and hospital.

Column (3) - Dental & Vision. This is limited to policies providing for dental-only or vision-only coverage issued as a stand-alone policy or as a rider to a medical policy, which is not related to the medical policy through deductibles or out-of-pocket limits.

Column (4) - Stand-Alone Medicare Part D Coverage. This includes both individual coverage and group coverage of Medicare Part D coverage where the plan sponsor has risk corridor protection. See INT 05-05: Accounting for Revenue under Medicare Part D Coverage for definition of these terms. Medicare drug benefits included in major medical plans or benefits that do not meet the above criteria are not to be included in this line. Supplemental benefits within Medicare Part D (benefits in excess of the standard benefit design) are addressed separately on page XR015. Employer-based Part D coverage that is in an uninsured plan as defined in *SSAP No. 47—Uninsured Plans* is not to be included here.

Column (5) – Other Health Coverages. This includes other health coverages such as other stand-alone prescription drug benefit plans, ~~**NOT INCLUDED ABOVE**~~ that have not been specifically addressed in ~~the other~~ ~~c~~Columns (1) through (4) listed above and those lines of business addressed separately on page XR015, such as stop loss. Stop loss premiums are addressed separately in Line (25) on page XR015.~~.~~

Column (6) - Other Non-Health Coverages. This includes life and property and casualty coverages.

The following paragraphs explain the meaning of each line of the table for computing the experience fluctuation underwriting risk RBC.

Line (1) Premium. This is the amount of money charged by the reporting entity for the specified benefit plan. It is the earned amount of prepayments (usually on a per member per month basis) made by a covered group or individual to the reporting entity in exchange for services to be provided or offered by such organization. However, it does not include receipts under administrative services only (ASO) contracts; or administrative services contracts (ASC); or any non-underwritten business. Nor does it include federal employees health benefit programs (FEHBP) and TRICARE. Report premium net of payments for stop-loss or other reinsurance. The amounts reported in the individual columns should come directly from Analysis of Operations by Lines of Business, Page 7, Lines 1 and 2 of the annual statement. For Stand-Alone Medicare Part D Coverage the premium includes beneficiary premium (standard coverage portion), direct subsidy, low-income subsidy (premium portion), Part D payment demonstration amounts and risk corridor payment adjustments. See INT 05-05: Accounting for Revenue under Medicare Part D Coverage for definition of these terms. It does not include revenue received for reinsurance payments or low-income subsidy (cost-sharing portion), which are considered funds received for uninsured plans in accordance with Emerging Accounting Issues Working Group (EAIWG) INT. No. 05-05. Also exclude the beneficiary premium (supplemental benefit portion) for Stand-Alone Medicare Part D coverage.

> **NOTE**: Where premiums are paid on a monthly basis, they are generally fully earned at the end of the month for which coverage is provided. In cases where the mode of payment is less frequent than monthly, a portion of the premium payment will be unearned at the end of any given reporting period.

<u>Line (2) Title XVIII Medicare</u>. This is the earned amount of money charged by the reporting entity (net of reinsurance) for Medicare risk business where the reporting entity, for a fee, agrees to cover the full medical costs of Medicare subscribers. This includes the beneficiary premium and federal government's direct subsidy for prescription drug coverage under MA-PD plans. The total of this line will tie to the Analysis of Operations by Lines of Business, Page 7, Lines 1 and 2 of the annual statement.

<u>Line (3) Title XIX Medicaid</u>. This is the earned amount of money charged by the reporting entity for Medicaid risk business where the reporting entity, for a fee, agrees to cover the full medical costs of Medicaid subscribers. The total of this line will tie to the Analysis of Operations by Lines of Business, Page 7, Lines 1 and 2 of the annual statement. Stand-Alone Medicare Part D coverage of low-income enrollees is not included in this line.

<u>Line (4) Other Health Risk Revenue</u>. This is earned amounts charged by the reporting entity as a provider or intermediary for specified medical (e.g., full professional, dental, radiology, etc.) services provided to the policyholders, or members of another insurer or health entity. Unlike premiums, which are collected from an employer group or individual member, risk revenue is the prepaid (usually on a capitated basis) payments, made by another insurer or health entity to the reporting entity in exchange for services to be provided or offered by such organization. Payments to providers under risk revenue arrangements are included in the RBC calculation as underwriting risk revenue and are included in the calculation of managed care credits. Exclude fee-for-service revenue received by the reporting entity from another reporting entity. This revenue is reported in the Business Risk section of the formula as non-underwritten and limited risk revenue. The amounts reported in the individual columns will come directly from Page 7, Line 4 of the annual statement.

<u>Line (5) Medicaid Pass-Through Payments Reported as Premiums.</u> Medicaid Pass-Through Payments that are included as premiums in the Analysis of Operations by Lines of Business, Page 7, Lines 1 and 2 should be reported in this line.

<u>Line (6) Underwriting Risk Revenue.</u> The sum of Lines (1) through (4) minus Line (5).

<u>Line (7) Net Incurred Claims</u>. Claims incurred (paid claims + change in unpaid claims) during the reporting year (net of reinsurance) that are arranged for or provided by the reporting entity. Paid claims include capitation and all other payments to providers for services to members of the reporting entity, as well as reimbursement directly to members for covered services. Paid claims also include salaries paid to reporting entity employees that provide medical services to members and related expenses. Do not include ASC payments or federal employees health benefit program (FEHBP) and TRICARE claims. These amounts are found on Page 7, Line 17 of the annual statement.

For Stand-Alone Medicare Part D Coverage, net incurred claims should reflect claims net of reinsurance coverage (as defined in INT 05-05: Accounting for Revenue under Medicare Part D Coverage). Where there has been prepayment under the reinsurance coverage, paid claims should be offset from the cumulative deposits. Unpaid claims liabilities should reflect expected recoveries from the reinsurance coverage, for claims unpaid by the PDP or for amounts covered under the reinsurance coverage that exceed the cumulative deposits. Where there has not been any prepayment under the reinsurance coverage, unpaid claim liabilities should reflect expected amounts still due from CMS. Exclude the beneficiary incurred claims (supplemental benefit portion) for Stand-Alone Medicare Part D coverage and report the incurred claims amount (supplemental benefit portion) on Line (25.1) of page XR015.

<u>Line (8) Medicaid Pass-Through Payments Reported as Claims.</u> Medicaid Pass-Through Payments that are included as claims in the Analysis of Operations by Lines of Business, Page 7, Line 17 should be reported in this line.

Line (9) Total Net Incurred Claims Less Medicaid Pass-Through Payments Reported as Claims. Line (7) minus Line (8).

Line (10) Fee-for-Service Offset. Report fee for service revenue that is directly related to medical expense payments. The fee for service line does not include revenue where there is no associated claim payment (e.g., fees from non-member patients where the provider receives no additional compensation from the reporting entity) and when such revenue was excluded from the pricing of medical benefits. The amounts reported in the individual columns should come directly from Page 7, Line 3 of the annual statement.

Line (11) Underwriting Risk Incurred Claims. Line (9) minus Line (10).

Line (12) Underwriting Risk Claims Ratio. For Columns (1) through (5), Line (11) / Line (6). If either Line (6) or Line (11) is zero or negative, Line (12) is zero.

Line (13) Underwriting Risk Factor. A weighted average factor based on the amount reported in Line (6), Underwriting Risk Revenue. The factors for Column (1) through (3) have incorporated an investment income yield of 0.5%.

	$0 – $3 Million	$3 – $25 Million	Over $25 Million
Comprehensive Medical & Hospital	0.1493	0.1493	0.0893
Medicare Supplement	0.1043	0.0663	0.0663
Dental & Vision	0.1195	0.0755	0.0755
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151
Other Health	0.130	0.130	0.130
Other Non-Health	0.130	0.130	0.130

The investment income yield was incorporated into the Comprehensive Medical & Hospital, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned by the insurer. The Working Group incorporated a 0.5% income yield that was based on the yield of a 6-month US Treasury Bond. Each year, the Working Group will identify the yield of the 6-month Treasury bond (U.S. Department of the Treasury) on each Monday through the month of January and determine if further modifications to the 0.5% adjustment are needed. Any adjustments will be rounded up to the nearest 0.5%.

Line (14) Base Underwriting Risk RBC. Line (6) x Line (12) x Line (13).

Line (15) Managed Care Discount. For Comprehensive Medical & Hospital, Medicare Supplement (including Medicare Select) and Dental/Vision, a managed care discount, based on the type of managed care arrangements an organization has with its providers, is included to reflect the reduction in the uncertainty about future claim payments attributable to the managed care arrangements. The discount factor is from Column (3), Line (17) of the Managed Care Credit Calculation page. An average factor based on the combined results of these three categories is used for all three.

For Stand-Alone Medicare Part D Coverage, a separate managed care discount (or federal program credit) is included to reflect only the reduction in uncertainty about future claims payments attributable to federal risk arrangements. The discount factor is from Column (4), Line (17) of the Managed Care Credit Calculation page.

There is no discount given for the Other Health and Other Non-Health lines of business.

Line (16) RBC After Managed Care Discount. Line (14) x Line (15).

Line (17) Maximum Per-Individual Risk After Reinsurance. This is the maximum after-reinsurance loss for any single individual. Where specific stop-loss reinsurance protection is in place, the maximum per-individual risk after reinsurance is equal to the highest attachment point on such stop-loss reinsurance, subject to the following:

- Where coverage under the stop-loss protection (plus retention) with the highest attachment point is capped at less than $750,000 per member, the maximum retained loss will be equal to such attachment point plus the difference between the coverage (plus retention) and $750,000.

- Where the stop-loss layer is subject to participation by the reporting entity, the maximum retained risk as calculated above will be increased by the reporting entity's participation in the stop-loss layer (up to $750,000 less retention).

If there is no specific stop-loss or reinsurance in place, enter $9,999,999.

Examples of the calculation are presented below:

EXAMPLE 1 (Reporting entity provides Comprehensive Care):

Highest Attachment Point (Retention)	$100,000	
Reinsurance Coverage	90% of $500,000 in excess of $100,000	
Maximum reinsured coverage	$600,000 ($100,000 + $500,000)	
Maximum Ret. Risk =	$100,000	deductible
	+ $150,000	($750,000 – $600,000)
	+ $ 50,000	(10% of ($600,000 – $100,000) coverage layer)
	= $300,000	

EXAMPLE 2 (Reporting entity provides Comprehensive Care):

Highest Attachment Point (Retention)	$75,000	
Reinsurance Coverage	90% of $1,000,000 in excess of $75,000	
Maximum reinsured coverage	$1,075,000 ($75,000 + $1,000,000)	
Maximum Ret. Risk =	$ 75,000	deductible
	+ 0	($750,000 – $1,075,000)
	+ $ 67,500	(10% of ($750,000 –$75,000)) coverage layer)
	= $142,500	

Line (18) Alternate Risk Charge. This is twice the amount in Line (17) for columns (1), (2), (3) and (5) and Column (4) is six times the amount in Line (17), subject to a maximum of $1,500,000 for Column (1), $50,000 for Columns (2), (3) and (5) and $150,000 for Column (4). Column (6) is excluded from this calculation.

Line (19) Alternate Risk Adjustment. This line shows the largest value in Line (18) for the column and all columns left of the column. Column (6) is excluded from this calculation.

Line (20) Net Alternate Risk Charge. This is the amount in Line (18), less the amount in the previous column of Line (19), but not less than zero. Column (6) is excluded from this calculation.

Line (21) Net Underwriting Risk RBC. This is the maximum of Line (16) and Line (20) for each of columns (1) through (5). This is the amount in Line (14), Column (6). The amount in Column (7) is the sum of the values in Columns (1) through (6).

OTHER UNDERWRITING RISK – L(22) THROUGH L(45)
XR015–XR017

In addition to the general risk of fluctuations in the claims experience, there is an additional risk generated when reporting entities guarantee rates for extended periods beyond one year. If rate guarantees are extended between 15 and 36 months from policy inception, a factor of 0.024 is applied against the direct premiums earned for those guaranteed policies. Where a rate guaranty extends beyond 36 months, the factor is increased to 0.064. This calculation only applies to those lines of accident and health business, which include a medical trend risk, (i.e., Comprehensive Medical, Medicare Supplement, Dental/Vision, Stand-Alone Medicare Part D Coverage, Supplemental benefits within Medicare Part D Coverage, Stop-Loss, and Minimum Premium). Premiums entered should be earned premium for the current calendar year period and not for the entire period of the rate guarantees. Premium amounts should be shown net of reinsurance only when the reinsurance ceded premium is also subject to the same rate guarantee.

A separate risk factor has been established to recognize the reduced risk associated with safeguards built into the Federal Employees Health Benefit Program (FEHBP) created under Section 8909(f)(1) of Title 5 of the United States Code and TRICARE business. Claims incurred are multiplied by two percent to determine total underwriting RBC on this business.

The American Academy of Actuaries submitted a report to the Health Risk-Based Capital (E) Working Group in 2016 to apply a tiered risk factor approach to the Stop-Loss Premium. The premiums for this coverage should not be included within Comprehensive Medical or Other Health Coverages (Page XR013)~~.~~ It is not expected that the transfer of risk through the various managed care credits will reduce the risk of stop-loss coverage. Medical Stop-Loss exhibits a much higher variability than Comprehensive Medical. A factor of 35 percent will be applied to the first $25,000,000 in premium and a factor of 25 percent will be applied to premium in excess of $25,000,000. Stop loss premiums should be reported on a net basis.

Line (25.1) Supplemental Benefits within Stand-Alone Medicare Part D Coverage. A separate risk factor has been established to recognize the different risk (as described in INT 05-05: Accounting for Revenue under Medicare Part D Coverage) for the incurred claims associated with the beneficiaries for these supplemental drug benefits.

Line (25.2) Medicaid Pass-Through Payments Reported as Premium. The treatment of Medicaid Pass-Through Payments varies from state to state, and in some instances is treated as premium. The Health Risk-Based Capital Working Group however, determined that the risk associated with these payments is more administrative in nature and similar to uninsured plans. As such, the Working Group determined that the charge should follow that of the uninsured plans (ASC and ASO) and apply a 2 percent factor charge to those Medicaid Pass-Through Payments reported as premiums. This amount should be equal to the amount reported on page XR013, Column (1), Line (5).

Lines (26) through (32) Disability Income. Disability Income Premiums are to be separately entered depending upon category (Individual and Group). For Individual Disability Income, a further split is between noncancellable (NC) or other (guaranteed renewable, etc.). For Group Disability Income, the further splits are between Credit Monthly Balance, Credit Single Premium (with additional reserves), Credit Single Premium (without additional reserves), Group Long-Term (benefit periods of two years or longer) and Group Short-Term (benefit periods less than two years). The RBC factors vary by the amount of premium reported such that a higher factor is applied to amounts below $50,000,000 for similar types. In determining the premiums subject to the higher factors, Individual Disability Income NC and Other are combined**.** All types of Group and Credit Disability Income are combined in a different category from Individual.

STOP LOSS ELECTRONIC ONLY TABLES

The Health Risk-Based Capital (E) Working Group revised the stop loss factors in 2017. The American Academy of Actuaries submitted a report to the Health Risk-Based Capital (E) Working Group and suggested that the factors be revised based on data from 1998-2008. The Health Risk-Based Capital (E) Working Group agreed to continue analyzing the stop loss factors as a result of the changes to life-time maximum amounts included in the Federal Affordable Care Act.

Electronic Table 1 – Stop Loss Interrogatories

The interrogatories are designed to gather the information by product type and will be reviewed on a go-forward basis. The data will be used in the continued evaluation of the factors. The data collected will be collected on a one-year run-out basis. For example, the RBC filed at year-end 2019, will reflect the incurred data for calendar year 2018 run-out through December 31, 2019.

For those insurers where the stop loss gross premium written is both under $2,000,000 and is less than 10% of the insurer's total gross premium written are exempt from completing Table 1.

The categories used in the interrogatories are separated as follows:

Product Type

Specific Stop Loss = (including aggregating specific). This coverage was included in the 1998 to 2008 factor development.
Aggregate Stop Loss = This coverage was included in the 1998 to 2008 factor development.
HMO Reinsurance = specific reinsurance of an HMO's commercial, Medicare, Medicaid or Point of Service products. This coverage was not included in the 1998 to 2008 factor development.
Provider Excess = specific excess written on Providers including IPAs, hospitals, clinics. This coverage was not included in the 1998 to 2008 factor development.
Medical Excess Reinsurance = specific reinsurance of an insurance company's medical business (first dollar or self-insured). This coverage was not included in the 1998 to 2008 factor development.

Do not include quota share or excess reinsurance written on Stop Loss business.

Calendar Year - Submit experience information for the calendar year preceding the year for which the RBC report is being filed, e.g., the RBC report filed for 2019 should provide experience information for calendar year 2018 with run-out through December 31, 2019. If the contract year does not follow a calendar year (i.e. 7/1-6/30), the impact on the interrogatories would be spread across two years in the same manner it would be reported in two annual statements (i.e., half of premium and ~~roughly half~~the applicable portion of the liability/expense would hit the first year, the remainder would hit the second year). Report based on the calendar year even if the calendar year includes two separate contracts (For example: Contract 1 started on 7/1/2017 and ran through 6/30/2018. Contract 2 started on 7/1/2018 and ran through 6/30/2019. The 2018 calendar year experience information would be comprised of the experience information in Contract 1 from 1/1/2018 through 6/30/2018 AND Treaty 2 from 7/1/2018 to 12/31/2018.). Contracts that do not follow a calendar year should NOT be excluded.

Total [Gross/Net] Premium - This is the [gross/net] premium revenue, [before/after] ceded reinsurance and including commissions. Report the data as reported for the prior calendar year including amounts paid for the prior year through the end of the current calendar year. Do not adjust for any anomalies in the experience.

Total Gross Claims + Expenses =

Total Gross Claims – These are the gross incurred claims, before ceded reinsurance. Do not adjust for any anomalies in the experience. Claims are defined as claims incurred during prior calendar year and paid through the end of the current calendar (reporting) year, plus any remaining gross claim liability.
+

Expenses – These are the gross incurred expense during the prior calendar year and paid through the end of the current reporting year plus any incurred expenses that are unpaid as of the end of the run-out period. Premium tax amounts should be included in the expense amounts; however, income taxes would be excluded.

Gross Combined Ratio - This is equal to (Total Gross Claims + Expenses) / Total Gross Premium.

Premiums Net of Reinsurance – This is the net premium revenue, net of reinsurance. Report data as reported in the annual statement and do not adjust for any anomalies in the experience.

Total Net Claims + Expenses =

Total Net Claims – These are the net incurred claims after ceded reinsurance. Do not adjust for any anomalies in the experience. Claims are defined as claims incurred during prior calendar year and paid through the end of the current calendar (reporting) year, plus any remaining net claim liability.

+

Expenses – These are the net incurred expenses during the prior calendar year and paid through the end of the current reporting year plus any incurred expenses that are unpaid as of the end of the run-out period. Premium tax amounts should be included in the expense amounts; however, income taxes would be excluded.

Net Combined Ratio – This is equal to (Total Net Claims + Expenses)/Premiums Net of Reinsurance.

Electronic Table 2a – Calendar Year Specific Stop Loss Contracts by Group Size and Table 2b – Calendar Year Aggregate Stop Loss Contracts by Group Size

For those insurers where the stop loss gross premium written is both under $2,000,000 and is less than 10% of the insurer's total gross premium written are exempt from completing Table 2.

Table 2a should reflect the specific stop loss data and Table 2b should reflect the aggregate stop loss data.

Report the number of groups, average specific attachment point and average aggregate attachment as of December 31st of the calendar (reporting) year. If the contract does not follow a calendar year (i.e. 7/1-6/30), report the policies written during the year of the annual statement and in effect at the end of the calendar year.

The number of covered lives in a group (group size) should be based on the size of the group as of December 31 of the calendar year. The number of covered lives counted should include all enrolled members (that is, total number of lives insured, including dependents).

Number of Groups – list the number of groups for each stop-loss contract based on the number of covered lives in the group.

Average Specific Attachment Point (Table 2a) – The average should be weighted by the number of covered lives in the respective group size bracket, excluding the count of covered lives within the denominator where specific/aggregate coverage was not provided.

Example: Average Specific Attachment Point ($) (Table 2a, 50-99 Covered Lives in Group) =

(Sum of Specific Attachment Points X Reported Lives) / (Sum of Reported Lives)

Insured Group	Specific Att Point ($)	Aggregate Att (%)	Number of Lives	Include Exclude	Reason to Exclude
1	$200,000	115%	90	Include	
2	$100,000	120%	60	Include	
3	$50,000	140%	40	Exclude	Not in Group Size Band

4	$120,000	N/A	50	Include

Calculation: (200,000 x 90 + 100,000 x 60 + 120,000 x 50) / (90 + 60 + 50) = $150,000

Average Aggregate Attachment Percentage (Table 2b) – Is based on expected claims. Subgroups that have separate stop loss contracts should be aggregated in terms of determining the group size. The average should be weighted by expected claims in the respective group size bracket, excluding the expected claims within the denominator where aggregate coverage was not provided.

Example: Average Aggregate Attachment Percentage (%) (Table 2b, 50-99 Covered Lives in Group) =

(Sum of Expected Claims x Attachment Percentage %) / (Sum of Expected Claims)

Insured Group	Specific Att Point ($)	Aggregate Att (%)	Expected Claims	Number of Lives	Include Exclude	Reason to Exclude
1	$200,000	115%	$ 500,000	90	Include	
2	$100,000	120%	$ 300,000	60	Include	
3	$50,000	140%	$ 200,000	40	Exclude	Not in Group Size Band
4	$120,000	N/A	$ 400,000	50	Exclude	Aggregate not purchased by group

Calculation: (500,000 x 115% + 300,000 x 120%) / (500,000 + 300,000) = 116.7%

Footnote – The number of covered lives for stop loss coverage is reported in the Accident and Health Policy Experience Exhibit for Year (April 1st filing) in Column 13, Section C. Other Business, Line 2.

If stop loss policies are sold on a Per Employee Per Month basis and the actual number of covered lives is unknown, it would be reasonable to estimate the number of covered lives if the exact information is not administratively available to the reporting entity. This method of estimation may be similar to estimations provided for the Accident and Health Policy Experience Exhibit for Year. If estimated, an explanation of the method used to estimate the number of covered lives should be provided in the footnote.

Detail Eliminated to Conserve Space

APPENDIX 1 – COMMONLY USED TERMS

The Definitions of Commonly Used Terms are frequently duplicates from the main body of the text. If there are any inconsistencies between the definitions in this section and the definitions in the main body of the instructions, the main body definition should be used.

Detail Eliminated to Conserve Space

Stop-Loss Coverage – Coverage for a self-insured group plan, a provider/provider group or non-proportional reinsurance of a medical insurance product. Coverage may apply on a specific basis, an aggregate basis or both. Specific coverage means that the stop-loss carrier's risk begins after a minimum of at least $5,000 of claims for any one covered Life has been covered by the group plan, provider/provider group or direct writer. Aggregate coverage means that the stop-loss carrier's risk begins after the group plan, provider/provider group or direct writer has retained at least 90 percent of expected claims, or the economic equivalent.

Detail Eliminated to Conserve Space

HEALTH PREMIUMS and HEALTH CLAIMS RESERVES

LR019, LR023 and LR024

Detail Eliminated to Conserve Space

Line (12)

The American Academy of Actuaries submitted a report to the Health Risk-Based Capital Working Group in 2016 to apply a tiered risk factor approach to the Stop-Loss Premium. The premiums for this coverage should not be included within Comprehensive Medical or Other Health Coverages (Line (32)). It is not expected that the transfer of risk through the various managed care credits will reduce the risk of stop-loss coverage. Medical Stop Loss exhibits a much higher variability than Comprehensive Medical. A factor of 35 percent will be applied to the first $25,000,000 in premium and a factor of 25 percent will be applied to the premium in excess of $25,000,000. Stop loss premiums should be reported on a net basis.

Detail Eliminated to Conserve Space

Line (32)

It is anticipated that most health premium will have been included in one of the other lines. In the event that some coverage does not fit into any of these categories, the "Other Health" category continues the RBC factor from the 1998 and prior formula for Other Limited Benefits Anticipating Rate Increases. Stop loss premiums are addressed separately in Line (12).

Stop Loss Electronic Only Tables

The Health Risk-Based Capital (E) Working Group revised the stop loss factors in 2017. The American Academy of Actuaries submitted a report to the Health Risk-Based Capital (E) Working Group and suggested that the factors be revised based on data from 1998-2008. The Health Risk-Based Capital (E) Working Group agreed to continue analyzing the stop loss factors as a result of the changes to life time maximum amounts included in the Federal Affordable Care Act.

Electronic Table 1 – Stop Loss Interrogatories

The interrogatories are designed to gather the information by product type and will be reviewed on a go forward basis. The data will be used in the continued evaluation of the factors. The data collected will be collected on a one-year run-out basis. For example, the RBC filed at year-end 2018, will reflect the incurred data for calendar year 2017 run-out through December 31st, 2018.

For those insurers where the stop loss gross premium written is both under $2,000,000 and is less than 10% of the insurer's total gross premium written are exempt from completing Table 1.

The categories used in the interrogatories are separated as follows:

Product Type

Specific Stop Loss = (including aggregating specific). This coverage was included in the 1998 to 2008 factor development.
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HMO Reinsurance = specific reinsurance of an HMO's commercial, Medicare, Medicaid or Point of Service products. This coverage was not included in the 1998 to 2008 factor development.
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Please do not include quota share or excess reinsurance written on Stop Loss business.

Calendar Year - Submit experience information for the calendar year preceding the year for which the RBC report is being filed; e.g., the RBC report filed for 2018 should provide experience information for calendar year 2017 with run-out through December 31st, 2018. —If the contract year does not follow a calendar year (i.e. 7/1-6/30), the impact on the interrogatories would be spread across two years in the same manner it would be reported in two annual statements (i.e., half of premium and the applicable portion of the liability/expense would hit the first year, the remainder would hit the second year). Report based on the calendar year even if the calendar year includes two separate contracts (For example: Contract 1 started on 7/1/2017 and ran through 6/30/2018. Contract 2 started on 7/1/2018 and ran through 6/30/2019. The 2018 calendar year experience information would be comprised of the experience information in Contract 1 from 1/1/2018 through 6/30/2018 AND Treaty 2 from 7/1/2018 to 12/31/2018.). Contracts that do not follow a calendar year should NOT be excluded.

Total [Gross/Net] Premium - This is the [gross/net] premium revenue, [before/after] ceded reinsurance and including commissions. Report the data as reported for the prior calendar year including amounts paid for the prior year through the end of the current calendar year. Do not adjust for any anomalies in the experience.

Total Gross Claims + Expenses =

Total Gross Claims - These are the gross incurred claims, before ceded reinsurance. Do not adjust for any anomalies in the experience. Claims are defined as claims incurred during prior calendar year and paid through the end of the current calendar (reporting) year, plus any remaining gross claim liability.

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Expenses – These are the gross incurred expense during the prior calendar year and paid through the end of the current reporting year plus any incurred expenses that are unpaid as of the end of the run-out period. Premium tax amounts should be included in the expense amounts; however, income taxes would be excluded.

Gross Combined Ratio - This is equal to (Total Gross Claims + Expenses) / Total Gross Premium.

Premiums Net of Reinsurance – This is the net premium revenue, net of reinsurance. Report data as reported in the annual statement and do not adjust for any anomalies in the experience.

Total Net Claims + Expenses =

Total Net Claims - These are the net incurred claims after ceded reinsurance. Do not adjust for any anomalies in the experience. Claims are defined as claims incurred during prior calendar year and paid through the end of the current calendar (reporting) year, plus any remaining net claim liability.

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Net Combined Ratio – This is equal to I(Total Net Claims + Expenses)/Premiums Net of Reinsurance.

Table 2**a** – Calendar Year **Specific** Stop Loss Contracts By Group Size and Table 2b – Calendar Year Aggregate Stop Loss Contracts by Group Size

For those insurers where the stop loss gross premium written is both under $2,000,000 and is less than 10% of the insurer's total gross premium written are exempt from completing Table 2.

Table 2a should reflect the specific stop loss data and Table 2b should reflect the aggregate stop loss data.

Report the number of groups, average specific attachment point and average aggregate attachment as of December 31st of the calendar (reporting) year. If the contract does not follow a calendar year (i.e. 7/1-6/30), report the policies written during the year of the annual statement and in effect at the end of the calendar year.

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Number of Groups – list the number of groups for each stop loss contract based on the number of covered lives in the group.

Average Specific Attachment Point **(Table 2a)** - The average should be weighted by the number of covered lives in the respective group size bracket, excluding the count of covered lives within the denominator where specific/aggregate coverage was not provided.

Example: Average Specific Attachment Point ($) (Table 2a, 50-99 Covered Lives in Group) =

(Sum of Specific Attachment Points X Reported Lives) / (Sum of Reported Lives)

Insured Group	Specific Att Point ($)	Aggregate Att (%)	Number of Lives	Include Exclude	Reason to Exclude
1	$ 200,000	115%	90	Include	
2	$ 100,000	120%	60	Include	
3	$ 50,000	140%	40	Exclude	Not in Group Size Band
4	$ 120,000	N/A	50	Include	

Calculation: (200,000 x 90 + 100,000 x 60 + 120,000 x 50) / (90 + 60 + 50) = $150,000

Average Aggregate Attachment Percentage (Table 2b) – Is based on expected claims. Subgroups that have separate stop loss contracts should be aggregated in terms of determining the group size. The average should be weighted by expected claims in the respective group size bracket, excluding the count of covered lives within the denominator where aggregate coverage was not provided.

Example: Average Aggregate Attachment Percentage (%) (Table 2b, 50-99 Covered Lives in Group) =

(Sum of Expected Claims x Attachment Percentage %) / (Sum of Expected Claims)

Insured Group	Specific Att Point ($)	Aggregate Att (%)	Expected Claims	Number of Lives	Include Exclude	Reason to Exclude
1	$ 200,000	115%	$ 500,000	90	Include	
2	$ 100,000	120%	$ 300,000	60	Include	

3	$	50,000	140%	$	200,000	40	Exclude	Not in Group Size Band
4	$	120,000	N/A	$	400,000	50	Exclude	Aggregate not purchased by group

Calculation: (500,000 x 115% + 300,000 x 120%) / (500,000 + 300,000) = 116.7%

Footnote – The number of covered lives for stop loss coverage is reported in the Accident and Health Policy Experience Exhibit for Year (April 1st filing) in Column 6, Section C. Other Business, Line 2.

If stop loss policies are sold on a Per Employee Per Month basis and the actual number of covered lives is unknown, it would be reasonable to estimate the number of covered lives if the exact information is not administratively available to the reporting entity. This method of estimation may be similar to estimations provided for the Accident and Health Policy Experience Exhibit for Year. If estimated, an explanation of the method used to estimate the number of covered lives should be provided in the footnote.

LRBC FORMULA APPLICATION FOR P&C COMPANY'S A&H BUSINESS
PR019 – PR026

PR019 - Health Premiums

Detail Eliminated to Conserve Space

Line (9)
The American Academy of Actuaries submitted a report to the Health Risk-Based Capital Working Group in 2016 to apply a tiered risk factor approach to the Stop-Loss Premium. The premiums for this coverage should not be included within Comprehensive Medical or Other Health Coverages (Line (25)). It is not expected that the transfer of risk through the various managed care credits will reduce the risk of stop-loss coverage. Medical Stop Loss exhibits a much higher variability than Comprehensive Medical. A factor of 35 percent will be applied to the first $25,000,000 in premium and a factor of 25 percent will be applied to the premium in excess of $25,000,000. Stop loss premiums should be reported on a net basis.

Detail Eliminated to Conserve Space

Line (25)
Most Health Premium will have been included in one of the prior lines. In the event that some coverage does not fit into any of these categories, "Other Health" category is applied with a 12% factor, which is from 1998 formula for Other Limited Benefits Anticipating Rate Increases. Stop loss premiums are addressed separately in Line (9).

Stop Loss Electronic Only Tables

The Health Risk-Based Capital (E) Working Group revised the stop loss factors in 2017. The American Academy of Actuaries submitted a report to the Health Risk-Based Capital (E) Working Group and suggested that the factors be revised based on data from 1998-2008. The Health Risk-Based Capital (E) Working Group agreed to continue analyzing the stop loss factors as a result of the changes to life-time maximum amounts included in the Federal Affordable Care Act.

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For those insurers where the stop loss gross premium written is both under $2,000,000 and is less than 10% of the insurer's total gross premium written are exempt from completing Table 1.

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Please do not include quota share or excess reinsurance written on Stop Loss business.

Calendar Year - Submit experience information for the calendar year preceding the year for which the RBC report is being filed; e.g., the RBC report filed for ~~2021~~ 2019~~22~~ should provide experience information for calendar year ~~2019~~ 2018~~20~~ with run-out through December 31, ~~2021~~2019~~22~~. If the contract year does not follow a calendar year (i.e. 7/1-6/30), the impact on the interrogatories would be spread across two years in the same manner it would be reported in two annual statements (i.e., half of premium and the applicable portion of the liability/expense would hit the first year, the remainder would hit the second year). Report based on the calendar year even if the calendar year includes two separate contracts (For example: Contract 1 started on 7/1/2017 and ran through 6/30/2018. Contract 2 started on 7/1/2018 and ran through 6/30/2019. The 2018 calendar year experience information would be comprised of the experience information in Contract 1 from 1/1/2018 through 6/30/2018 AND Treaty 2 from 7/1/2018 to 12/31/2018.). Contracts that do not follow a calendar year should NOT be excluded.

Total [Gross/Net] Premium - This is the [gross/net] premium revenue, [before/after] ceded reinsurance and including commissions. Report the data as reported for the prior calendar year including amounts paid for the prior year through the end of the current calendar year. Do not adjust for any anomalies in the experience.

Total Gross Claims + Expenses =

Total Gross Claims - These are the gross incurred claims, before ceded reinsurance. Do not adjust for any anomalies in the experience. Claims are defined as claims incurred during prior calendar year and paid through the end of the current calendar (reporting) year, plus any remaining gross claim liability.

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Expenses – These are the gross incurred expense during the prior calendar year and paid through the end of the current reporting year plus any incurred expenses that are unpaid as of the end of the run-out period. Premium tax amounts should be included in the expense amounts; however, income taxes would be excluded.

Gross Combined Ratio - This is equal to (Total Gross Claims + Expenses) / Total Gross Premium.

Premiums Net of Reinsurance – This is the net premium revenue, net of reinsurance. Report data as reported in the annual statement and do not adjust for any anomalies in the experience.

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Table 2a – Calendar Year Specific Stop Loss Contracts by Group Size and Table 2b – Calendar Year Aggregate Stop Loss Contract by Group Size

For those insurers where the stop loss gross premium written is both under $2,000,000 and is less than 10% of the insurer's total gross premium written are exempt from completing Table 2.

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Report the number of groups, average specific attachment point and average aggregate attachment as of December 31st of the calendar (reporting) year. If the contract does not follow a calendar year (i.e. 7/1-6/30), report the policies written during the year of the annual statement and in effect at the end of the calendar year.

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Number of Groups – list the number of groups for each stop loss contract based on the number of covered lives in the group.

Average Specific Attachment Point (Table 2a) - The average should be weighted by the number of covered lives in the respective group size bracket, excluding the count of covered lives within the denominator where specific/aggregate coverage was not provided.

Example: Average Specific Attachment Point ($) (Table 2a, 50-99 Covered Lives in Group) =

(Sum of Specific Attachment Points X Reported Lives) / (Sum of Reported Lives)

Insured Group	Specific Att Point ($)	Aggregate Att (%)	Number of Lives	Include Exclude	Reason to Exclude
1	$ 200,000	115%	90	Include	
2	$ 100,000	120%	60	Include	
3	$ 50,000	140%	40	Exclude	Not in Group Size Band
4	$ 120,000	N/A	50	Include	

Calculation: (200,000 x 90 + 100,000 x 60 + 120,000 x 50) / (90 + 60 + 50)
= $150,000

Average Aggregate Attachment Percentage (Table 2b) – Is based on expected claims. Subgroups that have separate stop loss contracts should be aggregated in terms of determining the group size. The average should be weighted by expected claims in the respective group size bracket, excluding the expected claims within the denominator where aggregate coverage was not provided.

Example: Average Aggregate Attachment Percentage (%) (Table 2b, 50-99 Covered Lives in Group) =

(Sum of Expected Claims x Attachment Percentage %) / (Sum of Expected Claims)

Insured	Specific	Aggregate	Expected	Number	Include

Group	Att Point ($)	Att (%)	Claims	of Lives	Exclude
1	$ 200,000	115%	$ 500,000	90	Include
2	$ 100,000	120%	$ 300,000	60	Include
3	$ 50,000	140%	$ 200,000	40	Exclude
4	$ 120,000	N/A	$ 400,000	50	Exclude

Calculation: (500,000 x 115% + 300,000 x 120%) / (500,000 + 300,000)
= 116.7%

Footnote – The number of covered lives for stop loss coverage is reported in the Accident and Health Policy Experience Exhibit for Year (April 1st filing) in Column 13, Section C. Other Business, Line 2.

If stop loss policies are sold on a Per Employee Per Month basis and the actual number of covered lives is unknown, it would be reasonable to estimate the number of covered lives if the exact information is not administratively available to the reporting entity. This method of estimation may be similar to estimations provided for the Accident and Health Policy Experience Exhibit for Year. If estimated, an explanation of the method used to estimate the number of covered lives should be provided in the footnote.

Draft: 5/15/23

Capital Adequacy (E) Task Force
Virtual Meeting
April 28, 2022

The Capital Adequacy (E) Task Force met April 28, 2023. The following Task Force members participated: Judith L. French, Chair, represented by Tom Botsko (OH); Grace Arnold, Vice Chair, represented by Fred Andersen (MN); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Charles Hale (AL); Ricardo Lara represented by Thomas Reedy (CA); Michael Conway represented by Rolf Kaumann and Mitchell Bronson (CO); Andrew N. Mais represented by Wanchin Chou and Jack Broccoli (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Champa Whitaker Burns (FL); Doug Ommen represented by Carrie Mears, Kevin Clark, Mike Yanacheak, and Kim Cross (IA); Dana Popish Severinghaus represented by Vincent Tsang (IL); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Chut Tee (KS); Sharon P. Clark represented by Russell Coy (KY); Kathleen A. Birrane represented by Lynn Beckner (MD); Chlora Lindley-Myers and Julie Lederer (MO); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Andrea Johnson and Lindsay Crawford (NE); Marlene Caride represented by David Wolf (NJ); Glen Mulready represented by Diane Carter (OK); Michael Wise represented by Thomas Baldwin, Ryan Basnett, and Daniel Morris (SC); Cassie Brown represented by Amy Garcia, Miriam Fisk, Ludi Skinner, Dan Paschal, Jamie Walker, and Rachel Hemphill (TX); Mike Kreidler represented by Steve Drutz (WA); and Nathan Houdek, Michael Erdman, Adrian Jaramillo, and Amy Malm (WI).

1. Adopted its Spring National Meeting Minutes

Chou made a motion, seconded by Eft, to adopt the Task Force's March 23 (*see NAIC Proceedings – Spring 2023, Capital Adequacy (E) Task Force*) inutes. The motion passed unanimously.

2. Discussed the Current Turmoil in the Banking Sector

Ed Toy (Risk & Regulatory Consulting—RRC) provided an update on the problems in the banking sector. He noted that there has not been any major negative news since the Spring National Meeting. While this provides a respite to be able to assess what happened and why, the strong consensus among analysts is that there are fundamental issues and that those issues still exist.

There is also a building consensus on where there are probable contagion concerns. Topping the list is the commercial real estate market. There is concern about potential defaults in the bank mortgage portfolios given several overlapping factors 1) more conservative lending practices by banks given the current turmoil; 2) continuing softening of commercial real estate values; 3) higher officer vacancy rates; 4) higher interest rates, which drive up cap rates for valuing properties; and 5) expiring commercial office leases. The continuing concerns in the banking sector put downward pressure on equity values and bond valuations. This will have a near-term impact on the valuations of insurer portfolios that have significant exposure to financial institutions. Typical bond portfolios can range anywhere from 15%–40% exposure to financial institutions.

However, it is not all bad news, as some mitigating factors have developed. The Federal Home Loan Banks (FHLBs) have stepped up and provided some funding for banks that need liquidity. There has been a modest downtick in interest rates (of about 50 basis points) since the end of 2022, slightly offsetting the significant increase in interest rates in 2022. This should help a little with asset valuations. Botsko said the Task Force appreciates Toy continuing to provide updates in upcoming meetings.

3. Adopted Proposal 2023-02-P (Underwriting Risk Line 1 Factors)

Botsko said proposal 2023-02-P 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 also stated that the Working Group did not receive any comments during the exposure period.

Chou made a motion, seconded by Malm, to adopt proposal 2023-02-P (Attachment Two-A). The motion passed unanimously.

4. Adopted Proposal 2023-03-IRE (Revised Residual Structure for Life)

Barlow said the purpose of proposal 2023-03-IRE is to add a line to isolate residual tranches reported on Annual Statement, Schedule BA and the Asset Valuation Reserve (AVR). He stated that this is just a structure proposal: The factors proposal is currently exposed and will be considered in the Investment Risk and Evaluation (E) Working Group and brought back to the Task Force meeting in June. Walker commented that Texas is supportive of the structural change and encourages the Working Group to continue to be transparent on the data-driven process.

Barlow made a motion, seconded by Tsang, to adopt proposal 2023-03-IRE (Attachment Two-B). The motion passed unanimously.

5. Adopted Proposal 2023-04-IRE (Residual Sensitivity Test for Life)

Barlow said the purpose of this proposal is to add additional lines in the sensitivity testing exhibits for residual tranches. He also stated that the updated sensitivity testing could be an additional tool to help state insurance regulators in reviewing companies and their investments in residual tranches. He said that this is also just a structure proposal; therefore, the factors proposal is currently exposed and will be considered in the Investment Risk and Evaluation (E) Working Group and brought back to the Task Force meeting in June. Barlow also indicated that this proposal has been revised since the initial exposure in January, and no further comments have been received regarding the proposal. Botsko said the Task Force will revisit this item and make adjustments to the proposal if necessary.

Barlow made a motion, seconded by Tsang, to adopt proposal 2023-04-IRE (Attachment Two-C). The motion passed unanimously.

6. Adopted Proposal 2023-05-L (Remove Dual Trend Test)

Barlow said the current dual presentation of the Life Risk-Based Capital trend test was implemented as an interim approach while member jurisdictions transitioned to the higher 300% threshold. He stated that the dual approach is no longer needed as the transition process is now completed.

Barlow made a motion, seconded by Eft, to adopt proposal 2023-04-IRE (Attachment Two-D). The motion passed unanimously.

7. Adopted Proposal 2023-06-L (C-2 Mortality Risk Structure Changes)

Barlow said this proposal provides the following proposed life C-2 updates for consideration for 2023 year-end financial statements: 1) structural updates where it pertains to the treatment of group permanent life and miscellaneous other instructions updates. The proposal assigns the same factors to group permanent life as individual permanent life for categories stating with and without pricing flexibility; and 2) a new financial statement note to provide the development of net amounts at risk for the life C-2 categories to create a direct link to a financial statement source, and accompanying life C-2 structural and instruction updates. The proposed second update includes the updates specified in the first update. He also stated that the second update was adopted by the Life Risk-Based Capital (E) Working Group with the caveat that the adoption of the new financial statement note by the Blanks (E) Working Group. Otherwise, company records will be used instead of a direct link to a financial statement source.

Barlow made a motion, seconded by Kaumann, to adopt proposal 2023-06-L (Attachment Two-E). The motion passed unanimously.

8. Adopted Proposal 2023-07-L (CM6 & CM7 Mortgages Structures Changes)

Barlow said this proposal serves the following purposes: 1) aligns the CM6 and CM7 life RBC factors for nonperforming commercial and farm mortgages with the RBC factors for the Annual Statement, Schedule A and Schedule BA investments in real estate, as those factors were adjusted in 2021; and 2) adopts the same formula for calculating RBC amounts for nonperforming and performing residential, commercial, and farm mortgages.

Barlow made a motion, seconded by Kaumann, to adopt proposal 2023-07-L (Attachment Two-F). The motion passed unanimously.

9. Exposed Proposal 2022-16-CA (Underwriting Risk Factors Investment Income Adjustment)

Drutz said the purpose of this proposal is to update the underwriting risk factors for the annual investment income adjustment to the comprehensive medical, Medicare supplement, and dental and vision factors. This proposal was originally exposed to the Health Risk-Based Capital (E) Working Group for a 30-day comment period ending March 9. No comments were received. The Working Group requests that the Task Force exposes this proposal for another 30-day comment period to address the factor changes for all three lines of business. Botsko said the Task Force and the Health Risk-Based Capital (E) Working Group welcome any comments during the exposure period.

The Task Force agreed to expose proposal 2022-16-CA for a 30-day public comment period ending May 27.

10. Exposed Proposal 2023-01-CA (Stop Loss Premiums)

Drutz said the purpose of this proposal is to clarify the instructions for the stop-loss business in the health RBC formula and align the life and P/C RBC formulas with these changes. The Health Risk-Based Capital (E) Working Group previously exposed this proposal for a 20-day comment period and only received minor editorial change suggestions. He stated that the Working Group requests that the Task Force exposes the proposal for a 30-day comment period to address the changes for all three lines of business.

The Task Force agreed to expose proposal 2023-01-CA for a 30-day public comment period ending May 27.

11. Discussed a Referral from the Valuation of Securities (E) Task Force

Botsko said the Valuation of Securities (E) Task Force and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group exposed a referral jointly regarding additional market and analytical information for bond investments and requested comments from interested parties by March 31. He pointed out that the Task Force and Working Group did not receive any comments during the exposure period. Also, Botsko said the Task Force is not planning to send a response to the Valuation of Securities (E) Task Force at this time, as the information that is being proposed in the referral is not needed by the Task Force on a consistent basis. Barlow commented that the Working Group will likely follow the same path as the Task Force. Mears said she appreciates that the Task Force and Working Group exposed the referral. She urged all interested parties to provide any further comments directly to the Valuation of Securities (E) Task Force.

12. Received an Update from its Risk Evaluation Ad Hoc Group

Botsko said the Capital Adequacy (E) Task Force established the Risk Evaluation Ad Hoc Group during the Spring National Meeting to: 1) re-evaluate some of the missing risks to determine if it should now include them in the RBC calculation or if it appropriately handles those risks utilizing other regulatory methods; and 2) review those factors and instructions that have not been reviewed since development to determine if modifications should be made. He stated that NAIC staff received more than 80 industry requests to be involved in the ad hoc group. Botsko commented that being a member of the group will require active participation in the group discussions and that status updates will be provided in every Task Force meeting. Botsko asked all interested parties to contact Eva Yeung (NAIC) if they do not plan on participating in the group discussion. Lastly, he said the ad hoc group plans to schedule its first meeting in May.

Having no further business, the Capital Adequacy (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/CADTF/2023-2-Summer/Apr 28 CADTF minutes.docx

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ Investment RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☒ P/C RBC (E) Working Group ☐ RBC Investment Risk & Evaluation (E) Working Group

		FOR NAIC USE ONLY
	DATE: 3/22/23	Agenda Item # 2023-02-P Year ____
CONTACT PERSON:	**Eva Yeung**	**DISPOSITION**
TELEPHONE:	**816-783-8407**	**ADOPTED:** ☐ TASK FORCE (TF) ____ ☐ WORKING GROUP (WG) ____ ☐ SUBGROUP (SG) ____
EMAIL ADDRESS:	**eyeung@naic.org**	**EXPOSED:** ☐ TASK FORCE (TF) ____ ☒ WORKING GROUP (WG) 3/22/23 ☐ SUBGROUP (SG) ____
ON BEHALF OF:	**P/C RBC (E) Working Group**	**REJECTED:** ☐ TF ☐ WG ☐ SG ____
NAME:	**Tom Botsko**	**OTHER:** ☐ DEFERRED TO ____ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) ____
TITLE:	**Chair**	
AFFILIATION:	**Ohio Department of Insurance**	
ADDRESS:	**50 West Town Street, Suite 300** **Columbus, OH 43215**	

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

☐ Health RBC Blanks ☒ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER ____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The proposed change would provide routine annual update of the industry underwriting factors (premium and reserve) in the PCRBC formula.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

PR017 Line 1 Reserves

Schedule P Line of Business	LOB	Proposed for adoption - 2023 Industry Average Development Ratio	2022 Industry Average Development	2021 Industry Average Development	2020 Industry Average Development	2019 Industry Average Development	2018 Industry Average Development	2017 Industry Average Development	2016 Industry Average Development	2015 Industry Average Development	2014 Industry Average Development
H/F	A	**1.004**	1.001	0.998	0.993	0.989	0.989	0.984	0.972	0.962	0.967
PPA	B	**1.047**	1.022	1.025	1.035	1.026	1.022	1.012	1.002	1.002	0.994
CA	C	**1.106**	1.082	1.083	1.078	1.087	1.060	1.034	1.015	0.987	0.979
WC	D	**0.834**	0.906	0.912	0.916	0.955	0.952	0.971	0.971	0.961	0.986
CMP	E	**0.991**	1.037	0.999	1.016	0.992	0.967	0.956	0.942	0.938	0.941
MM Occurrence	F1	**0.906**	0.887	0.874	0.861	0.864	0.871	0.868	0.841	0.966	0.966
MM Clms Made	F2	**0.984**	0.983	0.973	0.940	0.907	0.886	0.854	0.822	0.839	0.808
SL	G	**0.994**	0.990	0.976	0.963	0.938	0.933	0.926	0.919	0.975	0.990
OL	H	**0.969**	0.995	0.964	0.968	0.971	0.966	0.952	0.929	0.923	0.916
Fidelity / Surety	K	**0.852**	0.842	0.915	0.907	0.995	0.996	1.016	1.035	1.016	1.050
Special Property	I	**0.983**	0.993	0.978	0.977	0.972	0.971	0.982	0.973	0.991	0.992
Auto Physical Damage	J	**1.016**	1.011	0.989	0.993	0.996	1.000	1.001	0.995	0.995	1.005
Other (Credut, A&H)	L	**0.946**	0.955	0.965	0.971	0.973	0.976	0.981	0.986	1.041	1.061
Financial / Mortgage Guaranty	S	**0.674**	0.694	0.723	0.682	0.788	0.870	0.820	0.853	1.185	1.444
Intl	M	**2.414**	3.041	1.104	1.162	1.037	0.851	0.855	0.897	1.350	0.742
Rein. Property & Financial Lines	NP	**0.924**	0.917	0.893	0.886	0.872	0.834	0.814	0.814	1.002	0.976
Rein. Liability	O	**1.024**	1.008	0.989	0.985	0.955	0.945	0.914	0.896	0.938	0.905
PL	R	**0.874**	0.867	0.879	0.900	0.913	0.921	0.935	0.937	1.072	1.018
Warranty	T	**0.995**	0.998	1.007	1.013	1.017	1.015	0.989	0.977	0.994	1.040

PR018 Line 1 Premiums

Schedule P Line of Business	LOB	Proposed 2023 Industry Average Loss & Expense Ratio	2022 Industry Average Loss & Expense Ratio	2021 Industry Average Loss & Expense Ratio	2020 Industry Average Loss & Expense Ratio	2019 Industry Average Loss & Expense Ratio	2018 Industry Average Loss & Expense Ratio	2017 Industry Average Loss & Expense Ratio	2016 Industry Average Loss & Expense Ratio	2015 Industry Average Loss & Expense Ratio	2014 Industry Average Loss & Expense Ratio
H/F	A	**0.679**	0.665	0.681	0.678	0.681	0.687	0.688	0.701	0.701	0.713
PPA	B	**0.791**	0.793	0.795	0.810	0.810	0.806	0.800	0.792	0.786	0.780
CA	C	**0.777**	0.761	0.761	0.759	0.737	0.724	0.706	0.689	0.684	0.676
WC	D	**0.651**	0.664	0.682	0.705	0.726	0.744	0.751	0.752	0.751	0.749
CMP	E	**0.671**	0.661	0.673	0.672	0.666	0.664	0.647	0.648	0.655	0.652
MM Occurrence	F1	**0.767**	0.750	0.731	0.726	0.730	0.780	0.777	0.767	0.880	0.883
MM Clms Made	F2	**0.815**	0.829	0.821	0.797	0.768	0.747	0.722	0.691	0.697	0.680
SL	G	**0.578**	0.585	0.593	0.603	0.593	0.569	0.567	0.572	0.630	0.645
OL	H	**0.641**	0.637	0.635	0.639	0.638	0.633	0.629	0.618	0.616	0.617
Fidelity / Surety	K	**0.363**	0.366	0.394	0.384	0.399	0.417	0.430	0.464	0.462	0.473
Special Property	I	**0.550**	0.547	0.559	0.553	0.554	0.563	0.555	0.559	0.571	0.572
Auto Physical Damage	J	**0.727**	0.718	0.726	0.732	0.730	0.732	0.727	0.711	0.703	0.686
Other (Credit, A&H)	L	**0.702**	0.698	0.693	0.684	0.682	0.709	0.712	0.699	0.706	0.754
Financial / Mortgage Guaranty	S	**0.209**	0.203	0.252	0.513	0.811	1.099	1.175	1.293	1.096	1.242
Intl	M	**1.136**	1.166	0.769	0.758	0.795	0.584	0.565	0.607	1.150	1.131
Rein. Property & Financial Lines	NP	**0.578**	0.566	0.558	0.534	0.522	0.486	0.459	0.512	0.723	0.764
Rein. Liability	O	**0.743**	0.725	0.713	0.708	0.679	0.666	0.609	0.600	0.749	0.748
PL	R	**0.597**	0.601	0.617	0.645	0.656	0.671	0.670	0.684	0.715	0.716
Warranty	T	**0.652**	0.665	0.681	0.691	0.695	0.732	0.645	0.611	0.799	0.789

Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☒ RBC Investment Risk & Evaluation (E) Working Group

	DATE: **3/23/23**	**FOR NAIC USE ONLY**
CONTACT PERSON:	**Dave Fleming**	Agenda Item # 2023-03-IRE Year 2023
TELEPHONE:	**816-783-8121**	**DISPOSITION**
EMAIL ADDRESS:	**dfleming@naic.org**	**ADOPTED:** ☐ TASK FORCE (TF) ☐ WORKING GROUP (WG) ☐ SUBGROUP (SG)
ON BEHALF OF:	**RBC Inv. Risk & Eval. (E) Working Group**	**EXPOSED:** ☐ TASK FORCE (TF) ☒ WORKING GROUP (WG) ☐ SUBGROUP (SG)
NAME:	**Philip Barlow**	**REJECTED:** ☐ TF ☐ WG ☐ SG
TITLE:	**Associate Commissioner for Insurance**	**OTHER:** ☐ DEFERRED TO ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY)
AFFILIATION:	**District of Columbia**	
ADDRESS:	**1050 First Street, NE Suite 801** **Washington, DC 20002**	

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

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER ____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Add a line to isolate residual tranches reported on Schedule BA and the asset valuation reserve.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

OTHER LONG-TERM ASSETS (CONTINUED)

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Schedule BA - Unaffiliated Common Stock						
(42)	Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line 65				X § =	
(43)	Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line 66				X 0.3000 =	
(44)	Total Schedule BA Unaffiliated Common Stock (pre-MODCO/Funds Withheld)	Line (42) + (43)					
(45)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(46)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(47)	Total Schedule BA Unaffiliated Common Stock (including MODCO/Funds Withheld.)	Lines (44) - (45) + (46)					
	Schedule BA - All Other						
(48.1)	BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67					
(48.2)	BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68					
(48.3)	Total Schedule BA Affiliated Common Stock - C-1o	Line (48.1) + (48.2)				X 0.3000 =	
(49.1)	BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69					
(49.2)	Total Sch. BA Affiliated Common Stock - C-1cs	Line (49.1) ~~+ AVR Equity Component Column 1 Line 93~~				X 0.3000 =	
(50)	Schedule BA Collateral Loans	Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999				X 0.0680 =	
(51)	**Total Residual Tranches or Insterests**	**AVR Equity Component Column 1 Line 93**				**X TBD =**	
(52.1)	NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line 94				X 0.0050 =	
(52.2)	NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line 95				X 0.0163 =	
(52.3)	Total Admitted Working Capital Finance Notes	**Line (52.1) + (52.2)**					
(53.1)	Other Schedule BA Assets	AVR Equity Component Column 1 Line 96					
(53.2)	Less NAIC 2 thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines (23) through (27) + Column (1) Lines (33) through (37)					
(53.3)	Net Other Schedule BA Assets	**Line (53.1) less (53.2)**				X 0.3000 =	
(54)	Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (48.3) + (50)+ **(52.3) + (53.3)**					
(55)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(56)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(57)	Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines **(54) - (55) + (56)**					
(58)	Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (47) + (49.2) **+ (51) + (57)**					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line **(53.3)**.

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

Denotes items that must be manually entered on the filing software.

CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

#REF!

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
(102)	Replications	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)		X	0.1575	=		
(103)	Reinsurance	LR016 Reinsurance Column (4) Line (17)		X	0.2100	=		
(104)	Investment Affiliates	LR042 Summary for Affiliated Investments Column (4) Line (6)		X	0.2100	=		
(105)	Investment in Parent	LR042 Summary for Affiliated Investments Column (4) Line (10)		X	0.2100	=		
(106)	Other Affiliate: Property and Casualty Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (11)		X	0.2100	=		
(107)	Other Affiliate: Life Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (12)		X	0.2100	=		
(108)	Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated Investments Column (4) Line (14)		X	0.2100	=		
(109)	Subtotal for C-1o Assets	Sum of Lines (001) through (108), Recognizing the Deduction of Lines (013), (014), (015), (036), (044), (049), (056), (061), (069), (077), (084), (089) and (100)						
	C-0 Affiliated Common Stock							
(110)	Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (27)		X	0.1575	=		
(111)	Off-Balance Sheet Items Reduction - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (28)		X	0.2100	=		†
(112)	Off-Balance Sheet Items Increase - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (29)		X	0.2100	=		
(113)	Affiliated US Property - Casualty Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (1)		X	0.2100	=		
(114)	Affiliated US Life Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (2)		X	0.2100	=		
(115)	Affiliated US Health Insurers Directly and Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (3)		X	0.2100	=		
(116)	Affiliated US Property - Casualty Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (4)		X	0.2100	=		
(117)	Affiliated US Life Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (5)		X	0.2100	=		
(118)	Affiliated Alien Life Insurers - Canadian	LR042 Summary for Affiliated Investments Column (4) Line (8)		X	0.2100	=		
(119)	Affiliated Alien Life Insurers - All Others	LR042 Summary for Affiliated Investments Column (4) Line (9)		X	0.0000	=		
(120)	Subtotal for C-0 Affiliated Common Stock	Lines (110)-(111)+(112)+(113)+(114)+(115)+(116)+(117)+(118)+(119)						
	Common Stock							
(121)	Unaffiliated Common Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (17) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)		X	0.2100	=		
(122)	Credit for Hedging - Common Stock	LR015 Hedged Asset Common Stock Schedule Column (10) Line (0299999)		X	0.2100	=		†
(123)	Stock Reduction - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (19)		X	0.2100	=		†
(124)	Stock Increase - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (20)		X	0.2100	=		
(125)	BA Common Stock Unaffiliated	LR008 Other Long-Term Assets Column (5) Line (47)		X	0.2100	=		
(126)	BA Common Stock Affiliated - C-1cs	LR008 Other Long-Term Assets Column (5) **Lines (49.2) + (51)**		X	0.2100	=		
(127)	Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)		X	0.2100	=		
(128)	NAIC 01 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line **(52.1)**		X	0.1575	=		
(129)	NAIC 02 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line **(52.2)**		X	0.1575	=		
(130)	Affiliated Preferred Stock and Common Stock - Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated Investments Column (4) Line (7)		X	0.2100	=		
(131)	Affiliated Preferred Stock and Common Stock - All Other	LR042 Summary for Affiliated Investments Column (4) Line (13)		X	0.2100	=		
(132)	Total for C-1cs Assets	Lines (121)-(122)-(123)+(124)+(125)+(126)+(127)+(128)+(129)+(130)+(131)						

† Denotes lines that are deducted from the total rather than added.

Denotes items that must be manually entered on the filing software.

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

		Source	(1) RBC Requirement
	Asset Risk – Unaffiliated Common Stock and Affiliated Non-Insurance Stock (C-1cs)		
(12)	Schedule D Unaffiliated Common Stock	LR005 Unaffiliated Common Stock Column (5) Line (21) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	
(13)	Schedule BA Unaffiliated Common Stock	LR008 Other Long-Term Assets Column (5) line (47)	
(14)	Schedule BA Affiliated Common Stock - C-1cs	LR008 Other Long-Term Assets Column (5) **lines (49.2) + (51)**	
(15)	Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	
(16)	Affiliated Preferred Stock and Common Stock - Holding Company in Excess of Indirect Subsidiaries	LR042 Summary for Affiliated Investments Column (4) Line (7)	
(17)	Affiliated Preferred Stock and Common Stock - All Other	LR042 Summary for Affiliated Investments Column (4) Line (13)	
(18)	Total (C-1cs) - Pre-Tax	Sum of Lines (12) through (17)	
(19)	(C-1cs) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (132)	
(20)	Net (C-1cs) - Post-Tax	Line (18) - Line (19)	
	Asset Risk - All Other (C-1o)		
(21)	Bonds after Size Factor	LR002 Bonds Column (2) Line (27) + LR018 Off-Balance Sheet Collateral Column (3) Line (8)	
(22)	Mortgages (including past due and unpaid taxes)	LR004 Mortgages Column (6) Line (31)	
(23)	Unaffiliated Preferred Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (10) + LR018 Off-Balance Sheet Collateral Column (3) Line (15)	
(24)	Affiliated Preferred Stock and Common Stock - Investment Subsidiaries	LR042 Summary for Affiliated Investments Column (4) Line (6)	
(25)	Affiliated Preferred Stock and Common Stock - Parent	LR042 Summary for Affiliated Investments Column (4) Line (10)	
(26)	Affiliated Preferred Stock and Common Stock - Property and Casualty Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (11)	
(27)	Affiliated Preferred Stock and Common Stock - Life Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (12)	
(28)	Affiliated Preferred Stock and Common Stock - Publicly Traded Insurers Held at Fair Value (excess of statement value over book value)	LR042 Summary for Affiliated Investments Column (4) Line (14)	
(29)	Separate Accounts with Guarantees	LR006 Separate Accounts Column (3) Line (7)	
	Authorized Control Level Risk-Based Capital (After Covariance Adjustment and Shortfall)		
(73)	Total Risk-Based Capital After Covariance Times Fifty Percent	Line (72) x 0.50	
	Tax Sensitivity Test		
(74)	Tax Sensitivity Test: Total Risk-Based Capital After Covariance	$L(9)+L(61) + \text{Square Root of } [(L(40) + L(50))^2 + (L(18) + L(56))^2 + L(47)^2 + L(53)^2 + L(64)^2]$	
(75)	Tax Sensitivity Test: Authorized Control Level Risk-Based Capital	Line (74) x 0.50	

Denotes items that must be manually entered on the filing software.

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☒ RBC Investment Risk & Evaluation (E) Working Group

	DATE: 3/23/23	**FOR NAIC USE ONLY**
CONTACT PERSON:	Steve Clayburn	Agenda Item # 2023-04-IRE Year 2023
TELEPHONE:	(202)624-2197	**DISPOSITION**
EMAIL ADDRESS:	steveclayburn@acli.com	**ADOPTED:** ☐ TASK FORCE (TF) ____ ☐ WORKING GROUP (WG) ____ ☐ SUBGROUP (SG) ____
ON BEHALF OF:	American Council of Life Insurers (ACLI)	**EXPOSED:** ☐ TASK FORCE (TF) ____ ☒ WORKING GROUP (WG) ____ ☐ SUBGROUP (SG) ____
NAME:	Steve Clayburn	**REJECTED:** ☐ TF ☐ WG ☐ SG ____
TITLE:		**OTHER:** ☐ DEFERRED TO ____ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) ____
AFFILIATION:		
ADDRESS:		

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

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER ____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The additional lines are to add residual tranches to the sensitivity testing exhibits for RBC.
As regulators develop designations for asset back securities to then be assigned appropriate C-1 RBC factors, the updated sensitivity testing could be an additional tool to help regulators in reviewing companies and there investments in residual tranches.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

ADDITIONAL INFORMATION REQUIRED

		Source	(1) Statement Value
(1.2)	Other Affiliates: Subsidiaries	Subsidiaries' Life and Fraternal Risk-Based Capital LR042 Summary for Affiliated Investments Column (1) Line (13); Property and Casualty Risk-Based Capital PR005 Summary For Subsidiary, Controlled and Affiliated Investments for Cross-Checking Statement Values Column (1) Line (8) and Line (17)	
(2.2)	Noncontrolled Assets: Subsidiaries	Subsidiaries' Life and Fraternal Risk-Based Capital LR017 Off-Balance Sheet and Other Items Column (1) Line (15); Property and Casualty PR014 Miscellaneous Off-Balance Sheet Items Column (1) Line (15)	
(3.2)	Guarantees for Affiliates: Subsidiaries	Subsidiaries' Life Notes to Financial Statements #14A3c1; Property and Casualty Notes to Financial Statements #14A3c1	
(4.2)	Contingent Liabilities: Subsidiaries	Subsidiaries' Life Notes to Financial Statements #14A1; Property and Casualty Notes to Financial Statements #14A1	
(5.2)	Long Term Leases: Subsidiaries	Subsidiaries' Life Notes to Financial Statements #15A2a1; Property and Casualty Notes to Financial Statements #15A2a1	
(7.11)	Total Affiliated Investments: Company	Company's Annual Statement Five-Year Historical Data Column 1 Line 50	
(7.12)	Less Affiliated Common Stock: Company	Company's Annual Statement Five-Year Historical Data Column 1 Line 46	
(7.13)	Less Affiliated Preferred Stock: Company	Company's Annual Statement Five-Year Historical Data Column 1 Line 45	
(7.14)	Net Affiliated Investments: Company	Lines (7.11) - (7.12) - (7.13)	
(7.2)	Affiliated Investments: Subsidiaries	Subsidiaries' Life Annual Statement Five-Year Historical Data Column 1 Line 50 Less Lines 45 and 46; Property and Casualty Annual Statement Five-Year Historical Data Column 1 Line 48 Less Lines 43 and 44	
(9.1)	Surplus Notes: Company	Company's Annual Statement Page 3 Column 1 Line 32	
(9.2)	Surplus Notes: Subsidiaries	Subsidiaries' Life Annual Statement Page 3 Column 1 Line 32; Property and Casualty Annual Statement Page 3 Column 1 Line 33	
(10.11)	Capital Paid In: Company	Company's Annual Statement Page 4 Column 1 Line 50.1	
(10.12)	Surplus Paid In: Company	Company's Annual Statement Page 4 Column 1 Line 51.1	
(10.13)	Total Current Year's Capital Contributions: Company	Line (10.11) + Line (10.12)	
(10.2)	Current Year's Capital Contributions: Subsidiaries	Subsidiaries' Life Annual Statement Page 4 Column 1 Lines 50.1 + 51.1; Property and Casualty Annual Statement Page 4 Column 1 Lines 32.1 + 33.1	
(11.1)	**Total Residual Tranches or Interests**	**Company's Annual Statement Asset Valuation Reserve, Equity and Other Invested Asset Component, Column 1, Line 93**	

Denotes items that must be manually entered on the filing software.

SENSITIVITY TESTS - AUTHORIZED CONTROL LEVEL

	Sensitivity Tests Affecting Authorized Control Level Risk-Based Capital	Source	(1) Statement Value	Additional Sensitivity Factor	(2) Additional RBC	(3) Authorized Control Level Before Test	(4) Authorized Control Level After Test
(1.1)	Other Affiliates: Company	LR042 Summary for Affiliated Investments Column (1) Line (13)		0.700			
(1.2)	Other Affiliates: Subsidiaries	LR038 Additional Information Required Column (1) Line (1.2)		0.700			
(1.99)	Total Other Affiliates			0.700			
(2.1)	Noncontrolled Assets - Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (15)		0.020			
(2.2)	Noncontrolled Assets - Subsidiaries	LR038 Additional Information Required Column (1) Line (2.2)		0.020			
(2.99)	Total Noncontrolled Assets			0.020			
(3.1)	Guarantees for Affiliates: Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (24)		0.020			
(3.2)	Guarantees for Affiliates: Subsidiaries	LR038 Additional Information Required Column (1) Line (3.2)		0.020			
(3.99)	Total Guarantees for Affiliates			0.020			
(4.1)	Contingent Liabilities: Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (25)		0.020			
(4.2)	Contingent Liabilities: Subsidiaries	LR038 Additional Information Required Column (1) Line (4.2)		0.020			
(4.99)	Total Contingent Liabilities			0.020			
(5.1)	Long-Term Leases: Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (26)		0.030			
(5.2)	Long-Term Leases: Subsidiaries	LR038 Additional Information Required Column (1) Line (5.2)		0.030			
(5.99)	Total Long-Term Leases			0.030			
(7.1)	Affiliated Investments†: Company	LR038 Additional Information Required Column (1) Line (7.14)		0.100			
(7.2)	Affiliated Investments†: Subsidiaries	LR038 Additional Information Required Column (1) Line (7.2)		0.100			
(7.99)	Total Affiliated Investments			0.100			
(8.1)	**Total Residual Tranches or Interests**	**LR038 Additional Information Required Column (1) Line (11.1)**		**0.100**			

† Excluding affiliated preferred and common stock

Denotes items that must be manually entered on the filing software.

SENSITIVITY TESTS - TOTAL ADJUSTED CAPITAL

	Sensitivity Tests Affecting Total Adjusted Capital	Source	(1) Statement Value	Additional Sensitivity Factor	(2) Change to Total Adjusted Capital	(3) Total Adjusted Capital Before Test	(4) Total Adjusted Capital After Test
(9.1)	Dividend Liability: Company	LR033 Calculation of Total Adjusted Capital Column (1) Line (3) + Line (4)		-0.250			
(9.2)	Dividend Liability: Subsidiaries	LR033 Calculation of Total Adjusted Capital Column (1) Line (7)		-0.250			
(9.99)	Total Dividend Liability			-0.250			
(10.1)	Surplus Notes: Company	LR038 Additional Information Required Column (1) Line (9.1)		-1.000			
(10.2)	Surplus Notes: Subsidiaries	LR038 Additional Information Required Column (1) Line (9.2)		-1.000			
(10.99)	Total Surplus Notes			-1.000			
(11.1)	Current Year Capital Contribution: Company	LR038 Additional Information Required Column (1) Line (10.13)		-1.000			
(11.2)	Current Year Capital Contribution: Subsidiaries	LR038 Additional Information Required Column (1) Line (10.2)		-1.000			
(11.99)	Total Current Year Capital Contributions			-1.000			

Denotes items that must be manually entered on the filing software.

Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

	DATE: 1/26/2023	**FOR NAIC USE ONLY**
CONTACT PERSON:	**Dave Fleming**	Agenda Item # 2023-05-L Year 2023
TELEPHONE:	**816-783-8121**	**DISPOSITION**
EMAIL ADDRESS:	**dfleming@naic.org**	**ADOPTED:** ☐ TASK FORCE (TF) ____ ☐ WORKING GROUP (WG) ____ ☐ SUBGROUP (SG) ____
ON BEHALF OF:	**Life Risk-Based Capital (E) Working Group**	**EXPOSED:** ☐ TASK FORCE (TF) ____ ☒ WORKING GROUP (WG) ____ ☐ SUBGROUP (SG) ____
NAME:	**Philip Barlow, Chair**	**REJECTED:** ☐ TF ☐ WG ☐ SG ____
TITLE:	**Associate Commissioner of Insurance**	**OTHER:** ☐ DEFERRED TO ____ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) ____
AFFILIATION:	**District of Columbia**	
ADDRESS:	**1050 First Street, NE Suite 801** **Washington, DC 20002**	

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

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER ____________________

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The dual presentation of the life risk-based capital trend test was adopted as an interim approach while member jurisdictions transitioned to the higher 300% threshold. That transition is now complete, so the dual presentation is no longer needed.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

RISK-BASED CAPITAL LEVEL OF ACTION
(Including Tax Sensitivity Test)

		Source	(1) RBC Amount
(1)	Total Adjusted Capital - REPORT AMOUNT IN FIVE-YEAR HISTORICAL DATA PAGE 22 COLUMN 1 LINE 30	LR033 Calculation of Total Adjusted Capital Column (2) Line (12)	
	Trigger Points for Level of Regulatory Action:		
(2)	Company Action Level = 200% of Authorized Control Level Risk-Based Capital	2.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (73)	
(3)	Regulatory Action Level = 150% of Authorized Control Level Risk-Based Capital	1.5 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (73)	
(4)	Authorized Control Level Risk-Based Capital - REPORT AMOUNT IN FIVE-YEAR HISTORICAL DATA PAGE 22 COLUMN 1 LINE 31	1.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (73)	
(5)	Mandatory Control Level = 70% of Authorized Control Level Risk-Based Capital	0.7 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (73)	
(6)	Level of Action†:		
(7)	Authorized Control Level RBC Ratio	Line (1) / Line (4)	0.000%
	Tax Sensitivity Test		
(8)	Tax Sensitivity Test: Total Adjusted Capital	LR033 Calculation of Total Adjusted Capital Column (2) Line (17)	
(9)	Tax Sensitivity Test: Company Action Level = 200% of Authorized Control Level Risk-Based Capital	2.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	
(10)	Tax Sensitivity Test: Regulatory Action Level = 150% of Authorized Control Level Risk-Based Capital	1.5 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	
(11)	Tax Sensitivity Test:Authorized Control Level Risk-Based Capital	1.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	
(12)	Tax Sensitivity Test: Mandatory Control Level = 70% of Authorized Control Level Risk-Based Capital	0.7 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	
(13)	Tax Sensitivity Test: Level of Action:		

† If Total Adjusted Capital Line (1) exceeds Company Action Level Risk-Based Capital Line (2), None will be indicated (unless the Trend Test triggers Company Action Level). Otherwise, the appropriate level of action will be indicated.
~~**If the trend test is applicable for the company, the level that the trend test applies to for the state of domicile as reported on LR035 Trend Test Line (18) is indicated as being:**~~

~~**(0000001) If 3.0 had been selected for LR035 Trend Test Line (18) as the state of domicile level, the Line (6) level of action above would have been:**~~
~~**(0000002) If 2.5 had been selected for LR035 Trend Test Line (18) as the state of domicile level, the Line (6) level of action above would have been:**~~

Denotes items that must be manually entered on the filing software.

TREND TEST

		Source	(1) ~~3.0~~ Amount	~~(2) 3.0 Result~~	~~(3) 2.5 Amount~~	~~(4) 2.5 Result~~
	Criteria for Applying Trend Test					
(1)	Authorized Control Level Risk-Based Capital	LR031 Calculation of Authorized Control Level Risk-Based Capital Column (1) Line (73)				
(2)	Trend Test Safe Harbor	~~Column (1)=~~3.0 x Line (1)~~, Column (3)=2.5 x Line (1)~~				
(3)	Total Adjusted Capital	LR033 Calculation of Total Adjusted Capital Line (12)				
	Trend Test Data					
(4)	First Prior Year Total Adjusted Capital	Five-Year Historical Data Page 22 Column 2 Line 30				
(5)	First Prior Year Authorized Control Level Risk-Based Capital	Five-Year Historical Data Page 22 Column 2 Line 31				
(6)	Third Prior Year Total Adjusted Capital	Five-Year Historical Data Page 22 Column 4 Line 30				
(7)	Third Prior Year Authorized Control Level Risk-Based Capital	Five-Year Historical Data Page 22 Column 4 Line 31				
	Trend Test Calculation (only if applicable†)					
(8)	Current Year Margin	Line (3) - Line (1)				
(9)	First Prior Year Margin	Line (4) - Line (5)				
(10)	Third Prior Year Margin	Line (6) - Line (7)				
(11)	Decrease in Margin from First Prior Year	Line (9) - Line (8) (use zero if negative)				
(12)	Decrease in Margin from Third Prior Year	Line (10) - Line (8) (use zero if negative)				
(13)	Average decrease in Last Three Years	1/3 of Line (12)				
(14)	Marginal Difference	Greater of Line (11) and Line (13)				
(15)	Total Adjusted Capital Less Margin Difference	Line (3) - Line (14)				
(16)	Level of Risk-Based Capital‡	1.9 x Line (1)				
~~(17)~~	~~Negative Trend?‡~~					
~~(18)~~	~~For companies where one of the above trend tests applies, does the state of domicile require action at 2.5 or 3.0 times Authorized Control Level RBC?~~	~~Select "2.5", "3.0" or "N/A"~~				

† The Trend Test applies only if Total Adjusted Capital Line (3) is less than the Trend Test Safe Harbor Line (2) and the LR034 Risk-Based Capital Level of Action Line (6) is "None".

‡ If Line (15) is less than Line (16), the company triggers regulatory attention at the Company Action Level based on the trend test. ~~The NAIC is in the process of changing the upper level where the trend test can be triggered from 2.5 times the Authorized Control Level RBC to 3.0 times the Authorized Control Level RBC. Until all states have transitioned to the 3.0 standard, there may be differences between states as to whether columns (1) and (2) or columns (3) and (4) of the LR035 Trend Test page apply to a particular company, so information is provided to alert users to potential alternative trend test results during the transition period.~~

Denotes items that must be manually entered on the filing software.

January 12, 2023

Mr. Philip Barlow
Chair, Life Risk-Based Capital (E) Working Group (LRBCWG)
National Association of Insurance Commissioners (NAIC)
Via email: Dave Fleming (dfleming@naic.org)

Re: Proposal for Life C-2 Structural and Instruction Updates and a New Financial Statement Note

Dear Philip,

On behalf of the C-2 Mortality Work Group of the American Academy of Actuaries[1], we are providing the following proposed Life C-2 updates for consideration for 2023 year-end financial statements.

1. Structural updates where it pertains to the treatment of group permanent life and miscellaneous other instruction updates. The proposal assigns the same factors to group permanent life as individual permanent life for categories stating with and without pricing flexibility.
2. A new financial statement note to provide the development of net amounts at risk for the Life C-2 categories to create a direct link to a financial statement source, and accompanying Life C-2 structural and instruction updates. The proposed second update includes the updates specified in the first update.

If you have any questions on the above topics, please contact Amanda Barry-Moilanen, life policy analyst, at barrymoilanen@actuary.org.

Sincerely,

Chris Trost, MAAA, FSA
Chairperson, C-2 Mortality Work Group

Ryan Fleming, MAAA, FSA
Vice Chairperson, C-2 Mortality Work Group

American Academy of Actuaries

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

1850 M Street NW Suite 300 Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org

Capital Adequacy (E) Task Force

RBC Proposal Form

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

		FOR NAIC USE ONLY
	DATE: 1/12/23	Agenda Item #___________
CONTACT PERSON:	Ryan Fleming, MAAA, FSA	Year 2023
TELEPHONE:	(414) 665-5020	**DISPOSITION**
EMAIL ADDRESS:	ryanfleming@northwesternmutual.com	[ ] ADOPTED _______________
ON BEHALF OF:	AAA C-2 Mortality Work Group	[ ] REJECTED _______________
NAME:	Ryan Fleming, MAAA, FSA	[ ] DEFERRED TO _______________
TITLE:	Vice Chairperson	[ ] REFERRED TO OTHER NAIC GROUP
AFFILIATION:	American Academy of Actuaries	[ ] EXPOSED _______________
ADDRESS:	1850 M Street NW, Suite 300	[ ] OTHER (SPECIFY) _______________
	Washington, DC 20036	

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

[ ] Health RBC Blanks [ ] Property/Casualty RBC Blanks [X] Life and Fraternal RBC Instructions
[ ] Health RBC Instructions [ ] Property/Casualty RBC Instructions [X] Life and Fraternal RBC Blanks
[X] OTHER _Notes to Financial Statements___________________________

DESCRIPTION OF CHANGE(S)

Update 1: proposed updated blank for C2 Life Mortality on LR025, LR026, LR030 and LR031 and instruction updates.

Update 2: proposed new financial statement note and accompanying LR025 structural and instruction updates. Update 2 includes the updates included in the first update.

REASON OR JUSTIFICATION FOR CHANGE **

Update 1: Structural changes and instruction updates to address the treatment of group permanent life policies. Other instruction updates are included to add clarity.

Update 2: The new financial statement note will develop the net amounts at risk in the categories needed for the Life C-2 schedule to create a direct link to a financial statement source.

Additional Staff Comments:

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

Proposed 2023 Update 1

LIFE INSURANCE

		Annual Statement Source	(1) Statement Value		Factor		(2) RBC Requirement
	Individual & Industrial Life Net Amount at Risk						
(1)	Ordinary Life In Force	Exhibit of Life Insurance Column 4 Line 23 x 1000					
(2)	Plus Industrial Life In Force	Exhibit of Life Insurance Column 2 Line 23 x 1000					
(3)	Total Individual & Industrial Life In Force	Lines (1) + (2)					
(4)	Ordinary Life Reserves	Exhibit 5 Column 4 Line 0199999					
(5)	Plus Industrial Life Reserves	Exhibit 5 Column 3 Line 0199999					
(6)	Plus Ordinary Life Separate Accounts	Separate Accounts Exhibit 3 Column 3 Line 0199999					
(7)	Plus Ordinary & Industrial Life Modified Coinsurance Assumed Reserves	Schedule S Part 1 Section 1 Column 12, in part ‡					
(8)	Less Ordinary & Industrial Life Modified Coinsurance Ceded Reserves	Schedule S Part 3 Section 1 Column 14, in part ‡					
(9)	Total Individual & Industrial Life Reserves	Lines (4) + (5) + (6) + (7) - (8)					
(10)	Total Individual & Industrial Life Net Amount at Risk	Lines (3) - (9)					
(11)	**Individual & Industrial** Life Policies with Pricing Flexibility In Force	Company Records *					
(12)	Less **Individual & Industrial** Life Policies with Pricing Flexibility in Force Reserves	Company Records *					
(13)	Total **Individual & Industrial** Life Policies with Pricing Flexibility Net Amount at Risk	Lines (11) - (12)		X	†	=	
(14)	**Individual & Industrial** Term Life Policies without Pricing Flexibility In Force	Company Records *					
(15)	Less **Individual & Industrial** Term Life Policies without Pricing Flexibility Reserves	Company Records *					
(16)	Total **Individual & Industrial** Term Life Policies without Pricing Flexibility Net Amount at Risk	Lines (14) - (15)		X	†	=	
(17)	**Individual & Industrial** Permanent Life Policies without Pricing Flexibility In Force	Lines (3) - (11) - (14)					
(18)	Less **Individual & Industrial** Permanent Life Policies without Pricing Flexibility Reserves	Lines (9) - (12) - (15)					
(19)	Total **Individual & Industrial** Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (17) - (18)		X	†	=	
(20)	Total Individual & Industrial Life	Lines (13) + (16) + (19)					
	Group & Credit Life Net Amount at Risk						
(21)	Group Life In Force	Exhibit of Life Insurance Column 9 Line 23 x 1000					
(22)	Plus Credit Life In Force	Exhibit of Life Insurance Column 6 Line 23 x 1000					
(23)	Less Group FEGLI In Force	Exhibit of Life Insurance Column 4 Line 43 x 1000					
(24)	Less Group SGLI In Force	Exhibit of Life Insurance Column 4 Line 44 x 1000					
(25)	Less Credit FEGLI In Force	Exhibit of Life Insurance Column 2 Line 43 x 1000					
(26)	Less Credit SGLI In Force	Exhibit of Life Insurance Column 2 Line 44 x 1000					
(27)	Total Group & Credit Life In Force Excluding FEGLI/SGLI	Lines (21) + (22) - (23) - (24) - (25) - (26)					
(28)	Group Life Reserves	Exhibit 5 Column 6 Line 0199999					
(29)	Plus Credit Life Reserves	Exhibit 5 Column 5 Line 0199999					
(30)	Plus Group Life Separate Accounts	Separate Accounts Exhibit 3 Column 4 Line 0199999					
(31)	Plus Group & Credit Life Modified Coinsurance Assumed Reserves	Schedule S Part 1 Section 1 Column 12, in part ‡					
(32)	Less Group & Credit Life Modified Coinsurance Ceded Reserves	Schedule S Part 3 Section 1 Column 14, in part ‡					
(33)	Total Group & Credit Life Reserves	Lines (28) + (29) + (30) + (31) - (32)					
(34)	Total Group & Credit Life Net Amount at Risk Excluding FEGLI/SGLI	Lines (27) - (33)					
(35)	Group & Credit **Term** Life In Force with Remaining Rate Terms 36 Months and Under	Company Records *					
(36)	Less Group & Credit **Term** Life Reserves with Remaining Rate Terms 36 Months and Under	Company Records *					
(37)	Group & Credit **Term** Life Net Amount at Risk with Remaining Rate Terms 36 Months and Under	Lines (35) - (36)		X	†	=	
(38)	Group & Credit **Term** Life In Force with Remaining Rate Terms Over 36 Months	~~Lines (27) - (35)~~ **Company Records ***					
(39)	Less Group & Credit **Term** Life Reserves with Remaining Rate Terms Over 36 Months	~~Lines (33) - (36)~~ **Company Records ***					
(40)	Group & Credit Life **Term** Life Net Amount at Risk with Remaining Rate Terms Over 36 Months	Lines (38) - (39)		X	†	=	
(41)	**Group & Credit Permanent Life Policies with Pricing Flexibility In Force**	**Company Records ***					
(42)	**Less Group & Credit Permanent Life Policies with Pricing Flexibility Reserves**	**Company Records ***					
(43)	**Group & Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk**	**Lines (41) - (42)**		**X**	**†**	**=**	
(44)	**Group & Credit Permanent Life Policies without Pricing Flexibility In Force**	**Lines (27) - (35) - (38) - (41)**					
(45)	**Less Group & Credit Permanent Life Policies without Pricing Flexibility Reserves**	**Lines (33) - (36) - (39) - (42)**					
(46)	**Group & Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk**	**Lines (44) - (45)**		**X**	**†**	**=**	
~~(41)~~ **(47)**	FEGLI/SGLI Life In Force	Exhibit of Life Insurance Sum of Column 2 and 4 Line 43 and 44 x 1000		X	0.0004	=	
~~(42)~~ **(48)**	Total Group & Credit Life	Lines (37) + (40) ~~+ (41)~~ **+ (43) + (46) + (47)**					
~~(43)~~ **(49)**	Total Life	Lines (20) ~~+ (42)~~ **+ (48)**					

* The definitions are specified in the Life Insurance section of the risk-based capital instructions.
† The tiered calculation is illustrated in the Life Insurance section of the risk-based capital instructions.
‡ Include only the portion which relates to policy reserves that, if written on a direct basis, would be included on Exhibit 5.

Denotes items that must be manually entered on the filing software.

Proposed 2023 Update 1
PREMIUM STABILIZATION RESERVES

		Annual Statement Source	(1) Statement Value	Factor	(2) RBC Requirement
	Group and Credit Life and Health Reported Premium Stabilization Reserves				
(1)	Stabilization Reserves and Experience Rating Refunds included in Line 3	Page 3 Column 1 Line 3 in part		X	
(2)	Provision for Experience Rating Refunds	Page 3 Column 1 Line 9.2 in part		X	
(3)	Reserve for Group Rate Credits	Company Records		X	
(4)	Reserve for Credit Rate Credits	Company Records		X	
(5)	Premium Stabilization Reserves	Page 3 Column 1 Line 25 in part		X	
(6)	Total of Preliminary Premium Stabilization Reserve Credit	Sum of Lines (1) through (5)			
	Group & Credit Life and Health Risk-Based Capital				
(7)	Life	LR025 Life Insurance Column (2) Line ~~(42)~~ **(48)**			
(8)	Health	LR024 Health Claim Reserves Column (4) Line (16) + [LR024 Column (4) Line (15) x 0.65] + LR019 Health Premiums Column (2) Lines (12), (17), (18) and (19) + [[LR019 Column (2) Lines (23), (24), and (27)] x 0.65] + [LR020 Underwriting Risk - Experience Fluctuation Risk Column (5) Line (18) - Column (4) Line (18) x Line (1.2) / Line (1.3)]			
(9)	Maximum Risk-Based Capital	Lines (7) + (8)			
(10)	Final Premium Stabilization Reserve	Column (2) Line (6), but not more than Column (1) Line (9)		X	

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
	ASSET RISKS							
	Bonds							
(001)	Long-term Bonds – NAIC 1	LR002 Bonds Column (2) Line (2.8) + LR018 Off-Balance Sheet Collateral Column (3) Line (2.8)		X	0.1680	=		
(002)	Long-term Bonds – NAIC 2	LR002 Bonds Column (2) Line (3.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (3.4)		X	0.1680	=		
(003)	Long-term Bonds – NAIC 3	LR002 Bonds Column (2) Line (4.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (4.4)		X	0.1680	=		
(004)	Long-term Bonds – NAIC 4	LR002 Bonds Column (2) Line (5.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (5.4)		X	0.1680	=		
(005)	Long-term Bonds – NAIC 5	LR002 Bonds Column (2) Line (6.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (6.4)		X	0.1680	=		
(006)	Long-term Bonds – NAIC 6	LR002 Bonds Column (2) Line (7) + LR018 Off-Balance Sheet Collateral Column (3) Line (7)		X	0.2100	=		
(007)	Short-term Bonds – NAIC 1	LR002 Bonds Column (2) Line (10.8)		X	0.1680	=		
(008)	Short-term Bonds – NAIC 2	LR002 Bonds Column (2) Line (11.4)		X	0.1680	=		
(009)	Short-term Bonds – NAIC 3	LR002 Bonds Column (2) Line (12.4)		X	0.1680	=		
(010)	Short-term Bonds – NAIC 4	LR002 Bonds Column (2) Line (13.4)		X	0.1680	=		
(011)	Short-term Bonds – NAIC 5	LR002 Bonds Column (2) Line (14.4)		X	0.1680	=		
(012)	Short-term Bonds – NAIC 6	LR002 Bonds Column (2) Line (15)		X	0.2100	=		
(013)	Credit for Hedging - NAIC 1 Through 5 Bonds	LR014 Hedged Asset Bond Schedule Column (13) Line (0199999)		X	0.1680	=		†
(014)	Credit for Hedging - NAIC 6 Bonds	LR014 Hedged Asset Bond Schedule Column (13) Line (0299999)		X	0.2100	=		†
(015)	Bond Reduction - Reinsurance	LR002 Bonds Column (2) Line (19)		X	0.2100	=		†
(016)	Bond Increase - Reinsurance	LR002 Bonds Column (2) Line (20)		X	0.2100	=		
(017)	Non-Exempt NAIC 1 U.S. Government Agency	LR002 Bonds Column (2) Line (22)		X	0.1680	=		
(018)	Bonds Size Factor	LR002 Bonds Column (2) Line (26) - LR002 Bonds Column (2) Line (21)		X	0.1680	=		
	Mortgages							
	In Good Standing							
(019)	Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (1)		X	0.1575	=		
(020)	Residential Mortgages - Other	LR004 Mortgages Column (6) Line (2)		X	0.1575	=		
(021)	Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (3)		X	0.1575	=		
(022)	Total Commercial Mortgages - All Other	LR004 Mortgages Column (6) Line (9)		X	0.1575	=		
(023)	Total Farm Mortgages	LR004 Mortgages Column (6) Line (15)		X	0.1575	=		
	90 Days Overdue							
(024)	Farm Mortgages	LR004 Mortgages Column (6) Line (16)		X	0.1575	=		
(025)	Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (17)		X	0.1575	=		
(026)	Residential Mortgages - Other	LR004 Mortgages Column (6) Line (18)		X	0.1575	=		
(027)	Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (19)		X	0.1575	=		
(028)	Commercial Mortgages - Other	LR004 Mortgages Column (6) Line (20)		X	0.1575	=		
	In Process of Foreclosure							
(029)	Farm Mortgages	LR004 Mortgages Column (6) Line (21)		X	0.1575	=		

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Denotes items that must be manually entered on the filing software.

LR030

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
(030)	Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (22)		X	0.1575	=		
(031)	Residential Mortgages - Other	LR004 Mortgages Column (6) Line (23)		X	0.1575	=		
(032)	Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (24)		X	0.1575	=		
(033)	Commercial Mortgages - Other	LR004 Mortgages Column (6) Line (25)		X	0.1575	=		
(034)	Due & Unpaid Taxes Mortgages	LR004 Mortgages Column (6) Line (26)		X	0.1575	=		
(035)	Due & Unpaid Taxes - Foreclosures	LR004 Mortgages Column (6) Line (27)		X	0.1575	=		
(036)	Mortgage Reduction - Reinsurance	LR004 Mortgages Column (6) Line (29)		X	0.2100	=		†
(037)	Mortgage Increase - Reinsurance	LR004 Mortgages Column (6) Line (30)		X	0.2100	=		
	Preferred Stock							
(038)	Unaffiliated Preferred Stock NAIC 1	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (1) + LR018 Off-Balance Sheet Collateral Column (3) Line (9)		X	0.1575	=		
(039)	Unaffiliated Preferred Stock NAIC 2	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (2) + LR018 Off-Balance Sheet Collateral Column (3) Line (10)		X	0.1575	=		
(040)	Unaffiliated Preferred Stock-NAIC 3	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (3) + LR018 Off-Balance Sheet Collateral Column (3) Line (11)		X	0.1575	=		
(041)	Unaffiliated Preferred Stock NAIC 4	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (4) + LR018 Off-Balance Sheet Collateral Column (3) Line (12)		X	0.1575	=		
(042)	Unaffiliated Preferred Stock NAIC 5	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (5) + LR018 Off-Balance Sheet Collateral Column (3) Line (13)		X	0.1575	=		
(043)	Unaffiliated Preferred Stock NAIC 6	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (6) + LR018 Off-Balance Sheet Collateral Column (3) Line (14)		X	0.2100	=		
(044)	Preferred Stock Reduction-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (8)		X	0.2100	=		†
(045)	Preferred Stock Increase-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (9)		X	0.2100	=		
	Separate Accounts							
(046)	Guaranteed Index	LR006 Separate Accounts Column (3) Line (1)		X	0.1575	=		
(047)	Nonindex-Book Reserve	LR006 Separate Accounts Column (3) Line (2)		X	0.1575	=		
(048)	Separate Accounts Nonindex-Market Reserve	LR006 Separate Accounts Column (3) Line (3)		X	0.1575	=		
(049)	Separate Accounts Reduction-Reinsurance	LR006 Separate Accounts Column (3) Line (5)		X	0.2100	=		†
(050)	Separate Accounts Increase-Reinsurance	LR006 Separate Accounts Column (3) Line (6)		X	0.2100	=		
(051)	Synthetic GICs	LR006 Separate Accounts Column (3) Line (8)		X	0.1575	=		
(052)	Separate Account Surplus	LR006 Separate Accounts Column (3) Line (13)		X	0.1575	=		
	Real Estate							
(053)	Company Occupied Real Estate	LR007 Real Estate Column (3) Line (3)		X	0.2100	=		
(054)	Foreclosed Real Estate	LR007 Real Estate Column (3) Line (6)		X	0.2100	=		
(055)	Investment Real Estate	LR007 Real Estate Column (3) Line (9)		X	0.2100	=		
(056)	Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (11)		X	0.2100	=		†
(057)	Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (12)		X	0.2100	=		
	Schedule BA							
(058)	Sch BA Real Estate Excluding Low Income Housing Tax Credits	LR007 Real Estate Column (3) Line (16)		X	0.2100	=		
(059)	Guaranteed Low Income Housing Tax Credits	LR007 Real Estate Column (3) Line (17) + Line (19)		X	0.0000	=		
(060)	Non-Guaranteed and All Other Low Income Housing Tax Credits	LR007 Real Estate Column (3) Line (18) + Line (20) + Line (21)		X	0.0000	=		
(061)	Sch BA Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (23)		X	0.2100	=		†
(062)	Sch BA Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (24)		X	0.2100	=		

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
(063)	Sch BA Bond NAIC 1	LR008 Other Long-Term Assets Column (5) Line (2)		X	0.1575	=		
(064)	Sch BA Bond NAIC 2	LR008 Other Long-Term Assets Column (5) Line (3)		X	0.1575	=		
(065)	Sch BA Bond NAIC 3	LR008 Other Long-Term Assets Column (5) Line (4)		X	0.1575	=		
(066)	Sch BA Bond NAIC 4	LR008 Other Long-Term Assets Column (5) Line (5)		X	0.1575	=		
(067)	Sch BA Bond NAIC 5	LR008 Other Long-Term Assets Column (5) Line (6)		X	0.1575	=		
(068)	Sch BA Bond NAIC 6	LR008 Other Long-Term Assets Column (5) Line (7)		X	0.2100	=		
(069)	BA Bond Reduction - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (9)		X	0.2100	=		†
(070)	BA Bond Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (10)		X	0.2100	=		
(071)	BA Preferred Stock NAIC 1	LR008 Other Long-Term Assets Column (5) Line (12.3)		X	0.1575	=		
(072)	BA Preferred Stock NAIC 2	LR008 Other Long-Term Assets Column (5) Line (13)		X	0.1575	=		
(073)	BA Preferred Stock NAIC 3	LR008 Other Long-Term Assets Column (5) Line (14)		X	0.1575	=		
(074)	BA Preferred Stock NAIC 4	LR008 Other Long-Term Assets Column (5) Line (15)		X	0.1575	=		
(075)	BA Preferred Stock NAIC 5	LR008 Other Long-Term Assets Column (5) Line (16)		X	0.1575	=		
(076)	BA Preferred Stock NAIC 6	LR008 Other Long-Term Assets Column (5) Line (17)		X	0.2100	=		
(077)	BA Preferred Stock Reduction-Reinsurance	LR008 Other Long-Term Assets Column (5) Line (19)		X	0.2100	=		†
(078)	BA Preferred Stock Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (20)		X	0.2100	=		
(079)	Rated Surplus Notes	LR008 Other Long-Term Assets Column (5) Line (31)		X	0.1575	=		
(080)	Rated Capital Notes	LR008 Other Long-Term Assets Column (5) Line (41)		X	0.1575	=		
(081)	BA Common Stock Affiliated	LR008 Other Long-Term Assets Column (5) Line (48.3)		X	0.2100	=		
(082)	BA Collateral Loans	LR008 Other Long-Term Assets Column (5) Line (50)		X	0.1575	=		
(083)	Other BA Assets	LR008 Other Long-Term Assets Column (5) Line (52.3) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)		X	0.2100	=		
(084)	Other BA Assets Reduction-Reinsurance	LR008 Other Long-Term Assets Column (5) Line (54)		X	0.2100	=		†
(085)	Other BA Assets Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (55)		X	0.2100	=		
(086)	BA Mortgages - In Good Standing	LR009 Schedule BA Mortgages Column (6) Line (11)		X	0.1575	=		
(087)	BA Mortgages - 90 Days Overdue	LR009 Schedule BA Mortgages Column (6) Line (15)		X	0.1575	=		
(088)	BA Mortgages - In Process of Foreclosure	LR009 Schedule BA Mortgages Column (6) Line (19)		X	0.1575	=		
(089)	Reduction - Reinsurance	LR009 Schedule BA Mortgages Column (6) Line (21)		X	0.2100	=		†
(090)	Increase - Reinsurance	LR009 Schedule BA Mortgages Column (6) Line (22)		X	0.2100	=		
	Miscellaneous							
(091)	Asset Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (62) Grand Total Page		X	0.1575	=		
(092)	Miscellaneous Assets	LR012 Miscellaneous Assets Column (2) Line (7)		X	0.1575	=		
(093)	Derivatives - Collateral and Exchange Traded	LR012 Miscellaneous Assets Column (2) Lines (8) + (9) + (10)		X	0.1575	=		
(094)	Derivatives NAIC 1	LR012 Miscellaneous Assets Column (2) Line (11)		X	0.1575	=		
(095)	Derivatives NAIC 2	LR012 Miscellaneous Assets Column (2) Line (12)		X	0.1575	=		
(096)	Derivatives NAIC 3	LR012 Miscellaneous Assets Column (2) Line (13)		X	0.1575	=		
(097)	Derivatives NAIC 4	LR012 Miscellaneous Assets Column (2) Line (14)		X	0.1575	=		
(098)	Derivatives NAIC 5	LR012 Miscellaneous Assets Column (2) Line (15)		X	0.1575	=		
(099)	Derivatives NAIC 6	LR012 Miscellaneous Assets Column (2) Line (16)		X	0.2100	=		
(100)	Miscellaneous Assets Reduction-Reinsurance	LR012 Miscellaneous Assets Column (2) Line (19)		X	0.2100	=		†
(101)	Miscellaneous Assets Increase-Reinsurance	LR012 Miscellaneous Assets Column (2) Line (20)		X	0.2100	=		

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
(102)	Replications	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)		X	0.1575	=		
(103)	Reinsurance	LR016 Reinsurance Column (4) Line (17)		X	0.2100	=		
(104)	Investment Affiliates	LR042 Summary for Affiliated Investments Column (4) Line (6)		X	0.2100	=		
(105)	Investment in Parent	LR042 Summary for Affiliated Investments Column (4) Line (10)		X	0.2100	=		
(106)	Other Affiliate: Property and Casualty Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (11)		X	0.2100	=		
(107)	Other Affiliate: Life Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (12)		X	0.2100	=		
(108)	Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated Investments Column (4) Line (14)		X	0.2100	=		
(109)	Subtotal for C-1o Assets	Sum of Lines (001) through (108), Recognizing the Deduction of Lines (013), (014), (015), (036), (044), (049), (056), (061), (069), (077), (084), (089) and (100)						
	C-0 Affiliated Common Stock							
(110)	Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (27)		X	0.1575	=		
(111)	Off-Balance Sheet Items Reduction - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (28)		X	0.2100	=		†
(112)	Off-Balance Sheet Items Increase - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (29)		X	0.2100	=		
(113)	Affiliated US Property - Casualty Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (1)		X	0.2100	=		
(114)	Affiliated US Life Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (2)		X	0.2100	=		
(115)	Affiliated US Health Insurers Directly and Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (3)		X	0.2100	=		
(116)	Affiliated US Property - Casualty Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (4)		X	0.2100	=		
(117)	Affiliated US Life Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (5)		X	0.2100	=		
(118)	Affiliated Alien Life Insurers - Canadian	LR042 Summary for Affiliated Investments Column (4) Line (8)		X	0.2100	=		
(119)	Affiliated Alien Life Insurers - All Others	LR042 Summary for Affiliated Investments Column (4) Line (9)		X	0.0000	=		
(120)	Subtotal for C-0 Affiliated Common Stock	Lines (110)-(111)+(112)+(113)+(114)+(115)+(116)+(117)+(118)+(119)						
	Common Stock							
(121)	Unaffiliated Common Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (17) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)		X	0.2100	=		
(122)	Credit for Hedging - Common Stock	LR015 Hedged Asset Common Stock Schedule Column (10) Line (0299999)		X	0.2100	=		†
(123)	Stock Reduction - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (19)		X	0.2100	=		†
(124)	Stock Increase - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (20)		X	0.2100	=		
(125)	BA Common Stock Unaffiliated	LR008 Other Long-Term Assets Column (5) Line (47)		X	0.2100	=		
(126)	BA Common Stock Affiliated - C-1cs	LR008 Other Long-Term Assets Column (5) Line (49.2)		X	0.2100	=		
(127)	Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)		X	0.2100	=		
(128)	NAIC 01 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (51.1)		X	0.1575	=		
(129)	NAIC 02 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (51.2)		X	0.1575	=		
(130)	Affiliated Preferred Stock and Common Stock - Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated Investments Column (4) Line (7)		X	0.2100	=		
(131)	Affiliated Preferred Stock and Common Stock - All Other	LR042 Summary for Affiliated Investments Column (4) Line (13)		X	0.2100	=		
(132)	Total for C-1cs Assets	Lines (121)-(122)-(123)+(124)+(125)+(126)+(127)+(128)+(129)+(130)+(131)						
	Insurance Risk							
(133)	Disability Income Premium	LR019 Health Premiums Column (2) Lines (21) through (27)		X	0.2100	=		

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect
(134)	Long-Term Care	LR019 Health Premiums Column (2) Line (28) + LR023 Long-Term Care Column (4) Line (7)		X	0.2100	=	
(135)	Individual & Industrial Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line (20)		X	0.2100	=	
(136)	Group & Credit Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Lin~~es (42)~~ **(48)**		X	0.2100	=	
(136b)	Longevity C-2 Risk	LR025-A Longevity Risk Column (2) Line (5)		X	0.2100	=	
(137)	Disability and Long-Term Care Health Claim Reserves	LR024 Health Claim Reserves Column (4) Line (9) + Line (15)		X	0.2100	=	
(138)	Premium Stabilization Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)		X	0.0000	=	
(139)	Total C-2 Risk	L(133) + L(134) + L(137) + L(138) + Greatest of [Guardrail Factor * (L(135)+L(136)), Guardrail Factor * L(136b), Square Root of [(L(135) + L(136))2 + L(136b)2 + 2 * (Correlation Factor) * (L(135) + L(136)) * L(136b)]]					
(140)	Interest Rate Risk	LR027 Interest Rate Risk Column (3) Line (36)		X	0.2100	=	
(141)	Health Credit Risk	LR028 Health Credit Risk Column (2) Line (7)		X	0.0000	=	
(142)	Market Risk	LR027 Interest Rate Risk Column (3) Line (37)		X	0.2100	=	
(143)	Business Risk	LR029 Business Risk Column (2) Line (40)		X	0.2100	=	
(144)	Health Administrative Expenses	LR029 Business Risk Column (2) Line (57)		X	0.0000	=	
(145)	Total Tax Effect	Lines (109) + (120) + (132) + (139) + (140) + (141) + (142) + (143) + (144)					

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CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

		Source	(1) RBC Requirement
	Insurance Affiliates and Misc. Other Amounts (C-0)		
(1)	Affiliated US Property-Casualty Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (1)	
(2)	Affiliated US Life Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (2)	
(3)	Affiliated US Health Insurers Directly and Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (3)	
(4)	Affiliated US Property-Casualty Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (4)	
(5)	Affiliated US Life Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (5)	
(6)	Affiliated Alien Life Insurers - Canadian	LR042 Summary for Affiliated Investments Column (4) Line (8)	
(7)	Affiliated Alien Life Insurers - All Others	LR042 Summary for Affiliated Investments Column (4) Line (9)	
(8)	Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (34)	
(9)	Total (C-0) - Pre-Tax	Sum of Lines (1) through (8)	
(10)	(C-0) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (120)	
(11)	Net (C-0) - Post-Tax	Line (9) - Line (10)	
	Asset Risk – Unaffiliated Common Stock and Affiliated Non-Insurance Stock (C-1cs)		
(12)	Schedule D Unaffiliated Common Stock	LR005 Unaffiliated Common Stock Column (5) Line (21) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	
(13)	Schedule BA Unaffiliated Common Stock	LR008 Other Long-Term Assets Column (5) line (47)	
(14)	Schedule BA Affiliated Common Stock - C-1cs	LR008 Other Long-Term Assets Column (5) line (49.2)	
(15)	Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	
(16)	Affiliated Preferred Stock and Common Stock - Holding Company in Excess of Indirect Subsidiaries	LR042 Summary for Affiliated Investments Column (4) Line (7)	
(17)	Affiliated Preferred Stock and Common Stock - All Other	LR042 Summary for Affiliated Investments Column (4) Line (13)	
(18)	Total (C-1cs) - Pre-Tax	Sum of Lines (12) through (17)	
(19)	(C-1cs) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (132)	
(20)	Net (C-1cs) - Post-Tax	Line (18) - Line (19)	
	Asset Risk - All Other (C-1o)		
(21)	Bonds after Size Factor	LR002 Bonds Column (2) Line (27) + LR018 Off-Balance Sheet Collateral Column (3) Line (8)	
(22)	Mortgages (including past due and unpaid taxes)	LR004 Mortgages Column (6) Line (31)	
(23)	Unaffiliated Preferred Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (10) + LR018 Off-Balance Sheet Collateral Column (3) Line (15)	
(24)	Affiliated Preferred Stock and Common Stock - Investment Subsidiaries	LR042 Summary for Affiliated Investments Column (4) Line (6)	
(25)	Affiliated Preferred Stock and Common Stock - Parent	LR042 Summary for Affiliated Investments Column (4) Line (10)	
(26)	Affiliated Preferred Stock and Common Stock - Property and Casualty Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (11)	
(27)	Affiliated Preferred Stock and Common Stock - Life Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (12)	
(28)	Affiliated Preferred Stock and Common Stock - Publicly Traded Insurers Held at Fair Value (excess of statement value over book value)	LR042 Summary for Affiliated Investments Column (4) Line (14)	
(29)	Separate Accounts with Guarantees	LR006 Separate Accounts Column (3) Line (7)	

Denotes items that must be manually entered on the filing software.

LR031

Company Name | Confidential when Completed | NAIC Company Code

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Requirement
(30)	Synthetic GIC's (C-1o)	LR006 Separate Accounts Column (3) Line (8)	
(31)	Surplus in Non-Guaranteed Separate Accounts	LR006 Separate Accounts Column (3) Line (13)	
(32)	Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (13)	
(33)	Schedule BA Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (25)	
(34)	Other Long-Term Assets	LR008 Other Long-Term Assets Column (5) Line (56) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)	
(35)	Schedule BA Mortgages	LR009 Schedule BA Mortgages Column (6) Line (23)	
(36)	Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (62) Grand Total Page	
(37)	Miscellaneous	LR012 Miscellaneous Assets Column (2) Line (21)	
(38)	Replication Transactions and Mandatory Convertible Securities	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)	
(39)	Reinsurance	LR016 Reinsurance Column (4) Line (17)	
(40)	Total (C-1o) - Pre-Tax	Sum of Lines (21) through (39)	
(41)	(C-1o) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (109)	
(42)	Net (C-1o) - Post-Tax	Line (40) - Line (41)	
	<u>Insurance Risk (C-2)</u>		
(43)	Individual & Industrial Life Insurance	LR025 Life Insurance Column (2) Line (20)	
(44)	Group & Credit Life Insurance	LR025 Life Insurance Column (2) Line~~s (42)~~ (48)	
(44b)	Longevity Risk	LR025-A Longevity Risk Column (2) Line (5)	
(45)	Total Health Insurance	LR024 Health Claim Reserves Column (4) Line (18)	
(46)	Premium Stabilization Reserve Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	
(47)	Total (C-2) - Pre-Tax	L(45) + L(46) + Greatest of [Guardrail Factor * (L(43)+L(44)), Guardrail Factor * L(44b), Square Root of [(L(43) + L(44))2 + L(44b)2 + 2 * (Correlation Factor) * (L(43) + L(44)) * L(44b)]]	
(48)	(C-2) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (139)	
(49)	Net (C-2) - Post-Tax	Line (47) - Line (48)	
	<u>Interest Rate Risk (C-3a)</u>		
(50)	Total Interest Rate Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (36)	
(51)	(C-3a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (140)	
(52)	Net (C-3a) - Post-Tax	Line (50) - Line (51)	
	<u>Health Credit Risk (C-3b)</u>		
(53)	Total Health Credit Risk - Pre-Tax	LR028 Health Credit Risk Column (2) Line (7)	
(54)	(C-3b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (141)	
(55)	Net (C-3b) - Post-Tax	Line (53) - Line (54)	
	<u>Market Risk (C-3c)</u>		
(56)	Total Market Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (37)	
(57)	(C-3c) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (142)	
(58)	Net (C-3c) - Post-Tax	Line (56) - Line (57)	

Denotes items that must be manually entered on the filing software.

LR031

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL (CONTINUED)

Company Name | Confidential when Completed | NAIC Company Code

		Source	(1) RBC Requirement
	Business Risk (C-4a)		
(59)	Premium Component	LR029 Business Risk Column (2) Lines (12) + (24) + (36)	
(60)	Liability Component	LR029 Business Risk Column (2) Line (39)	
(61)	Subtotal Business Risk (C-4a) - Pre-Tax	Lines (59) + (60)	
(62)	(C-4a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (143)	
(63)	Net (C-4a) - Post-Tax	Line (61) - Line (62)	
	Business Risk (C-4b)		
(64)	Health Administrative Expense Component of Business Risk (C-4b) - Pre-Tax	LR029 Business Risk Column (2) Line (57)	
(65)	(C-4b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (144)	
(66)	Net (C-4b) - Post-Tax	Line (64) - Line (65)	
	Total Risk-Based Capital After Covariance Before Basic Operational Risk		
(67)	C-0 + C-4a + Square Root of $[(C\text{-}1o + C\text{-}3a)^2 + (C\text{-}1cs + C\text{-}3c)^2 + (C\text{-}2)^2 + (C\text{-}3b)^2 + (C\text{-}4b)^2]$	REPORT AMOUNT ON PARENT COMPANY'S RBC IF APPLICABLE L(11)+L(63) + Square Root of $[(L(42) + L(52))^2 + (L(20) + L(58))^2 + L(49)^2 + L(55)^2 + L(66)^2]$	
(68)	Gross Basic Operational Risk	0.03 x L(67)	
(69)	C-4a of U.S. Life Insurance Subsidiaries	Company Records	
(70)	Net Basic Operational Risk	Line (68) - (Line (63) + Line (69)) (Not less than zero)	
(71)	Primary Security Shortfall Calculated in Accordance With Actuarial Guideline XLVIII Multiplied by 2	LR036 XXX/AXXX Reinsurance Primary Security Shortfall by Cession Column (7) Line (9999999) Multiplied by 2	
(72)	Total Risk-Based Capital After Covariance (Including Basic Operational Risk and Primary Security Shortfall multiplied by 2)	Line (67) + Line (70) + Line (71)	
	Authorized Control Level Risk-Based Capital (After Covariance Adjustment and Shortfall)		
(73)	Total Risk-Based Capital After Covariance Times Fifty Percent	Line (72) x 0.50	
	Tax Sensitivity Test		
(74)	Tax Sensitivity Test: Total Risk-Based Capital After Covariance	L(9)+L(61) + Square Root of $[(L(40) + L(50))^2 + (L(18) + L(56))^2 + L(47)^2 + L(53)^2 + L(64)^2]$	
(75)	Tax Sensitivity Test: Authorized Control Level Risk-Based Capital	Line (74) x 0.50	

Denotes items that must be manually entered on the filing software.

PROPOSED 2023 UPDATE 1
LIFE INSURANCE
LR025

Basis of Factors

The factors developed represent surplus needed to provide for life insurance mortality risk, which is defined as adverse variance in life insurance deaths (i.e., insureds dying sooner than expected) over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates for emerging experience. The mortality risks included in the development of the factors were volatility, level, trend, and catastrophe. The factors were developed by stochastically simulating the run-off of in force life insurance blocks typical of U.S. life insurers.

The capital need, expressed as a dollar amount, is determined as the greatest present value of accumulated deficiencies at the 95th percentile of the stochastic distribution of scenarios over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates. Statutory losses are defined as the after-tax quantification of gross death benefits minus reserves released in excess of the mortality cost expected under the moderately adverse scenario~~minus mortality margin present in reserves~~. The after-tax statutory losses are discounted to the present by using 20-year averages for U.S. swap rates. By selecting the largest present value accumulated loss across all projection years, the solved for capital ensures non-negative capital at all projection periods. Earlier period losses are not allowed to be offset by later period gains to reduce capital. The 95th percentile is the commonly accepted statistical safety level used for Life RBC C-2 mortality risk to identify weakly capitalized companies. The after-tax capital needs are translated to a factor expressed as a percentage of the net amount at risk (NAR). The pre-tax factor is determined by taking the after-tax factor divided by (1 minus the tax rate).

The factors are differentiated between individual & industrial life and group & credit life, and by in force block size. Within individual & industrial life, the factors are differentiated into categories by contract type depending on the degree of pricing flexibility. Within group & credit life, the factors are differentiated into categories by the remaining length of the premium rate term by group contract. There are distinct factors for contracts that have remaining premium rate terms 36 months and under and for contracts that have remaining premium rate terms over 36 months. The Federal Employees' Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI) receive a separate factor applied to the amounts in force.

Specific Instructions for Application of the Formula

Lines 2, 5 and 21-~~41~~ 47 are not applicable to Fraternal Benefit Societies.

The NAR is derived for each of the factor categories using annual statement sources and company records. In Force and Reserves amounts are net of reinsurance throughout. The In Force amounts throughout derived from company records need to be consistent with the Exhibit of Life Insurance. The Reserves amounts throughout derived from company records need to be consistent with Exhibit 5, Separate Accounts Exhibit, and Schedule S.

The NAR size bands apply to the total amounts for individual & industrial life and group term & credit life. The size bands are allocated proportionately to the NAR for each of the factor categories.~~-~~ Size band 1 is for NAR amounts up to $500 million. Size band 2 is for NAR amounts greater than $500 million and up to $25 billion. Size band 3 is for NAR amounts greater than $25 billion.

Pricing Flexibility for Individual & Industrial Life Insurance and Group & Credit Life Permanent Life Insurance is defined as the ability to materially adjust rates on in force contracts through changing premiums and/or non-guaranteed elements as of the valuation date and within the next 5 policy years and reflecting typical business practices. For the purposes of assessing whether business is categorized as having "Pricing Flexibility", grouping of gross amounts may be done at either the contract level or at a cohort level consistent with grouping for pricing purposes. The categorization for ceded amounts for direct insurers should be based on the terms of each reinsurance treaty. Non-affiliated reinsurers are to assess the flexibility to adjust rates on in force contracts based on the terms of each reinsurance treaty and constraints based on typical business practices. For example, if a non-affiliated reinsurer has historical precedent for changing in force rates, then that may provide support for assigning policies to the category with pricing flexibility. Affiliated reinsurers are to assign the factor category based on the direct policies. In force contracts may move between categories throughout their remaining lifetime if the degree of pricing flexibility changes as of each valuation date. A material rate adjustment is defined as the ability to recover, on a present value basis, the difference in mortality risks provided for in the factors below for contracts with and without pricing flexibility. ~~These differences in factors are shown in the Line (13) table below in the Permanent Life Flexibility Factor and Term Life Flexibility Factor columns.~~ The flexibility factor for each category multiplied by the NAR results in the minimum dollar margin needed for a material rate adjustment, which can then be compared against margins available to adjust rates. In force contracts that have margin available that is greater than or equal to the minimum dollar margin needed may be assigned to the category for policies with pricing flexibility. Insurers may choose to assign contracts to the categories without pricing flexibility if the evaluation of margins is not completed or if the degree of pricing flexibility is uncertain.

Lines (11) and (12) Individual & Industrial Life Policies with Pricing Flexibility In Force and Reserves are derived from company records. Examples of products intended for this category include, but aren't limited to, participating whole life insurance, universal life insurance without secondary guarantees, and yearly renewable term insurance where scheduled premiums may be changed on an annual basis from the date of issue. The table below illustrates the RBC requirement calculation embedded in Line (13) for Individual & Industrial Life Policies with Pricing Flexibility.

Line (13)	Individual & Industrial Life Policies with Pricing Flexibility	(1) Statement Value	Factor	(2) RBC Requirement	~~Permanent Life Flexibility Factor~~	~~Term Life Flexibility Factor~~
	Allocation of First $500 Million	________	X 0.~~.~~00220 =	________	~~0.00230~~	~~0.00110~~
	Allocation of Next $24,500 Million	________	X 0.~~.~~00105 =	________	~~0.00120~~	~~0.00065~~
	Allocation of Over $25,000 Million	________	X 0.~~.~~00080 =	________	~~0.00085~~	~~0.00055~~
	Total Individual & Industrial Life Policies with Pricing Flexibility Net Amount at Risk	________		________		

Lines (14) and (15) Individual & Industrial Term Life Policies without Pricing Flexibility In Force and Reserves are derived from company records. Examples of products intended for this category include, but aren't limited to, level term insurance with guaranteed level premiums and yearly renewable term insurance where scheduled premiums may not be changed. The table below illustrates the RBC requirement calculation embedded in Line (16) for Individual & Industrial Term Life Policies without Pricing Flexibility.

Line (16)	Individual & Industrial Term Life Policies without Pricing Flexibility	(1) Statement Value	Factor	(2) RBC Requirement
	Allocation of First $500 Million	________	X 0.00280 =	________
	Allocation of Next $24,500 Million	________	X 0.00120 =	________
	Allocation of Over $25,000 Million	________	X 0.00085 =	________
	Total Individual & Industrial Term Life Policies without Pricing Flexibility Net Amount at Risk	________		________

Lines (17) and (18) Individual & Industrial Permanent Life Policies without Pricing Flexibility In Force and Reserves are derived from the aggregate amounts derived in lines (1) to (10) minus the amounts recorded in the other individual life categories. Examples of products intended for this category include, but aren't limited to, universal life with secondary guarantees and non-participating whole life insurance. Policies that aren't recorded in the other individual life categories default to this category which has the highest factors. The table below illustrates the RBC requirement calculation embedded in Line (19) for Individual & Industrial Permanent Life Policies without Pricing Flexibility.

		(1)		(2)
Line (19)	Individual & Industrial Permanent Life Policies without Pricing Flexibility	Statement Value	Factor	RBC Requirement
	Allocation of First $500 Million	__________	X 0.00400 =	__________
	Allocation of Next $24,500 Million	__________	X 0.00175 =	__________
	Allocation of Over $25,000 Million	__________	X 0.00120 =	__________
	Total Individual & Industrial Permanent Life Policies without Pricing Flexibility Net Amount at Risk	__________		__________

Lines (35) and (36) Group & Credit Term Life In Force and Reserves with Remaining Rate Terms 36 Months and Under are derived from company records. This category includes group term life contracts where the premium terms have 36 months or fewer until expiration or renewal. Insurers may choose to assign contracts to the category for remaining rate terms over 36 months if the evaluation of remaining rate terms is not completed. The in force amount classified in this category needs to be consistent with the Exhibit of Life Insurance. The reserves amount classified in this category needs to be consistent with Exhibit 5 used for Lines (28) and (29), Separate Accounts Exhibit used for Line (30), and Schedule S used for Lines (31) and (32). Federal Employees' Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI) contracts are excluded. The table below illustrates the RBC requirement calculation embedded in Line (37) for Group & Credit Term Life ~~Net Amount at Risk~~ with Remaining Rate Terms 36 Months and Under Net Amount at Risk.

		(1)		(2)
Line (37)	Group & Credit Term Life with Remaining Rate Terms 36 Months and Under	Statement Value	Factor	RBC Requirement
	Allocation of First $500 Million	__________	X 0.00140 =	__________
	Allocation of Next $24,500 Million	__________	X 0.00055 =	__________
	Allocation of Over $25,000 Million	__________	X 0.00040 =	__________
	Total Group & Credit Term Life ~~Net Amount at Risk~~ with Remaining Rate Terms 36 Months and Under Net Amount at Risk	__________		__________

Lines (38) and (39) Group & Credit Term Life In Force and Reserves with Remaining Rate Terms Over 36 Months are derived from ~~the aggregate amounts derived in lines (21) to (34) minus the Group & Credit Life In Force and Reserves with Remaining Rate Terms 36 Months and Under in lines (35) and (36)~~company records. This category includes group term life contracts where the premium terms have over 36 months until expiration or renewal. FEGLI and SGLI contracts are excluded. The table below illustrates the RBC requirement calculation embedded in Line (40) for Group & Credit Life Term ~~Net Amount at Risk~~ with Remaining Rate Terms Over 36 Months Net Amount at Risk.

		(1)		(2)
Line (40)	Group & Credit Term Life with Remaining Rate Terms Over 36 Months	Statement Value	Factor	RBC Requirement
	Allocation of First $500 Million	__________	X 0.00190 =	__________
	Allocation of Next $24,500 Million	__________	X 0.00080 =	__________
	Allocation of Over $25,000 Million	__________	X 0.00055 =	__________
	Total Group & Credit Term Life ~~Net Amount at Risk~~ with Remaining Rate Terms Over 36 Months Net Amount at Risk	__________		__________

Lines (41) and (42) Group & Credit Permanent Life Policies with Pricing Flexibility In Force and Reserves are derived from company records. FEGLI and SGLI contracts are excluded. The table below illustrates the RBC requirement calculation embedded in Line (43) for Group & Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk. The capital factors assigned are the same as Individual & Industrial Permanent Life Policies with Pricing Flexibility.

		(1) Statement Value	Factor	(2) RBC Requirement
Line (43)	Group & Credit Permanent Life Policies with Pricing Flexibility			
	Allocation of First $500 Million	________	X 0.00220 =	________
	Allocation of Next $24,500 Million	________	X 0.00105 =	________
	Allocation of Over $25,000 Million	________	X 0.00080 =	________
	Total Group & Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk	________		________

Lines (44) and (45) Group & Credit Permanent Life Policies without Pricing Flexibility In Force and Reserves are derived from the aggregate amounts derived in lines (21) to (34) minus the other Group & Credit life amounts derived in lines (35) to (43). FEGLI and SGLI contracts are excluded. The table below illustrates the RBC requirement calculation embedded in Line (46) for Group & Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk. The capital factors assigned are the same as Individual & Industrial Permanent Life Policies without Pricing Flexibility.

		(1) Statement Value	Factor	(2) RBC Requirement
Line (46)	Group & Credit Permanent Life Policies without Pricing Flexibility			
	Allocation of First $500 Million	________	X 0.00400 =	________
	Allocation of Next $24,500 Million	________	X 0.00175 =	________
	Allocation of Over $25,000 Million	________	X 0.00120 =	________
	Total Group & Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk	________		________

Line (~~41~~47) FEGLI/SGLI In Force amounts are retrieved from the Exhibit of Life Insurance. ~~-~~The capital factor assigned is the same as the largest size band for group & credit term life contracts with remaining rate terms 36 months and under.

		(1) Statement Value	Factor	(2) RBC Requirement
Line (~~41~~47)	FEGLI/SGLI			
	In Force	________	X 0.00040 =	________

All amounts should be entered as required. The risk-based capital software will calculate the RBC requirement for individual and industrial and for group and credit.

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NOTE 37 Life Insurance Net Amount at Risk by Product Characteristics

Refer to LR025 of the RBC instructions for category definitions

A. INDIVIDUAL & INDUSTRIAL LIFE

Line Definitions

(1)	Life In Force	Exhibit of Life Insurance Amount of Insurance for Industrial and Ordinary Life, Lines 21 and 22
(2)	Exhibit 5 Life Reserves	Exhibit 5 for Industrial and Ordinary Life, Lines 0199997 and 0199998
(3)	Separate Account Life Reserves	Separate Accounts, Exhibit 3, Column 3 Line 0199999
(4)	Modified Coinsurance Life Reserves	Schedule S, Part 1 Section 1 Column 12 and Part 3 Section 1 Column 14, the portion which relates to policy reserves that, if written on a direct basis, would be included on Exhibit 5.

Table A1

		Total Individual & Industrial Life			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

Table A2

		Individual & Industrial Life Policies with Pricing Flexibility			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

Table A3

		Individual & Industrial Term Life Policies without Pricing Flexibility			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

Table A4

		Individual & Industrial Permanent Life Policies without Pricing Flexibility			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

B. GROUP & CREDIT LIFE EXCLUDING FEGLI/SGLI

Line Definitions

(1)	Life In Force	Exhibit of Life Insurance Amount of Insurance for Group and Credit Life, Lines 21 and 22; exclude amounts for FEGLI and SGLI reported on lines 43 and 44
(2)	Exhibit 5 Life Reserves	Exhibit 5 for Group and Credit Life, Lines 0199997 and 0199998
(3)	Separate Account Life Reserves	Separate Accounts, Exhibit 3, Column 4 Line 0199999
(4)	Modified Coinsurance Life Reserves	Schedule S, Part 1 Section 1 Column 12 and Part 3 Section 1 Column 14, the portion which relates to policy reserves that, if written on a direct basis, would be included on Exhibit 5.

Table B1

		Total Group & Credit Life Excluding FEGLI/SGLI			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

Table B2

		Group & Credit Term Life with Remaining Rate Terms 36 Months and Under			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

Table B3

		Group & Credit Term Life with Remaining Rate Terms Over 36 Months			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

Table B4

		Group & Credit Permanent Life Policies with Pricing Flexibility			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

Table B5

		Group & Credit Permanent Life Policies without Pricing Flexibility			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

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LIFE INSURANCE

		Annual Statement Source	(1) Statement Value	Factor	(2) RBC Requirement
	Individual & Industrial Life ~~Net Amount at Risk~~				
~~(1)~~	~~Ordinary Life In Force~~	~~Exhibit of Life Insurance Column 4 Line 23 x 1000~~			
~~(2)~~	~~Plus Industrial Life In Force~~	~~Exhibit of Life Insurance Column 2 Line 23 x 1000~~			
~~(3)~~	~~Total Individual & Industrial Life In Force~~	~~Lines (1) + (2)~~			
~~(4)~~	~~Ordinary Life Reserves~~	~~Exhibit 5 Column 4 Line 0199999~~			
~~(5)~~	~~Plus Industrial Life Reserves~~	~~Exhibit 5 Column 3 Line 0199999~~			
~~(6)~~	~~Plus Ordinary Life Separate Accounts~~	~~Separate Accounts Exhibit 3 Column 3 Line 0199999~~			
~~(7)~~	~~Plus Ordinary & Industrial Life Modified Coinsurance Assumed Reserves~~	~~Schedule S Part 1 Section 1 Column 12, in part ‡~~			
~~(8)~~	~~Less Ordinary & Industrial Life Modified Coinsurance Ceded Reserves~~	~~Schedule S Part 3 Section 1 Column 14, in part ‡~~			
~~(9)~~	~~Total Individual & Industrial Life Reserves~~	~~Lines (4) + (5) + (6) + (7) - (8)~~			
~~(10)~~ (1)	Total Individual & Industrial Life Net Amount at Risk	~~Lines (3) - (9)~~ Notes to Financial Statements Item 37, Table A1, Column (4), Line (6)			
~~(11)~~	~~Individual & Industrial Life Policies with Pricing Flexibility In Force~~	~~Company Records *~~			
~~(12)~~	~~Less Individual & Industrial Life Policies with Pricing Flexibility in Force Reserves~~	~~Company Records *~~			
~~(13)~~ (2)	Total Individual & Industrial Life Policies with Pricing Flexibility Net Amount at Risk	~~Lines (11) - (12)~~ Notes to Financial Statements Item 37, Table A2, Column (4), Line (6)		X †	=
~~(14)~~	~~Individual & Industrial Term Life Policies without Pricing Flexibility In Force~~	~~Company Records *~~			
~~(15)~~	~~Less Individual & Industrial Term Life Policies without Pricing Flexibility Reserves~~	~~Company Records *~~			
~~(16)~~ (3)	Total Individual & Industrial Term Life Policies without Pricing Flexibility Net Amount at Risk	~~Lines (14) - (15)~~ Notes to Financial Statements Item 37, Table A3, Column (4), Line (6)		X †	=
~~(17)~~	~~Individual & Industrial Permanent Life Policies without Pricing Flexibility In Force~~	~~Lines (3) - (11) - (14)~~			
~~(18)~~	~~Less Individual & Industrial Permanent Life Policies without Pricing Flexibility Reserves~~	~~Lines (9) - (12) - (15)~~			
~~(19)~~ (4)	Total Individual & Industrial Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines ~~(17) - (18)~~ (1) - (2) - (3)		X †	=
~~(20)~~ (5)	Total Individual & Industrial Life	Lines ~~(13) + (16) + (19)~~ (2) + (3) + (4)			
	Group & Credit Life ~~Net Amount at Risk~~				
~~(21)~~	~~Group Life In Force~~	~~Exhibit of Life Insurance Column 9 Line 23 x 1000~~			
~~(22)~~	~~Plus Credit Life In Force~~	~~Exhibit of Life Insurance Column 6 Line 23 x 1000~~			
~~(23)~~	~~Less Group FEGLI In Force~~	~~Exhibit of Life Insurance Column 4 Line 43 x 1000~~			
~~(24)~~	~~Less Group SGLI In Force~~	~~Exhibit of Life Insurance Column 4 Line 44 x 1000~~			
~~(25)~~	~~Less Credit FEGLI In Force~~	~~Exhibit of Life Insurance Column 2 Line 43 x 1000~~			
~~(26)~~	~~Less Credit SGLI In Force~~	~~Exhibit of Life Insurance Column 2 Line 44 x 1000~~			
~~(27)~~	~~Total Group & Credit Life In Force Excluding FEGLI/SGLI~~	~~Lines (21) + (22) - (23) - (24) - (25) - (26)~~			
~~(28)~~	~~Group Life Reserves~~	~~Exhibit 5 Column 6 Line 0199999~~			
~~(29)~~	~~Plus Credit Life Reserves~~	~~Exhibit 5 Column 5 Line 0199999~~			
~~(30)~~	~~Plus Group Life Separate Accounts~~	~~Separate Accounts Exhibit 3 Column 4 Line 0199999~~			
~~(31)~~	~~Plus Group & Credit Life Modified Coinsurance Assumed Reserves~~	~~Schedule S Part 1 Section 1 Column 12, in part ‡~~			
~~(32)~~	~~Less Group & Credit Life Modified Coinsurance Ceded Reserves~~	~~Schedule S Part 3 Section 1 Column 14, in part ‡~~			
~~(33)~~	~~Total Group & Credit Life Reserves~~	~~Lines (28) + (29) + (30) + (31) - (32)~~			
~~(34)~~ (6)	Total Group & Credit Life Excluding FEGLI/SGLI Net Amount at Risk ~~Excluding FEGLI/SGLI~~	~~Lines (27) - (33)~~ Notes to Financial Statements Item 37, Table B1, Column (4), Line (6)			
~~(35)~~	~~Group & Credit Term Life In Force with Remaining Rate Terms 36 Months and Under~~	~~Company Records *~~			
~~(36)~~	~~Less Group & Credit Term Life Reserves with Remaining Rate Terms 36 Months and Under~~	~~Company Records *~~			
~~(37)~~ (7)	Group & Credit Term Life with Remaining Rate Terms 36 Months and Under Net Amount at Risk ~~with Rem~~	~~Lines (35) - (36)~~ Notes to Financial Statements Item 37, Table B2, Column (4), Line (6)		X †	=
~~(38)~~	~~Group & Credit Term Life In Force with Remaining Rate Terms Over 36 Months~~	~~Lines (27) - (35) Company Records *~~			
~~(39)~~	~~Less Group & Credit Term Life Reserves with Remaining Rate Terms Over 36 Months~~	~~Lines (33) - (36) Company Records *~~			
~~(40)~~ (8)	Group & Credit Life Term Life with Remaining Rate Terms Over 36 Months Net Amount at Risk ~~with Rema~~	~~Lines (38) - (39)~~ Notes to Financial Statements Item 37, Table B3, Column (4), Line (6)		X †	=
~~(41)~~	~~Group & Credit Permanent Life Policies with Pricing Flexibility In Force~~	~~Company Records *~~			
~~(42)~~	~~Less Group & Credit Permanent Life Policies with Pricing Flexibility Reserves~~	~~Company Records *~~			
~~(43)~~ (9)	Group & Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk	~~Lines (41) - (42)~~ Notes to Financial Statements Item 37, Table B4, Column (4), Line (6)		X †	=
~~(44)~~	~~Group & Credit Permanent Life Policies without Pricing Flexibility In Force~~	~~Lines (27) - (35) - (38) - (41)~~			
~~(45)~~	~~Less Group & Credit Permanent Life Policies without Pricing Flexibility Reserves~~	~~Lines (33) - (36) - (39) - (42)~~			
~~(46)~~ (10)	Group & Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines ~~(44) - (45)~~ (6) - (7) - (8) - (9)		X †	=
~~(41) (47)~~ (11)	FEGLI/SGLI Life In Force	Exhibit of Life Insurance Sum of Column 2 and 4 Line 43 and 44 x 1000		X 0.0004	=
~~(42) (48)~~ (12)	Total Group & Credit Life	Lines ~~(37) + (40) + (41) + (43) + (46) + (47)~~ (7) + (8) + (9) + (10) + (11)			
~~(43) (49)~~ (13)	Total Life	Lines ~~(20) + (42) + (48)~~ (5) + (12)			

~~* The definitions are specified in the Life Insurance section of the risk-based capital instructions~~

† The tiered calculation is illustrated in the Life Insurance section of the risk-based capital instructions.

~~‡ Include only the portion which relates to policy reserves that, if written on a direct basis, would be included on Exhibit 5.~~

~~Denotes items that must be manually entered on the filing software.~~

LR025

Proposed 2023 Update 2

LIFE INSURANCE (Clean Version)

		Annual Statement Source	(1) Statement Value		Factor		(2) RBC Requirement
	Individual & Industrial Life						
(1)	Total Individual & Industrial Life Net Amount at Risk	Notes to Financial Statements Item 37, Table A1, Column (4), Line (6)					
(2)	Total Individual & Industrial Life Policies with Pricing Flexibility Net Amount at Risk	Notes to Financial Statements Item 37, Table A2, Column (4), Line (6)		X	†	=	
(3)	Total Individual & Industrial Term Life Policies without Pricing Flexibility Net Amount at Risk	Notes to Financial Statements Item 37, Table A3, Column (4), Line (6)		X	†	=	
(4)	Total Individual & Industrial Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (1) - (2) - (3)		X	†	=	
(5)	Total Individual & Industrial Life	Lines (2) + (3) + (4)					
	Group & Credit Life						
(6)	Total Group & Credit Life Excluding FEGLI/SGLI Net Amount at Risk	Notes to Financial Statements Item 37, Table B1, Column (4), Line (6)					
(7)	Group & Credit Term Life with Remaining Rate Terms 36 Months and Under Net Amount at Risk	Notes to Financial Statements Item 37, Table B2, Column (4), Line (6)		X	†	=	
(8)	Group & Credit Life Term Life with Remaining Rate Terms Over 36 Months Net Amount at Risk	Notes to Financial Statements Item 37, Table B3, Column (4), Line (6)		X	†	=	
(9)	Group & Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk	Notes to Financial Statements Item 37, Table B4, Column (4), Line (6)		X	†	=	
(10)	Group & Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (6) - (7) - (8) - (9)		X	†	=	
(11)	FEGLI/SGLI Life In Force	Exhibit of Life Insurance Sum of Column 2 and 4 Line 43 and 44 x 1000		X	0.0004	=	
(12)	Total Group & Credit Life	Lines (7) + (8) + (9) + (10) + (11)					
(13)	Total Life	Lines (5) + (12)					

† The tiered calculation is illustrated in the Life Insurance section of the risk-based capital instructions.

Proposed 2023 Update 2
PREMIUM STABILIZATION RESERVES

		Annual Statement Source	(1) Statement Value	Factor	(2) RBC Requirement
	Group and Credit Life and Health Reported Premium Stabilization Reserves				
(1)	Stabilization Reserves and Experience Rating Refunds included in Line 3	Page 3 Column 1 Line 3 in part		X	
(2)	Provision for Experience Rating Refunds	Page 3 Column 1 Line 9.2 in part		X	
(3)	Reserve for Group Rate Credits	Company Records		X	
(4)	Reserve for Credit Rate Credits	Company Records		X	
(5)	Premium Stabilization Reserves	Page 3 Column 1 Line 25 in part		X	
(6)	Total of Preliminary Premium Stabilization Reserve Credit	Sum of Lines (1) through (5)			
	Group & Credit Life and Health Risk-Based Capital				
(7)	Life	LR025 Life Insurance Column (2) Line ~~(42)~~ ~~(48)~~ **(12)**			
(8)	Health	LR024 Health Claim Reserves Column (4) Line (16) + [LR024 Column (4) Line (15) x 0.65] + LR019 Health Premiums Column (2) Lines (12), (17), (18) and (19) + [[LR019 Column (2) Lines (23), (24), and (27)] x 0.65] + [LR020 Underwriting Risk - Experience Fluctuation Risk Column (5) Line (18) - Column (4) Line (18) x Line (1.2) / Line (1.3)]			
(9)	Maximum Risk-Based Capital	Lines (7) + (8)			
(10)	Final Premium Stabilization Reserve	Column (2) Line (6), but not more than Column (1) Line (9)		X	

LR026

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Proposed 2023 Update 2

CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
	ASSET RISKS							
	Bonds							
(001)	Long-term Bonds – NAIC 1	LR002 Bonds Column (2) Line (2.8) + LR018 Off-Balance Sheet Collateral Column (3) Line (2.8)		X	0.1680	=		
(002)	Long-term Bonds – NAIC 2	LR002 Bonds Column (2) Line (3.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (3.4)		X	0.1680	=		
(003)	Long-term Bonds – NAIC 3	LR002 Bonds Column (2) Line (4.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (4.4)		X	0.1680	=		
(004)	Long-term Bonds – NAIC 4	LR002 Bonds Column (2) Line (5.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (5.4)		X	0.1680	=		
(005)	Long-term Bonds – NAIC 5	LR002 Bonds Column (2) Line (6.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (6.4)		X	0.1680	=		
(006)	Long-term Bonds – NAIC 6	LR002 Bonds Column (2) Line (7) + LR018 Off-Balance Sheet Collateral Column (3) Line (7)		X	0.2100	=		
(007)	Short-term Bonds – NAIC 1	LR002 Bonds Column (2) Line (10.8)		X	0.1680	=		
(008)	Short-term Bonds – NAIC 2	LR002 Bonds Column (2) Line (11.4)		X	0.1680	=		
(009)	Short-term Bonds – NAIC 3	LR002 Bonds Column (2) Line (12.4)		X	0.1680	=		
(010)	Short-term Bonds – NAIC 4	LR002 Bonds Column (2) Line (13.4)		X	0.1680	=		
(011)	Short-term Bonds – NAIC 5	LR002 Bonds Column (2) Line (14.4)		X	0.1680	=		
(012)	Short-term Bonds – NAIC 6	LR002 Bonds Column (2) Line (15)		X	0.2100	=		
(013)	Credit for Hedging - NAIC 1 Through 5 Bonds	LR014 Hedged Asset Bond Schedule Column (13) Line (0199999)		X	0.1680	=		†
(014)	Credit for Hedging - NAIC 6 Bonds	LR014 Hedged Asset Bond Schedule Column (13) Line (0299999)		X	0.2100	=		†
(015)	Bond Reduction - Reinsurance	LR002 Bonds Column (2) Line (19)		X	0.2100	=		†
(016)	Bond Increase - Reinsurance	LR002 Bonds Column (2) Line (20)		X	0.2100	=		
(017)	Non-Exempt NAIC 1 U.S. Government Agency	LR002 Bonds Column (2) Line (22)		X	0.1680	=		
(018)	Bonds Size Factor	LR002 Bonds Column (2) Line (26) - LR002 Bonds Column (2) Line (21)		X	0.1680	=		
	Mortgages							
	In Good Standing							
(019)	Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (1)		X	0.1575	=		
(020)	Residential Mortgages - Other	LR004 Mortgages Column (6) Line (2)		X	0.1575	=		
(021)	Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (3)		X	0.1575	=		
(022)	Total Commercial Mortgages - All Other	LR004 Mortgages Column (6) Line (9)		X	0.1575	=		
(023)	Total Farm Mortgages	LR004 Mortgages Column (6) Line (15)		X	0.1575	=		
	90 Days Overdue							
(024)	Farm Mortgages	LR004 Mortgages Column (6) Line (16)		X	0.1575	=		
(025)	Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (17)		X	0.1575	=		
(026)	Residential Mortgages - Other	LR004 Mortgages Column (6) Line (18)		X	0.1575	=		
(027)	Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (19)		X	0.1575	=		
(028)	Commercial Mortgages - Other	LR004 Mortgages Column (6) Line (20)		X	0.1575	=		
	In Process of Foreclosure							
(029)	Farm Mortgages	LR004 Mortgages Column (6) Line (21)		X	0.1575	=		

† Denotes lines that are deducted from the total rather than added.

Denotes items that must be manually entered on the filing software.

Company Name | Confidential when Completed | NAIC Company Code

CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
(030)	Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (22)		X	0.1575	=		
(031)	Residential Mortgages - Other	LR004 Mortgages Column (6) Line (23)		X	0.1575	=		
(032)	Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (24)		X	0.1575	=		
(033)	Commercial Mortgages - Other	LR004 Mortgages Column (6) Line (25)		X	0.1575	=		
(034)	Due & Unpaid Taxes Mortgages	LR004 Mortgages Column (6) Line (26)		X	0.1575	=		
(035)	Due & Unpaid Taxes - Foreclosures	LR004 Mortgages Column (6) Line (27)		X	0.1575	=		
(036)	Mortgage Reduction - Reinsurance	LR004 Mortgages Column (6) Line (29)		X	0.2100	=		†
(037)	Mortgage Increase - Reinsurance	LR004 Mortgages Column (6) Line (30)		X	0.2100	=		
	Preferred Stock							
(038)	Unaffiliated Preferred Stock NAIC 1	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (1) + LR018 Off-Balance Sheet Collateral Column (3) Line (9)		X	0.1575	=		
(039)	Unaffiliated Preferred Stock NAIC 2	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (2) + LR018 Off-Balance Sheet Collateral Column (3) Line (10)		X	0.1575	=		
(040)	Unaffiliated Preferred Stock NAIC 3	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (3) + LR018 Off-Balance Sheet Collateral Column (3) Line (11)		X	0.1575	=		
(041)	Unaffiliated Preferred Stock NAIC 4	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (4) + LR018 Off-Balance Sheet Collateral Column (3) Line (12)		X	0.1575	=		
(042)	Unaffiliated Preferred Stock NAIC 5	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (5) + LR018 Off-Balance Sheet Collateral Column (3) Line (13)		X	0.1575	=		
(043)	Unaffiliated Preferred Stock NAIC 6	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (6) + LR018 Off-Balance Sheet Collateral Column (3) Line (14)		X	0.2100	=		
(044)	Preferred Stock Reduction-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (8)		X	0.2100	=		†
(045)	Preferred Stock Increase-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (9)		X	0.2100	=		
	Separate Accounts							
(046)	Guaranteed Index	LR006 Separate Accounts Column (3) Line (1)		X	0.1575	=		
(047)	Nonindex-Book Reserve	LR006 Separate Accounts Column (3) Line (2)		X	0.1575	=		
(048)	Separate Accounts Nonindex-Market Reserve	LR006 Separate Accounts Column (3) Line (3)		X	0.1575	=		
(049)	Separate Accounts Reduction-Reinsurance	LR006 Separate Accounts Column (3) Line (5)		X	0.2100	=		†
(050)	Separate Accounts Increase-Reinsurance	LR006 Separate Accounts Column (3) Line (6)		X	0.2100	=		
(051)	Synthetic GICs	LR006 Separate Accounts Column (3) Line (8)		X	0.1575	=		
(052)	Separate Account Surplus	LR006 Separate Accounts Column (3) Line (13)		X	0.1575	=		
	Real Estate							
(053)	Company Occupied Real Estate	LR007 Real Estate Column (3) Line (3)		X	0.2100	=		
(054)	Foreclosed Real Estate	LR007 Real Estate Column (3) Line (6)		X	0.2100	=		
(055)	Investment Real Estate	LR007 Real Estate Column (3) Line (9)		X	0.2100	=		
(056)	Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (11)		X	0.2100	=		†
(057)	Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (12)		X	0.2100	=		
	Schedule BA							
(058)	Sch BA Real Estate Excluding Low Income Housing Tax Credits	LR007 Real Estate Column (3) Line (16)		X	0.2100	=		
(059)	Guaranteed Low Income Housing Tax Credits	LR007 Real Estate Column (3) Line (17) + Line (19)		X	0.0000	=		
(060)	Non-Guaranteed and All Other Low Income Housing Tax Credits	LR007 Real Estate Column (3) Line (18) + Line (20) + Line (21)		X	0.0000	=		
(061)	Sch BA Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (23)		X	0.2100	=		†
(062)	Sch BA Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (24)		X	0.2100	=		

† Denotes lines that are deducted from the total rather than added.

Denotes items that must be manually entered on the filing software.

LR030

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
(063)	Sch BA Bond NAIC 1	LR008 Other Long-Term Assets Column (5) Line (2)		X	0.1575	=		
(064)	Sch BA Bond NAIC 2	LR008 Other Long-Term Assets Column (5) Line (3)		X	0.1575	=		
(065)	Sch BA Bond NAIC 3	LR008 Other Long-Term Assets Column (5) Line (4)		X	0.1575	=		
(066)	Sch BA Bond NAIC 4	LR008 Other Long-Term Assets Column (5) Line (5)		X	0.1575	=		
(067)	Sch BA Bond NAIC 5	LR008 Other Long-Term Assets Column (5) Line (6)		X	0.1575	=		
(068)	Sch BA Bond NAIC 6	LR008 Other Long-Term Assets Column (5) Line (7)		X	0.2100	=		
(069)	BA Bond Reduction - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (9)		X	0.2100	=		†
(070)	BA Bond Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (10)		X	0.2100	=		
(071)	BA Preferred Stock NAIC 1	LR008 Other Long-Term Assets Column (5) Line (12.3)		X	0.1575	=		
(072)	BA Preferred Stock NAIC 2	LR008 Other Long-Term Assets Column (5) Line (13)		X	0.1575	=		
(073)	BA Preferred Stock NAIC 3	LR008 Other Long-Term Assets Column (5) Line (14)		X	0.1575	=		
(074)	BA Preferred Stock NAIC 4	LR008 Other Long-Term Assets Column (5) Line (15)		X	0.1575	=		
(075)	BA Preferred Stock NAIC 5	LR008 Other Long-Term Assets Column (5) Line (16)		X	0.1575	=		
(076)	BA Preferred Stock NAIC 6	LR008 Other Long-Term Assets Column (5) Line (17)		X	0.2100	=		
(077)	BA Preferred Stock Reduction-Reinsurance	LR008 Other Long-Term Assets Column (5) Line (19)		X	0.2100	=		†
(078)	BA Preferred Stock Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (20)		X	0.2100	=		
(079)	Rated Surplus Notes	LR008 Other Long-Term Assets Column (5) Line (31)		X	0.1575	=		
(080)	Rated Capital Notes	LR008 Other Long-Term Assets Column (5) Line (41)		X	0.1575	=		
(081)	BA Common Stock Affiliated	LR008 Other Long-Term Assets Column (5) Line (48.3)		X	0.2100	=		
(082)	BA Collateral Loans	LR008 Other Long-Term Assets Column (5) Line (50)		X	0.1575	=		
(083)	Other BA Assets	LR008 Other Long-Term Assets Column (5) Line (52.3) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)		X	0.2100	=		
(084)	Other BA Assets Reduction-Reinsurance	LR008 Other Long-Term Assets Column (5) Line (54)		X	0.2100	=		†
(085)	Other BA Assets Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (55)		X	0.2100	=		
(086)	BA Mortgages - In Good Standing	LR009 Schedule BA Mortgages Column (6) Line (11)		X	0.1575	=		
(087)	BA Mortgages - 90 Days Overdue	LR009 Schedule BA Mortgages Column (6) Line (15)		X	0.1575	=		
(088)	BA Mortgages - In Process of Foreclosure	LR009 Schedule BA Mortgages Column (6) Line (19)		X	0.1575	=		
(089)	Reduction - Reinsurance	LR009 Schedule BA Mortgages Column (6) Line (21)		X	0.2100	=		†
(090)	Increase - Reinsurance	LR009 Schedule BA Mortgages Column (6) Line (22)		X	0.2100	=		
	Miscellaneous							
(091)	Asset Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (62) Grand Total Page		X	0.1575	=		
(092)	Miscellaneous Assets	LR012 Miscellaneous Assets Column (2) Line (7)		X	0.1575	=		
(093)	Derivatives - Collateral and Exchange Traded	LR012 Miscellaneous Assets Column (2) Lines (8) + (9) + (10)		X	0.1575	=		
(094)	Derivatives NAIC 1	LR012 Miscellaneous Assets Column (2) Line (11)		X	0.1575	=		
(095)	Derivatives NAIC 2	LR012 Miscellaneous Assets Column (2) Line (12)		X	0.1575	=		
(096)	Derivatives NAIC 3	LR012 Miscellaneous Assets Column (2) Line (13)		X	0.1575	=		
(097)	Derivatives NAIC 4	LR012 Miscellaneous Assets Column (2) Line (14)		X	0.1575	=		
(098)	Derivatives NAIC 5	LR012 Miscellaneous Assets Column (2) Line (15)		X	0.1575	=		
(099)	Derivatives NAIC 6	LR012 Miscellaneous Assets Column (2) Line (16)		X	0.2100	=		
(100)	Miscellaneous Assets Reduction-Reinsurance	LR012 Miscellaneous Assets Column (2) Line (19)		X	0.2100	=		†
(101)	Miscellaneous Assets Increase-Reinsurance	LR012 Miscellaneous Assets Column (2) Line (20)		X	0.2100	=		

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Denotes items that must be manually entered on the filing software.

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
(102)	Replications	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)		X	0.1575	=		
(103)	Reinsurance	LR016 Reinsurance Column (4) Line (17)		X	0.2100	=		
(104)	Investment Affiliates	LR042 Summary for Affiliated Investments Column (4) Line (6)		X	0.2100	=		
(105)	Investment in Parent	LR042 Summary for Affiliated Investments Column (4) Line (10)		X	0.2100	=		
(106)	Other Affiliate: Property and Casualty Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (11)		X	0.2100	=		
(107)	Other Affiliate: Life Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (12)		X	0.2100	=		
(108)	Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated Investments Column (4) Line (14)		X	0.2100	=		
(109)	Subtotal for C-1o Assets	Sum of Lines (001) through (108), Recognizing the Deduction of Lines (013), (014), (015), (036), (044), (049), (056), (061), (069), (077), (084), (089) and (100)						
	C-0 Affiliated Common Stock							
(110)	Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (27)		X	0.1575	=		
(111)	Off-Balance Sheet Items Reduction - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (28)		X	0.2100	=		†
(112)	Off-Balance Sheet Items Increase - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (29)		X	0.2100	=		
(113)	Affiliated US Property - Casualty Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (1)		X	0.2100	=		
(114)	Affiliated US Life Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (2)		X	0.2100	=		
(115)	Affiliated US Health Insurers Directly and Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (3)		X	0.2100	=		
(116)	Affiliated US Property - Casualty Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (4)		X	0.2100	=		
(117)	Affiliated US Life Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (5)		X	0.2100	=		
(118)	Affiliated Alien Life Insurers - Canadian	LR042 Summary for Affiliated Investments Column (4) Line (8)		X	0.2100	=		
(119)	Affiliated Alien Life Insurers - All Others	LR042 Summary for Affiliated Investments Column (4) Line (9)		X	0.0000	=		
(120)	Subtotal for C-0 Affiliated Common Stock	Lines (110)-(111)+(112)+(113)+(114)+(115)+(116)+(117)+(118)+(119)						
	Common Stock							
(121)	Unaffiliated Common Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (17) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)		X	0.2100	=		
(122)	Credit for Hedging - Common Stock	LR015 Hedged Asset Common Stock Schedule Column (10) Line (0299999)		X	0.2100	=		†
(123)	Stock Reduction - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (19)		X	0.2100	=		†
(124)	Stock Increase - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (20)		X	0.2100	=		
(125)	BA Common Stock Unaffiliated	LR008 Other Long-Term Assets Column (5) Line (47)		X	0.2100	=		
(126)	BA Common Stock Affiliated - C-1cs	LR008 Other Long-Term Assets Column (5) Line (49.2)		X	0.2100	=		
(127)	Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)		X	0.2100	=		
(128)	NAIC 01 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (51.1)		X	0.1575	=		
(129)	NAIC 02 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (51.2)		X	0.1575	=		
(130)	Affiliated Preferred Stock and Common Stock - Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated Investments Column (4) Line (7)		X	0.2100	=		
(131)	Affiliated Preferred Stock and Common Stock - All Other	LR042 Summary for Affiliated Investments Column (4) Line (13)		X	0.2100	=		
(132)	Total for C-1cs Assets	Lines (121)-(122)-(123)+(124)+(125)+(126)+(127)+(128)+(129)+(130)+(131)						
	Insurance Risk							
(133)	Disability Income Premium	LR019 Health Premiums Column (2) Lines (21) through (27)		X	0.2100	=		

† Denotes lines that are deducted from the total rather than added.

Denotes items that must be manually entered on the filing software.

LR030

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect
(134)	Long-Term Care	LR019 Health Premiums Column (2) Line (28) + LR023 Long-Term Care Column (4) Line (7)		X	0.2100	=	
(135)	Individual & Industrial Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line ~~(20)~~ (5)		X	0.2100	=	
(136)	Group & Credit Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line ~~(42)~~ ~~(48)~~ (12)		X	0.2100	=	
(136b)	Longevity C-2 Risk	LR025-A Longevity Risk Column (2) Line (5)		X	0.2100	=	
(137)	Disability and Long-Term Care Health Claim Reserves	LR024 Health Claim Reserves Column (4) Line (9) + Line (15)		X	0.2100	=	
(138)	Premium Stabilization Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)		X	0.0000	=	
(139)	Total C-2 Risk	L(133) + L(134) + L(137) + L(138) + Greatest of [Guardrail Factor * (L(135)+L(136)), Guardrail Factor * L(136b), Square Root of [(L(135) + L(136))2 + L(136b)2 + 2 * (Correlation Factor) * (L(135) + L(136)) * L(136b)]]					
(140)	Interest Rate Risk	LR027 Interest Rate Risk Column (3) Line (36)		X	0.2100	=	
(141)	Health Credit Risk	LR028 Health Credit Risk Column (2) Line (7)		X	0.0000	=	
(142)	Market Risk	LR027 Interest Rate Risk Column (3) Line (37)		X	0.2100	=	
(143)	Business Risk	LR029 Business Risk Column (2) Line (40)		X	0.2100	=	
(144)	Health Administrative Expenses	LR029 Business Risk Column (2) Line (57)		X	0.0000	=	
(145)	Total Tax Effect	Lines (109) + (120) + (132) + (139) + (140) + (141) + (142) + (143) + (144)					

† Denotes lines that are deducted from the total rather than added.

Denotes items that must be manually entered on the filing software.

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Proposed 2023 Update 2

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

		Source	(1) RBC Requirement
	Insurance Affiliates and Misc. Other Amounts (C-0)		
(1)	Affiliated US Property-Casualty Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (1)	
(2)	Affiliated US Life Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (2)	
(3)	Affiliated US Health Insurers Directly and Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (3)	
(4)	Affiliated US Property-Casualty Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (4)	
(5)	Affiliated US Life Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (5)	
(6)	Affiliated Alien Life Insurers - Canadian	LR042 Summary for Affiliated Investments Column (4) Line (8)	
(7)	Affiliated Alien Life Insurers - All Others	LR042 Summary for Affiliated Investments Column (4) Line (9)	
(8)	Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (34)	
(9)	Total (C-0) - Pre-Tax	Sum of Lines (1) through (8)	
(10)	(C-0) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (120)	
(11)	Net (C-0) - Post-Tax	Line (9) - Line (10)	
	Asset Risk – Unaffiliated Common Stock and Affiliated Non-Insurance Stock (C-1cs)		
(12)	Schedule D Unaffiliated Common Stock	LR005 Unaffiliated Common Stock Column (5) Line (21) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	
(13)	Schedule BA Unaffiliated Common Stock	LR008 Other Long-Term Assets Column (5) line (47)	
(14)	Schedule BA Affiliated Common Stock - C-1cs	LR008 Other Long-Term Assets Column (5) line (49.2)	
(15)	Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	
(16)	Affiliated Preferred Stock and Common Stock - Holding Company in Excess of Indirect Subsidiaries	LR042 Summary for Affiliated Investments Column (4) Line (7)	
(17)	Affiliated Preferred Stock and Common Stock - All Other	LR042 Summary for Affiliated Investments Column (4) Line (13)	
(18)	Total (C-1cs) - Pre-Tax	Sum of Lines (12) through (17)	
(19)	(C-1cs) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (132)	
(20)	Net (C-1cs) - Post-Tax	Line (18) - Line (19)	
	Asset Risk - All Other (C-1o)		
(21)	Bonds after Size Factor	LR002 Bonds Column (2) Line (27) + LR018 Off-Balance Sheet Collateral Column (3) Line (8)	
(22)	Mortgages (including past due and unpaid taxes)	LR004 Mortgages Column (6) Line (31)	
(23)	Unaffiliated Preferred Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (10) + LR018 Off-Balance Sheet Collateral Column (3) Line (15)	
(24)	Affiliated Preferred Stock and Common Stock - Investment Subsidiaries	LR042 Summary for Affiliated Investments Column (4) Line (6)	
(25)	Affiliated Preferred Stock and Common Stock - Parent	LR042 Summary for Affiliated Investments Column (4) Line (10)	
(26)	Affiliated Preferred Stock and Common Stock - Property and Casualty Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (11)	
(27)	Affiliated Preferred Stock and Common Stock - Life Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (12)	
(28)	Affiliated Preferred Stock and Common Stock - Publicly Traded Insurers Held at Fair Value (excess of statement value over book value)	LR042 Summary for Affiliated Investments Column (4) Line (14)	
(29)	Separate Accounts with Guarantees	LR006 Separate Accounts Column (3) Line (7)	

Denotes items that must be manually entered on the filing software.

LR031

Company Name | Confidential when Completed | NAIC Company Code

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Requirement
(30)	Synthetic GIC's (C-1o)	LR006 Separate Accounts Column (3) Line (8)	
(31)	Surplus in Non-Guaranteed Separate Accounts	LR006 Separate Accounts Column (3) Line (13)	
(32)	Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (13)	
(33)	Schedule BA Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (25)	
(34)	Other Long-Term Assets	LR008 Other Long-Term Assets Column (5) Line (56) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)	
(35)	Schedule BA Mortgages	LR009 Schedule BA Mortgages Column (6) Line (23)	
(36)	Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (62) Grand Total Page	
(37)	Miscellaneous	LR012 Miscellaneous Assets Column (2) Line (21)	
(38)	Replication Transactions and Mandatory Convertible Securities	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)	
(39)	Reinsurance	LR016 Reinsurance Column (4) Line (17)	
(40)	Total (C-1o) - Pre-Tax	Sum of Lines (21) through (39)	
(41)	(C-1o) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (109)	
(42)	Net (C-1o) - Post-Tax	Line (40) - Line (41)	
	Insurance Risk (C-2)		
(43)	Individual & Industrial Life Insurance	LR025 Life Insurance Column (2) Line ~~(20)~~ (5)	
(44)	Group & Credit Life Insurance	LR025 Life Insurance Column (2) Line ~~(42) (48)~~ (12)	
(44b)	Longevity Risk	LR025-A Longevity Risk Column (2) Line (5)	
(45)	Total Health Insurance	LR024 Health Claim Reserves Column (4) Line (18)	
(46)	Premium Stabilization Reserve Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	
(47)	Total (C-2) - Pre-Tax	L(45) + L(46) + Greatest of [Guardrail Factor * (L(43)+L(44)), Guardrail Factor * L(44b), Square Root of [(L(43) + L(44))2 + L(44b)2 + 2 * (Correlation Factor) * (L(43) + L(44)) * L(44b)]]	
(48)	(C-2) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (139)	
(49)	Net (C-2) - Post-Tax	Line (47) - Line (48)	
	Interest Rate Risk (C-3a)		
(50)	Total Interest Rate Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (36)	
(51)	(C-3a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (140)	
(52)	Net (C-3a) - Post-Tax	Line (50) - Line (51)	
	Health Credit Risk (C-3b)		
(53)	Total Health Credit Risk - Pre-Tax	LR028 Health Credit Risk Column (2) Line (7)	
(54)	(C-3b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (141)	
(55)	Net (C-3b) - Post-Tax	Line (53) - Line (54)	
	Market Risk (C-3c)		
(56)	Total Market Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (37)	
(57)	(C-3c) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (142)	
(58)	Net (C-3c) - Post-Tax	Line (56) - Line (57)	

Denotes items that must be manually entered on the filing software.

LR031

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL (CONTINUED)

Company Name | Confidential when Completed | NAIC Company Code

		Source	(1) RBC Requirement
	Business Risk (C-4a)		
(59)	Premium Component	LR029 Business Risk Column (2) Lines (12) + (24) + (36)	
(60)	Liability Component	LR029 Business Risk Column (2) Line (39)	
(61)	Subtotal Business Risk (C-4a) - Pre-Tax	Lines (59) + (60)	
(62)	(C-4a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (143)	
(63)	Net (C-4a) - Post-Tax	Line (61) - Line (62)	
	Business Risk (C-4b)		
(64)	Health Administrative Expense Component of Business Risk (C-4b) - Pre-Tax	LR029 Business Risk Column (2) Line (57)	
(65)	(C-4b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (144)	
(66)	Net (C-4b) - Post-Tax	Line (64) - Line (65)	
	Total Risk-Based Capital After Covariance Before Basic Operational Risk		
(67)	C-0 + C-4a + Square Root of [(C-1o + C-3a)² + (C-1cs + C-3c)² + (C-2)² + (C-3b)² + (C-4b)²]	REPORT AMOUNT ON PARENT COMPANY'S RBC IF APPLICABLE L(11)+L(63) + Square Root of [(L(42) + L(52))² + (L(20) + L(58))² + L(49)² + L(55)² + L(66)²]	
(68)	Gross Basic Operational Risk	0.03 x L(67)	
(69)	C-4a of U.S. Life Insurance Subsidiaries	Company Records	
(70)	Net Basic Operational Risk	Line (68) - (Line (63) + Line (69)) (Not less than zero)	
(71)	Primary Security Shortfall Calculated in Accordance With Actuarial Guideline XLVIII Multiplied by 2	LR036 XXX/AXXX Reinsurance Primary Security Shortfall by Cession Column (7) Line (9999999) Multiplied by 2	
(72)	Total Risk-Based Capital After Covariance (Including Basic Operational Risk and Primary Security Shortfall multiplied by 2)	Line (67) + Line (70) + Line (71)	
	Authorized Control Level Risk-Based Capital (After Covariance Adjustment and Shortfall)		
(73)	Total Risk-Based Capital After Covariance Times Fifty Percent	Line (72) x 0.50	
	Tax Sensitivity Test		
(74)	Tax Sensitivity Test: Total Risk-Based Capital After Covariance	L(9)+L(61) + Square Root of [(L(40) + L(50))² + (L(18) + L(56))² + L(47)² + L(53)² + L(64)²]	
(75)	Tax Sensitivity Test: Authorized Control Level Risk-Based Capital	Line (74) x 0.50	

Denotes items that must be manually entered on the filing software.

LR031

PROPOSED 2023 UPDATE 2

LIFE INSURANCE

LR025

Basis of Factors

The factors developed represent surplus needed to provide for life insurance mortality risk, which is defined as adverse variance in life insurance deaths (i.e., insureds dying sooner than expected) over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates for emerging experience. The mortality risks included in the development of the factors were volatility, level, trend, and catastrophe. The factors were developed by stochastically simulating the run-off of in force life insurance blocks typical of U.S. life insurers.

The capital need, expressed as a dollar amount, is determined as the greatest present value of accumulated deficiencies at the 95^{th} percentile of the stochastic distribution of scenarios over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates. Statutory losses are defined as the after-tax quantification of gross death benefits minus reserves released in excess of the mortality cost expected under the moderately adverse scenario~~minus mortality margin present in reserves~~. The after-tax statutory losses are discounted to the present by using 20-year averages for U.S. swap rates. By selecting the largest present value accumulated loss across all projection years, the solved for capital ensures non-negative capital at all projection periods. Earlier period losses are not allowed to be offset by later period gains to reduce capital. The 95^{th} percentile is the commonly accepted statistical safety level used for Life RBC C-2 mortality risk to identify weakly capitalized companies. The after-tax capital needs are translated to a factor expressed as a percentage of the net amount at risk (NAR). The pre-tax factor is determined by taking the after-tax factor divided by (1 minus the tax rate).

The factors are differentiated between individual & industrial life and group & credit life, and by in force block size. Within individual & industrial life, the factors are differentiated into categories by contract type depending on the degree of pricing flexibility. Within group & credit life, the factors are differentiated into categories by the remaining length of the premium rate term by group contract. There are distinct factors for contracts that have remaining premium rate terms 36 months and under and for contracts that have remaining premium rate terms over 36 months. The Federal Employees' Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI) receive a separate factor applied to the amounts in force.

Specific Instructions for Application of the Formula

Lines ~~2, 5 and 21-41~~ 6-11 are not applicable to Fraternal Benefit Societies.

The NAR ~~is derived~~ in total and for each of the factor categories ~~using annual statement sources and company records~~ are retrieved from the Notes to the Financial Statements Item 37 and are ~~. In Force and Reserves amounts are~~ net of reinsurance throughout. ~~The In Force amounts throughout derived from company records need to be consistent with the Exhibit of Life Insurance. The Reserves amounts throughout derived from company records need to be consistent with Exhibit 5, Separate Accounts Exhibit, and Schedule S.~~

The NAR size bands apply to the total amounts for individual & industrial life and group term & credit life. The size bands are allocated proportionately to the NAR for each of the factor categories.~~-~~ Size band 1 is for NAR amounts up to $500 million. Size band 2 is for NAR amounts greater than $500 million and up to $25 billion. Size band 3 is for NAR amounts greater than $25 billion.

Pricing Flexibility for Individual & Industrial Life Insurance and Group & Credit Life Permanent Life Insurance is defined as the ability to materially adjust rates on in force contracts through changing premiums and/or non-guaranteed elements as of the valuation date and within the next 5 policy years and reflecting typical business practices. For the purposes of assessing whether business is categorized as having "Pricing Flexibility", grouping of gross amounts may be done at either the contract level or at a cohort level consistent with grouping for pricing purposes. The categorization for ceded amounts for direct insurers should be based on the terms of each reinsurance treaty. Non-affiliated reinsurers are to assess the flexibility to adjust rates on in force contracts based on the terms of each reinsurance treaty and constraints based on typical business practices. For example, if a non-affiliated reinsurer has historical precedent for changing in force rates, then that may provide support for assigning policies to the category with pricing flexibility. Affiliated reinsurers are to assign the factor category based on the direct policies. In force contracts may move between categories throughout their remaining lifetime if the degree of pricing flexibility changes as of each valuation date. A material rate adjustment is defined as the ability to recover, on a present value basis, the difference in mortality risks provided for in the factors below for contracts with and without pricing flexibility. ~~These differences in factors are shown in the Line (13) table below in the Permanent Life Flexibility Factor and Term Life Flexibility Factor columns.~~ The flexibility factor for each category multiplied by the NAR results in the minimum dollar margin needed for a material rate adjustment, which can then be compared against margins available to adjust rates. In force contracts that have margin available that is greater than or equal to the minimum dollar margin needed may be assigned to the category for policies with pricing flexibility. Insurers may choose to assign contracts to the categories without pricing flexibility if the evaluation of margins is not completed or if the degree of pricing flexibility is uncertain.

The table below illustrates the RBC requirement calculation embedded in Line (2) for Individual & Industrial Life Policies with Pricing Flexibility. ~~Lines (11) and (12) Life Policies with Pricing Flexibility In Force and Reserves are derived from company records.~~ Examples of products intended for this category include, but aren't limited to, participating whole life insurance, universal life insurance without secondary guarantees, and yearly renewable term insurance where scheduled premiums may be changed on an annual basis from the date of issue. ~~The table below illustrates the RBC requirement calculation embedded in Line (13) for Life Policies with Pricing Flexibility.~~

Line	Individual & Industrial Life Policies with Pricing Flexibility	(1) Statement Value	Factor	(2) RBC Requirement	~~Permanent Life Flexibility Factor~~	~~Term Life Flexibility Factor~~
(~~13~~2)						
	Allocation of First $500 Million		X 0.~~.~~00220 =		~~0.00230~~	~~0.00110~~
	Allocation of Next $24,500 Million		X 0.~~.~~00105 =		~~0.00120~~	~~0.00065~~
	Allocation of Over $25,000 Million		X 0.~~.~~00080 =		~~0.00085~~	~~0.00055~~
	Total Individual & Industrial Life Policies with Pricing Flexibility Net Amount at Risk					

The table below illustrates the RBC requirement calculation embedded in Line (3) for Individual & Industrial Term Life Policies without Pricing Flexibility.~~Lines (14) and (15) Term Life Policies without Pricing Flexibility In Force and Reserves are derived from company records.~~ Examples of products intended for this category include, but aren't limited to, level term insurance with guaranteed level premiums and yearly renewable term insurance where scheduled premiums may not be changed. ~~The table below illustrates the RBC requirement calculation embedded in Line (16) for Term Life Policies without Pricing Flexibility.~~

Line	Individual & Industrial Term Life Policies without Pricing Flexibility	(1) Statement Value	Factor	(2) RBC Requirement
(~~16~~3)				
	Allocation of First $500 Million		X 0.00280 =	
	Allocation of Next $24,500 Million		X 0.00120 =	
	Allocation of Over $25,000 Million		X 0.00085 =	
	Total Individual & Industrial Term Life Policies without Pricing Flexibility Net Amount at Risk			

The table below illustrates the RBC requirement calculation embedded in Line (4) for Individual & Industrial Permanent Life Policies without Pricing Flexibility.~~Lines (17) and (18) Permanent Life Policies without Pricing Flexibility In Force and Reserves are derived from the aggregate amounts derived in lines (1) to (10) minus the amounts recorded in the other individual life categories.~~ Examples of products intended for this category include, but aren't limited to, universal life with secondary guarantees and non-participating whole life insurance. Policies that aren't recorded in the other individual life categories default to this category which has the highest factors. ~~The table below illustrates the RBC requirement calculation embedded in Line (19) for Permanent Life Policies without Pricing Flexibility.~~

Line (~~19~~4)	Individual & Industrial Permanent Life Policies without Pricing Flexibility	(1) Statement Value	Factor	(2) RBC Requirement
	Allocation of First $500 Million	________	X 0.00400 =	________
	Allocation of Next $24,500 Million	________	X 0.00175 =	________
	Allocation of Over $25,000 Million	________	X 0.00120 =	________
	Total Individual & Industrial Permanent Life Policies without Pricing Flexibility Net Amount at Risk	________		________

The table below illustrates the RBC requirement calculation embedded in Line (7) for Group & Credit Term Life with Remaining Rate Terms 36 Months and Under Net Amount at Risk.~~Lines (35) and (36) Group & Credit Life In Force and Reserves with Remaining Rate Terms 36 Months and Under are derived from company records.~~ This category includes group term life contracts where the premium terms have 36 months or fewer until expiration or renewal. Insurers may choose to assign contracts to the category for remaining rate terms over 36 months if the evaluation of remaining rate terms is not completed. ~~The in force amount classified in this category needs to be consistent with the Exhibit of Life Insurance. The reserves amount classified in this category needs to be consistent with Exhibit 5 used for Lines (28) and (29), Separate Accounts Exhibit used for Line (30), and Schedule S used for Lines (31) and (32).~~ Federal Employees' Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI) contracts are excluded. ~~The table below illustrates the RBC requirement calculation embedded in Line (37) for Group & Credit Life Net Amount at Risk with Remaining Rate Terms 36 Months and Under.~~

Line (~~3~~7)	Group & Credit Term Life with Remaining Rate Terms 36 Months and Under	(1) Statement Value	Factor	(2) RBC Requirement
	Allocation of First $500 Million	________	X 0.00140 =	________
	Allocation of Next $24,500 Million	________	X 0.00055 =	________
	Allocation of Over $25,000 Million	________	X 0.00040 =	________
	Total Group & Credit Term Life ~~Net Amount at Risk~~ with Remaining Rate Terms 36 Months and Under Net Amount at Risk	________		________

The table below illustrates the RBC requirement calculation embedded in Line (8) for Group & Credit Life Term with Remaining Rate Terms Over 36 Months Net Amount at Risk.~~Lines (38) and (39) Group & Credit Life In Force and Reserves with Remaining Rate Terms Over 36 Months are derived from the aggregate amounts derived in lines (21) to (34) minus the Group & Credit Life In Force and Reserves with Remaining Rate Terms 36 Months and Under in lines (35) and (36).~~ This category includes group term life contracts where the premium terms have over 36 months until expiration or renewal. FEGLI and SGLI contracts are excluded. ~~The table below illustrates the RBC requirement calculation embedded in Line (40) for Group & Credit Life Net Amount at Risk with Remaining Rate Terms Over 36 Months.~~

Line (~~40~~8)	Group & Credit Term Life with Remaining Rate Terms Over 36 Months	(1) Statement Value	Factor	(2) RBC Requirement
	Allocation of First $500 Million	________	X 0.00190 =	________
	Allocation of Next $24,500 Million	________	X 0.00080 =	________
	Allocation of Over $25,000 Million	________	X 0.00055 =	________
	Total Group & Credit Term Life ~~Net Amount at Risk~~ with Remaining Rate Terms Over 36 Months Net Amount at	________		________

Risk

The table below illustrates the RBC requirement calculation embedded in Line (9) for Group & Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk. The capital factors assigned are the same as Individual & Industrial Permanent Life Policies with Pricing Flexibility. FEGLI and SGLI contracts are excluded.

		(1)		(2)
Line (9)	Group & Credit Permanent Life Policies with Pricing Flexibility	Statement Value	Factor	RBC Requirement
	Allocation of First $500 Million		X 0.00220 =	
	Allocation of Next $24,500 Million		X 0.00105 =	
	Allocation of Over $25,000 Million		X 0.00080 =	
	Total Group & Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk			

The table below illustrates the RBC requirement calculation embedded in Line (10) for Group & Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk. The capital factors assigned are the same as Individual & Industrial Permanent Life Policies without Pricing Flexibility. FEGLI and SGLI contracts are excluded.

		(1)		(2)
Line (10)	Group & Credit Permanent Life Policies without Pricing Flexibility	Statement Value	Factor	RBC Requirement
	Allocation of First $500 Million		X 0.00400 =	
	Allocation of Next $24,500 Million		X 0.00175 =	
	Allocation of Over $25,000 Million		X 0.00120 =	
	Total Group & Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk			

Line (~~4~~11) FEGLI/SGLI In Force amounts are retrieved from the Exhibit of Life Insurance. ~~-~~The capital factor assigned is the same as the largest size band for group & credit term life contracts with remaining rate terms 36 months and under.

		(1)		(2)
Line (~~4~~11)	FEGLI/SGLI	Statement Value	Factor	RBC Requirement
	In Force		X 0.00040 =	

All amounts should be entered as required. The risk-based capital software will calculate the RBC requirement for individual and industrial and for group and credit.

November 16, 2022

Phillip Barlow
Associate Commissioner
Chair, Life Risk-Based Capital (E) Working Group
Washington, D.C Department of
Insurance, Securities and Banking
1050 First Street, NE, 801
Washington, D.C. 20002

Dear Mr. Barlow,

Thank you for allowing the Mortgage Bankers Association (MBA) and the American Council of Life Insurers (ACLI) on behalf of our respective members the time to address the Working Group on the CM6 and CM7 RBC factor normalization. MBA and ACLI submit this letter in response to the questions raised on the October 7, 2022 call to help move this issue forward to approval.

First, Attachment 3 in the October 7, 2022, meeting agenda contained the proposed amendments to forms LR004 and LR009, but the formatting of this document was incorrect and did not show several changes that were being proposed in redline format. As a follow up, please see the attached document that has the full redline changes. The attached document's final version is not different from Attachment 3, but the full redline is more informative. John Waldeck addressed this in his remarks during the discussion.

Second, MBA and ACLI seek to provide context for the limited nature of the investments subject to this change. There is a minimal set of loans in the CM6 and CM7 categories, as shown in the below table.

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

UPB of Life Company CM6 & CM7 Loans as a Percent of Total UPB

	CM6	CM7
12/31/2013	0.02%	0.05%
12/31/2014	0.01%	0.04%
12/31/2015	0.00%	0.08%
12/31/2016	0.00%	0.00%
12/31/2017	0.00%	0.00%
12/31/2018	0.00%	0.00%
12/31/2019	0.00%	0.00%
12/31/2020	0.01%	0.08%
12/31/2021	0.00%	0.04%

Source: MBA Life Company Loan Performance Database

This proprietary MBA database comprises roughly 72% of all life insurance company mortgage loans (representing 100% of the participating companies' portfolios) and is assumed to be consistent with the full population. As indicated, the percentage of CM6 & CM7 loans is very small, at less than 0.1% of total loans for each of the last 9 years. The modification to the CM6 and CM7 RBC factors being requested will have an immaterial impact on Risk Based capital.

Third, there was a request to analyze the applicability of the equity RBC factors for the CM6 and CM7 loans. To understand the applicability of equity RBC factors, it is important to understand the type of loans that are part of the CM6 and CM7 categories and why they behave similarly to equity investments. CM6 and CM7 loans are loans that are not performing (payments not being made). A CM6 loan is in process of evaluation by the lender to determine how it should be handled. If the lender believes it will likely return to performing status (Borrower makes all missed payments and begins making payments again), then they will not pursue their loan remedies to foreclose on the Borrower and will leave it in this status. This means that a CM6 is not currently performing and may or may not become current.

The distinction between CM6 and CM7 is that a CM7 loan is an asset that the Life Company lender has decided will not likely return to a performing status and has decided to foreclose out the borrower and realize on the loan security, and the lender has started that legal process to do so. At the conclusion of this process, the Lender will become the owner of the underlying real estate asset and will hold it in its portfolio as a real estate equity asset. So, a CM7 loan will quickly become an equity investment subject to equity RBC.

The requested change to the RBC factors is to have CM6 loans at an 11.0% RBC charge and CM7 loans at a 13.0% RBC charge. The highest equity RBC charge is 13.0% (for schedule BA assets), and the lowest is 11.0% (for Schedule A assets). Most companies will foreclose on a non-performing loan into a subsidiary entity, which would place the resulting equity asset on Schedule BA. The proposed charge for CM7 mortgages is consistent with the highest 13.0% equity RBC charge because after a likely foreclosure, this is the RBC charge it will be subject to.

When a loan is transitioned to become in the process of foreclosure, the lender will evaluate the value of the underlying real estate asset and impair the mortgage investment to be equal to the value of the underlying real estate asset. In essence, the resulting STAT book value of the mortgage is the same as if the lender acquired the underlying real estate as an equity investment. Applying the same RBC charge just prior to foreclosure and after foreclosure means that the life company will have consistent risk-based capital through this transition. Prior to the change of the equity RBC from 23% to 13% (for schedule BA), the RBC charges for CM7 and equity RBC were consistent, and the requested change in RBC factors for CM6 and CM7 mortgages maintains this consistency.

The analysis done for the change in equity RBC factors is appropriate for the support of the change in the CM7 RBC factor because the CM7 mortgage asset is, as described above, soon to become an equity investment by the life company. Having the CM6 RBC factor aligned with the lowest equity RBC factor of 11% (for Schedule A assets) is appropriate because these investments may, but are not yet assumed to become an equity investment. The slight discount in the RBC factor reflects the higher likelihood of a CM6 mortgage asset returning to performing loan status.

Given the immaterial portion of life insurers' investments rated CM6 or CM7 and the logical consistency with equity RBC treatment for these assets, we believe the requested change is appropriate and consistent with best RBC practices.

Thank you for considering this request. If you have any questions, please do not hesitate to contact Mike Monahan, Senior Director of Accounting Policy, ACLI (MikeMonahan@acli.com) or Stephanie Milner, Associate Vice President, Commercial & Multifamily Policy, MBA (smilner@mba.org).

Sincerely,

Mike Monahan, American Council of Life Insurers
Mortgage Bankers Association

cc: Dave Fleming, NAIC Senior Insurance Reporting Analyst

Capital Adequacy (E) Task Force

RBC Proposal Form

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

		DATE: July 8, 2022	**FOR NAIC USE ONLY**
CONTACT PERSON:	Grant Carlson	Mike Monahan	Agenda Item # ______
TELEPHONE:	(202) 557-2765	(202) 624-2324	Year ______
EMAIL:	gcarlson@mba.org	mikemonahan@acli.com	**DISPOSITION**
ON BEHALF OF:	Mortgage Bankers Association	American Council of Life Insurers	[ ] ADOPTED ______
NAME:	Mike Flood	Mike Monahan	[ ] REJECTED ______
TITLE:	Senior Vice President, Commercial and Multifamily	Senior Director, Accounting Policy	[ ] DEFERRED TO ______
			[ ] REFERRED TO OTHER NAIC GROUP
			[ ] EXPOSED ______
AFFILIATION:	Mortgage Bankers Association	American Council of Life Insurers	[ ] OTHER (SPECIFY) ______
ADDRESS:	1919 M Street, NW Washington, DC 20036	101 Constitution Ave, NW Washington, DC 20001	

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

[ ] Health RBC Blanks [ ] Property/Casualty RBC Blanks [X] Life and Fraternal RBC Instructions
[ ] Health RBC Instructions [ ] Property/Casualty RBC Instructions [X] Life and Fraternal RBC Blanks
[ ] OTHER ______________________________

DESCRIPTION OF CHANGE(S)

This proposal would make the following two related changes.

1. Align the CM6 and CM7 Life RBC factors for non-performing commercial and farm mortgages with the RBC factors for Schedule A and Schedule BA investments in real estate as those factors were adjusted in 2021; and

2. Adopt the same formula for calculating RBC amounts for non-performing and performing residential, commercial and farm mortgages.

REASON OR JUSTIFICATION FOR CHANGE **

1. **Revising CM6 and CM7 factors would re-align the factors for non-performing mortgages with the factors for Schedule A and Schedule BA real estate investments.**

Historical alignment and the 2021 change

Prior to the 2021, the 23% factor for CM7 In Process of Foreclosure commercial and farm mortgages was perfectly aligned with the 23% factor for Schedule BA real estate assets; and the 18% factor for CM6 90-Days Delinquent commercial and farm mortgages was roughly aligned with the 15% factor for Schedule A real estate assets.

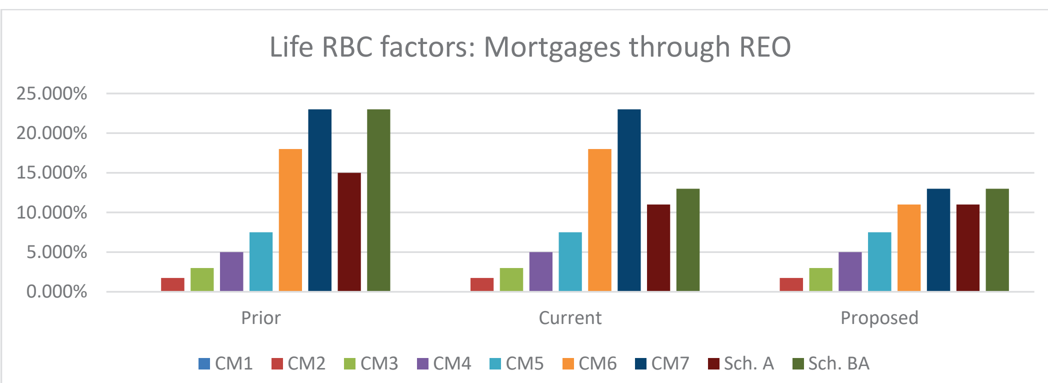
That alignment made sense as a matter of risk because the worst-case path for a non-performing mortgage loan results in the asset becoming a real estate equity investment on the insurer's balance sheet. In 2021, however, the factor assigned to Schedule A real estate investments dropped from 15% to 11%, and the factor for Schedule BA real estate investments dropped from 23% to 13%. As a result, the 18% and 23% factors for CM6 and CM7 mortgage are no longer aligned with the factors for real estate investments.

The proposal

The proposal is to adjust the factor for CM6 mortgages from 15% to 11% and adjust the factor for CM7 mortgages from 23% to 13%. The changes necessary to implement this proposal are reflected in the attached mark-up of LR004 and LR009 RBC Reporting Instructions.

Impacts

The table below illustrates the relationships between CM6 and CM7 factors and Schedule A and Schedule BA real estate assets, historically, currently, and as proposed.



2. **Adopting the same formula for calculating RBC amounts for non-performing and performing residential, commercial and farm mortgages would ensure that the effective RBC factor for non-performing residential, commercial and farm mortgages would not be less than the nominal RBC charge.**

As we considered the proposal to align the factors for delinquent mortgages and for real estate investments, we also revisited the formula for computing RBC for non-performing mortgages. Based on that consideration, we concluded that there is no reasonable basis for continuing to use a different calculation formula for performing and non-performing mortgages.

The current state: non-performing mortgages

The formula for applying RBC factors to non-performing mortgages both adds in and backs out any applicable write-downs, as follows:

$$RBC_{non\text{-}perf} = [(STAT\ Book\ Value + \underline{STAT\ Write\text{-}downs} - STAT\ Invol.\ Reserves) \times CM\ 6\text{-}7\ Charge] - \underline{STAT\ Write\text{-}downs}$$

Because this formula can result in very low and even negative RBC amounts for non-performing loans, it is supplemented by a requirement that the resulting RBC amount cannot be lower than the applicable CM1-5 charge for the mortgage if the investment was performing.

The current state: performing mortgages

The formula for applying RBC factors to performing mortgages is as follows:

$$RBC_{perf} = (STAT\ Book\ Value - STAT\ Invol.\ Reserves) \times CM\ 1\text{-}5\ Charge$$

There is no need for a backstop to this formula because the effective RBC factor for a performing loan is always the same as the nominal RBC charge for the applicable CM category.

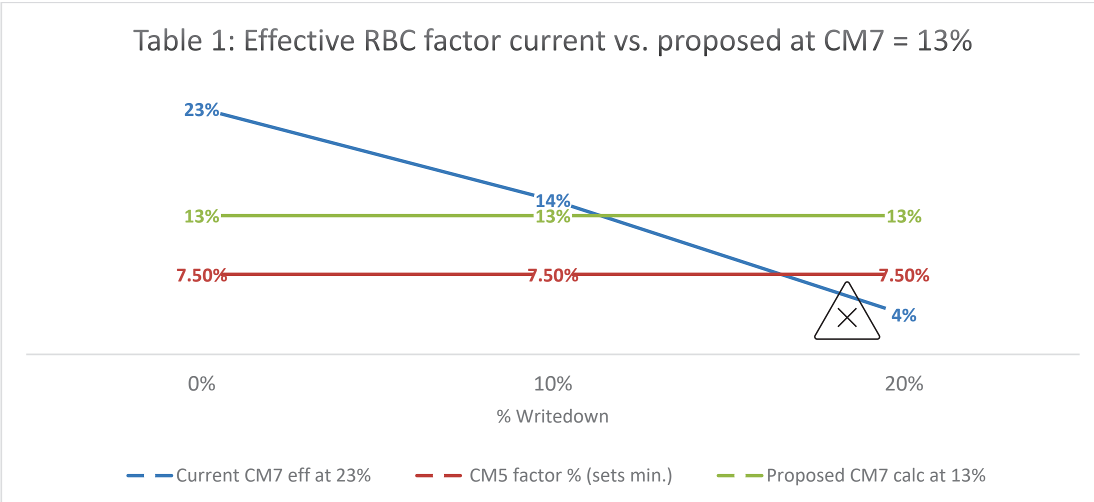
The proposal

The proposal would apply the same formula for both performing and non-performing mortgages. The changes necessary to implement this proposal are reflected in the attached mark-up of LR004 and LR009 RBC Reporting Instructions.

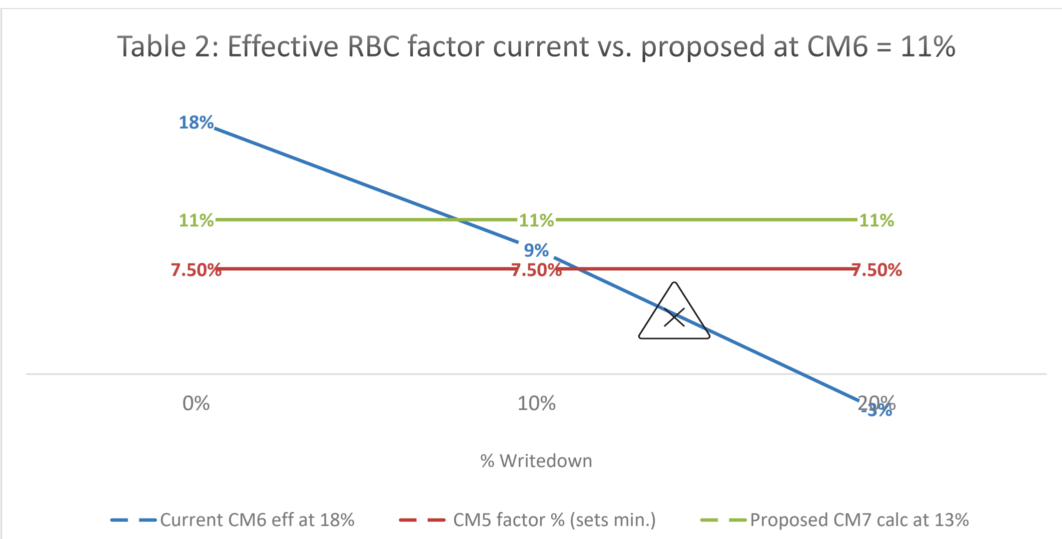
Impacts

Under the proposal, the RBC charge for some non-performing mortgages would increase and the RBC charge for other non-performing mortgages would decrease, depending on the amount of any write-downs.

In Table 1, the blue and brown lines illustrate that, for a CM7 mortgage under the current state, the effective RBC factor would range from 23% to 7.5% of the statutory book value less involuntary reserves (assuming the performing loan rating would be CM5), depending on the amount of any write-down. The green line in the table illustrates that, under the proposal, the effective RBC factor would be equal to the RBC charge for a CM7 mortgage (as adjusted in part 1 of this proposal) without regard to write-downs.



In Table 2, the blue and brown lines illustrate that, for a CM6 mortgage under the current state, the effective RBC factor would range from 18% to 7.5% of the statutory book value less involuntary reserves (assuming the performing loan rating would be CM5), depending on the amount of any write-down. The green line in the table illustrates that, under the proposal, the effective RBC factor would be equal to the RBC charge for a CM6 mortgage (as adjusted in part 1 of this proposal) without regard to write-downs.



Both tables illustrate that adopting the performing mortgage loans formula and the proposed CM6 and CM7 factors would reduce the required RBC amount for non-performing mortgages with smaller levels of write-downs but would increase required RBC amounts for non-performing mortgages with larger write-downs.

Attachment: Suggested mark-up of Instructions LR004 and LR009.

Notes to the mark-up:

- The attached mark-up adds the previously approved instructions for reporting 2020 NOI. See *Guidance for Troubled Debt Restructurings for December 31, 2020 and Interim Risk-Based Capital Filings (where required)* (October 9, 2020, Revised February 11, 2021).
- The attached mark-up also reflects a suggested deletion of the version number of the CREFC Methodology for Analyzing and Reporting Property Income Statements, to avoid the ongoing need to update the Instructions to reflect each new versions of that methodology. This is not part of the proposal described above, but the Life Risk-Based Capital Working Group may want to consider it.

Additional Staff Comments:

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

MORTGAGES
LR004

Basis of Factors

Mortgages in Good Standing
The pre-tax factors for commercial mortgages were developed based on analysis using the Commercial Mortgage Metrics model of Moody's Analytics and documented in a report from the American Council of Life Insurers on March 27, 2013. The factors provide for differing levels of risk, the levels determined by a contemporaneous debt service coverage ratio and the contemporaneous loan-to-value. The 0.14 percent pre-tax factor on insured and guaranteed mortgages represents approximately 30-60 days interest lost due to possible delay in recovery on default. The pre-tax factor of 0.68 percent for residential mortgages reflects a significantly lower risk than commercial mortgages. The pre-tax factors were developed by dividing the post-tax factor by 0.7375 (0.7375 is calculated by taking 1.0 less the result of 0.75 multiplied by 0.35). The pre-tax factors are not changing for 2018 due to tax reform.

Mortgages 90 Days Overdue, Not in Process of Foreclosure
The category pre-tax factor for commercial and farm mortgages of ~~18~~ 11 percent is based on ~~data taken from the Society of Actuaries "Commercial Mortgage Credit Risk Study."~~ the 11 percent factor for real estate investments reported on Schedule A. For insured and guaranteed or residential mortgages, factors are set at twice the level for those "in good standing" to reflect the increased likelihood of default losses.

Mortgages in Process of Foreclosure
The category pre-tax factor of 13 percent for ~~M~~mortgages in process of foreclosure is based on the 13 percent factor for real estate investments reported on Schedule BA~~are considered to be as risky as NAIC 5 bonds and are assigned the same category pre-tax factor of 23 percent for commercial and farm mortgages~~.

Due and Unpaid Taxes on Overdue Mortgages and Mortgages in Foreclosure
The factor for due and unpaid taxes on overdue mortgages and mortgages in foreclosure is 100 percent.

Specific Instructions for Application of the Formula

Column (1)
Insured or guaranteed mortgages should be reported separately from residential and commercial mortgages. Insured or guaranteed loans include only those mortgage loans insured or guaranteed by the Federal Housing Administration, under the National Housing Act (Canada) or by the Veterans Administration (exclusive of any portion insured by FHA). Mortgage loans guaranteed by another company (affiliated or unaffiliated) are not to be included in the insured or guaranteed category.

Except for Lines (1) through (3), (17) through (19), (22) through (24), (26) and (27), calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. ~~Refer to the mortgage calculation worksheet A (Figure 1) for how the individual mortgage calculations are completed for Other Than In Good Standing mortgages on Lines (16) through (25).~~ Refer to the mortgage calculation worksheet – company developed (Figure 2~~3~~) for how the individual mortgage calculations are completed for In Good Standing ~~-~~ – Commercial mortgages on Lines (4) through (8) and for In Good Standing ~~-~~ – Farm mortgages on Lines (10) through (14) and for Other Than In Good Standing mortgages on Lines (16), (20), (21), and (25). Line (28) should equal Page 2, Column 3, Lines 3.1 plus 3.2, plus Schedule B, Part 1 Footnotes 3 and 4, first of the two amounts in the footnotes.

Column (2)
Companies are permitted to reduce the book/adjusted carrying value of mortgage loans reported in Schedule B by any involuntary reserves. Involuntary reserves are equivalent to valuation allowances specified in SSAP No. 37 paragraph 16. These reserves are held as an offset for a particular troubled mortgage loan that would be required to be written down if

the impairment was permanent.

Column (3)
Column (3) is calculated as the net of Column (1) less Column (2).

Column (4)
~~Summary amounts of the individual mortgage calculations are entered in this column for each class of mortgage investments. Refer to the mortgage calculation worksheet (Figure 1). Cumulative writedowns include the total amount of writedowns, amounts non admitted and involuntary reserves that have been taken or established with respect to a particular mortgage.~~No longer used. Place "XXX" in any blanks for this column.

Column (5)
For Lines (1) and (3), the pre-tax factor is equal to 0.0014
For Lines (2), the pre-tax factor is equal to 0.0068
~~-~~For Lines (4) and (10), the pre-tax factor is equal to 0.0090
For Lines (5) and (11), the pre-tax factor is equal to 0.0175
For Lines (6) and (12), the pre-tax factor is equal to 0.0300
For Lines (7) and (13), the pre-tax factor is equal to 0.0500
For Lines (8) and (14), the pre-tax factor is equal to 0.0750
For Lines (16) and (20), the pre-tax factor is equal to 0.1100
For Lines (17) and (19), the pre-tax factor is equal to 0.0027
For Lines (18), the pre-tax factor is equal to 0.0140
For Lines (21) and (25), the pre-tax factor is equal to 0.1300
For Lines (22) and (24), the pre-tax factor is equal to 0.0054
For Lines (23), the pre-tax factor is equal to 0.0270

For Lines (26) and (27), the pre-tax factor is 1.0. ~~For Lines (16) through (25), the average factor column is calculated as Column (6) divided by Column (3).~~

Column (6)
For Lines (4) through (8), (10) through (14), ~~and~~ (16), (20), (21) and~~through~~ (25), summary amounts are entered for Column (6) based on calculations done on an individual mortgage basis. Refer to the mortgage calculation worksheet~~s~~ ~~(Figure 1) and~~ (Figure 2~~3~~). For Lines (1) through (3), (17) through (19), (22) through (24), (26) and (27), the RBC subtotal is multiplied by the factor to calculate Column (6).

~~(Figure 1)~~

~~Mortgage Worksheet A~~
~~Other Than In Good Standing~~

	~~(1)~~ ~~Name / ID~~	~~(2)~~ ~~Book/Adjusted Carrying Value~~	~~(3)~~ ~~Involuntary Reserve Adjustment§~~	~~(4)~~ ~~RBC Subtotal£~~	~~(5)~~ ~~Cumulative Writedowns*~~	~~(6)~~ ~~Category Factor~~	~~(7)~~ ~~In Good Standing Factor~~	~~(7a)~~ ~~In Good Standing Category~~	~~(8)~~ ~~Col (6) X [Col (4)+(5)] - Col (5)~~	~~(9)~~ ~~Col (4) X Col (7)~~	~~(10)~~ ~~RBC Requirement‡~~
~~(1)~~	~~All Mortgages Without Cumulative Writedowns~~				~~XXX~~	~~†~~	~~†~~	~~†~~			
	~~All Mortgages With Cumulative Writedowns:~~										
~~(2)~~						~~†~~	~~†~~	~~†~~			
~~(3)~~						~~†~~	~~†~~	~~†~~			
~~(4)~~						~~†~~	~~†~~	~~†~~			
~~(5)~~						~~†~~	~~†~~	~~†~~			
~~(6)~~						~~†~~	~~†~~	~~†~~			
~~(7)~~						~~†~~	~~†~~	~~†~~			
~~(8)~~						~~†~~	~~†~~	~~†~~			
~~(9)~~						~~†~~	~~†~~	~~†~~			
~~(10)~~						~~†~~	~~†~~	~~†~~			
~~(11)~~						~~†~~	~~†~~	~~†~~			
~~(12)~~						~~†~~	~~†~~	~~†~~			
~~(13)~~						~~†~~	~~†~~	~~†~~			
~~(14)~~						~~†~~	~~†~~	~~†~~			
~~(15)~~						~~†~~	~~†~~	~~†~~			
	~~Total Mortgages~~										

~~This worksheet is prepared on a loan-by-loan basis for each of the mortgage categories listed in (Figure 2) that are applicable. The Column (2), (3), (5) and (10) subtotals for each category are carried over and entered in Columns (1), (2), (4) and (6) of the Mortgages (LR004) in the risk-based capital formula. Small mortgages aggregated into one line on Schedule B can be treated as one mortgage on this worksheet. NOTE: This worksheet will be available in the risk-based capital filing software.~~

~~† See (Figure 2) for factors to use in the calculation. The In Good Standing Factor will be based on the CM category developed in the company generated worksheet (Figure 3) and reported in Column 7a for Commercial or Farm Mortgages.~~
~~‡ The RBC Requirement column is calculated as the greater of Column (8) or Column (9), but not less than zero.~~
~~§ Involuntary reserves are reserves held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3, Line 25 of the annual statement.~~
~~£ Column (4) is calculated as Column (2) less Column (3).~~
~~* Cumulative writedowns include the total amount of writedowns, amounts non-admitted and involuntary reserves that have been taken or established with respect to a particular mortgage.~~

(Figure 1~~2~~)

The mortgage factors are used in conjunction with the mortgage worksheet~~s~~ (Figures ~~1 and 3~~2) to calculate the RBC Requirement for each individual mortgage. ~~The factors are used in Columns (6), (7) and (7a) of the mortgage worksheet and are dependent on which of the 25 mortgage categories below the mortgage falls into.~~ The following factors are used for each category of mortgages:

LR004 Line Number	Mortgage Factors	~~Category~~ Factor†	~~In Good Standing Factor~~	~~MEA Factor~~
	In Good Standing			
(1)	Residential Mortgages-Insured or Guaranteed	0.0014~~N/A‡~~	~~0.0014~~	~~N/A~~
(2)	Residential Mortgages-All Other	0.0068~~N/A‡~~	~~0.0068~~	~~N/A~~
(3)	Commercial Mortgages-Insured or Guaranteed	0.0014~~N/A‡~~	~~0.0014~~	~~N/A~~
(4)	Commercial Mortgages-All Other – Category CM1	0.0090~~N/A‡~~	~~0.0090~~	~~N/A‡~~
(5)	Commercial Mortgages – Category CM2	0.0175~~N/A‡~~	~~0.0175~~	~~N/A‡~~
(6)	Commercial Mortgages – Category CM3	0.0300~~N/A‡~~	~~0.0300~~	~~N/A‡~~
(7)	Commercial Mortgages – Category CM4	0.0500~~N/A‡~~	~~0.0500~~	~~N/A‡~~
(8)	Commercial Mortgages – Category CM5	0.0750~~N/A‡~~	~~0.0750~~	~~N/A‡~~
(10)	Farm Mortgages – Category CM1	0.0090~~N/A‡~~	~~0.0090~~	~~N/A‡~~
(11)	Farm Mortgages – Category CM2	0.0175~~N/A‡~~	~~0.0175~~	~~N/A‡~~
(12)	Farm Mortgages – Category CM3	0.0300~~N/A‡~~	~~0.0300~~	~~N/A‡~~
(13)	Farm Mortgages – Category CM4	0.0500~~N/A‡~~	~~0.0500~~	~~N/A‡~~
(14)	Farm Mortgages – Category CM5	0.0750~~N/A‡~~	~~0.0750~~	~~N/A‡~~
	90 Days Overdue, Not in Process of Foreclosure			
(16)	Farm Mortgages – Category CM6	~~0.1800~~0.1100	~~‡~~	~~N/A‡~~
(17)	Residential Mortgages-Insured or Guaranteed	0.0027	~~0.0014~~	~~-1.0 N/A~~
(18)	Residential Mortgages-All Other	0.0140	~~0.0068~~	~~-1.0 N/A~~
(19)	Commercial Mortgages-Insured or Guaranteed	0.0027	~~0.0014~~	~~-1.0 N/A~~
(20)	Commercial Mortgages-All Other – Category CM6	~~0.1800~~0.1100	~~‡~~	~~N/A‡~~
	In Process of Foreclosure			
(21)	Farm Mortgages – Category CM7	~~0.2300~~0.1300	~~‡~~	~~N/A‡~~
(22)	Residential Mortgages-Insured or Guaranteed	0.0054	~~0.0014~~	~~-1.0 N/A~~
(23)	Residential Mortgages-All Other	0.0270	~~0.0068~~	~~-1.0 N/A~~
(24)	Commercial Mortgages-Insured or Guaranteed	0.0054	~~0.0014~~	~~-1.0 N/A~~
(25)	Commercial Mortgages-All Other – Category CM7	~~0.2300~~0.1300	~~‡~~	~~N/A‡~~

† ~~The category factor is a factor used for a particular category of mortgage loans that are not in good standing.~~

‡ ~~The RBC Requirement for mortgage loans in good standing or restructured are not calculated on Figure (1). These requirements are calculated on Mortgage Worksheet (company developed) (Figure 3) and transferred to LR004 Mortgage Loans Lines (4) through (8) and (10) through (14). In addition, for Commercial and Farm mortgage loans 90 days past due or In Process of Foreclosure, the CM category is determined in Mortgage Worksheet (company developed) and transferred to Worksheet A.~~

(Figure 2~~3~~)

Mortgage Worksheet (company developed)
~~In Good Standing –~~Commercial Mortgages and Farm Mortgages

Price Index current (year-end calculations to be based off of 3rd Quarter index of the given year)}	{input Price Index as of September 30}							
Name / ID (1)	Date of Origination (2)	Maturity Date (3)	Property Type (4)	Farm Loan Sub-property type (5)	Postal Code (6)	Book / Adjusted Carrying Value (7)	Statutory Write-downs (8)	Statutory Involuntary Reserve (9)

Original Loan Balance (10)	Principal Loan Balance to Company (11)	Balloon Payment at Maturity (12)	Principal Balance Total (13)	NOI Second Prior Year (14)	NOI Prior Year (15)	NOI (16)	Interest Rate (17)

Trailing 12 Month Debt Service (18)	Original Property Value (19)	Property Value (20)	Year of Valuation (21)	Calendar Quarter of Valuation (22)	Credit Enhancement? (23)	Senior Debt? (24)	Construction Loan? (25)

Construction Loan out of Balance? (26)	Construction Loan Issues? (27)	Land Loan? (28)	90 Days Past Due? (29)	In Process of Foreclosure? (30)	Current payment lower than based on Loan Interest? (31)	Is loan interest a floating rate? (32)	Is fixed rate reset during term? (33)

Is negative amortization allowed? (34)	Amortization Type (35)	Rolling Average NOI (36)	RBC Debt Service (37)	RBC DCR (38)	Price Index at Valuation (39)	Contemporaneous Property Value (40)	RBC LTV (41)	CM Category (42)

The Company should develop this worksheet on a loan-by-loan basis for each commercial mortgage – other or farm loan held in Annual Statement Schedule B. This worksheet columns (7) and (9) subtotals for each category are to be carried over and entered in Columns (1) and (2) of Mortgages (LR004) in the risk-based capital formula lines (4) – (8), ~~and~~ (10) – (14), (16), (20), (21), and (25). Small mortgages aggregated into one line on Schedule B can be treated as one mortgage on this worksheet. ~~Amounts in Columns (7), (9) and (42) are carried individually to Worksheet A columns (2), (3) and (7a) for loans that are 90 Days Past Due and In Process of Foreclosure.~~ NOTE: This worksheet will not be available in the risk-based capital filing software and needs to be developed by the company.

Column			Description / explanation of item
#	Heading		
			Price Index current is the value on 9/30 of the current year for the National Council of Real Estate Investor Fiduciaries Price Index for the United States.
(1)	Name / ID	Input	Identify each mortgage included as in good standing.
(2)	Date of Origination	Input	Enter the year and month that the loan was originated. If the loan has been restructured, extended, or otherwise re-written, enter that new date.
(3)	Maturity Date	Input	Enter earlier of maturity of the loan, or the date the lender can call the loan.
(4)	Property Type	Input	Enter 1 for mortgages with an Office, Industrial, Retail or multifamily property as collateral. Enter 2 for mortgages with a Hotel and Specialty Commercial as property type. For properties that are multiple use, use the property type with the greatest square footage in the property. Enter 3 for Farm Loans.
(5)	Farm Sub-type	Input	If Property Type=3 (Farm Loans), then you must enter a Sub Category: 1=Timber, 2=Farm and Ranch, 3=Agribusiness Single Purpose, 4=Agribusiness All Other (See Note 8.)
(6)	Postal Code	Input	Enter zip code of property for US. If multiple properties or zip codes, enter multiple codes. If foreign address, use postal code. If not available, N/A.
(7)	Book / Adjusted Carrying Value	Input	Enter the value that the loan is carried at on the company ledger.
(8)	Statutory Write-downs	Input	Enter the value of any write-downs taken on this loan due to permanent impairment.
(9)	Involuntary Reserve	Input	Enter the amount of any involuntary reserve amount. Involuntary reserves are reserves that are held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3 Line 25 of the Annual Statement.
(10)	Original Loan Balance?	Input	Enter the loan balance at the time of origination of the loan.
(11)	Principal Balance to Co.	Input	Enter the value of the loan balance owed by the borrower.
(12)	Balloon Payment at Maturity	Input	Enter the amount of any balloon or principal payment due at maturity.
(13)	Principal Balance Total	Input	Enter the total amount of mortgage outstanding including debt that is senior to or pari passu with the company's mortgage (Note 2)
(14)	NOI Second Prior	Input	Enter the NOI from the year prior to the value in (15). See Note 1.
(15)	NOI Prior	Input	Enter the NOI from the prior year to the value in (16). See Note 1.
(16)	NOI	Input	Enter the Net Operating Income for the most recent 12 month fiscal period with an end-date between July 1 of the year prior to this report and June 30 of the year of this report. The NOI should be reported following the guidance of the Commercial Real Estate Finance Council Investor Reporting Profile v.5.0. Section VII. See Notes 1, 3, 4, 5, and 6 below.

(17)	Interest Rate	Input	Enter the annual interest rate at which the loan is accruing. -If the rate is floating, enter the larger of the current month rate or the average rate of interest for the prior 12 months, or -If the rate is fixed by the contract, not level over the year, but level for the next 12 months, use current rate. If the 'Total Loan Balance' consists of multiple loans, use an average loan interest rate weighted by principal balance.
(18)	Trailing 12 Month Debt Service	Input	Enter actual 12 months debt service for prior 12 months
(19)	Original Property Value	Input	Enter the Property Value at the time of origination of the loan. (Note 9)
(20)	Property Value	Input	Property Value is the value of the Property at time of loan origination, or at time of revaluation due to impairment underwriting, restructure, extension, or other re-writing. (Note 9)
(21)	Year of Valuation	Input	Year of the valuation date defining the value in (20). This will be either the date of origination, or time of restructure, refinance, or other event which precipitates a new valuation.
(22)	Quarter of Valuation	Input	Calendar quarter of the valuation date defining the value in (20).
(23)	Credit Enhancement	Input	Enter the full dollar amount of any credit enhancement. (see Note 5)
(24)	Senior Debt?	Input	Enter yes if senior position, no if not. (see Note 7.)
(25)	Construction Loan?	Input	Enter 'Yes' if this is a construction loan. (see Note 4.)
(26)	Construction – not in balance?	Input	Enter 'Yes" if his is a construction loan that is not in balance. (see Note 4)
(27)	Construction – Issues?	Input	Enter 'Yes" if this is a construction loan with issues. (see Note 4)
(28)	Land Loan?	Input	Enter 'Yes' if this is a loan on non-income producing land. (see Note 6)
(29)	90 days past due?	Input	Enter 'Yes' if payments are 90 days past due.
(30)	In process of foreclosure?	Input	Enter 'Yes' if the loan is in process of foreclosure.
(31)	Is current payment lower than a payment based on the loan interest?	Input	Yes / No
(32)	Is loan interest a floating rate?	Input	Yes / No
(33)	If not floating, does loan reset during term?	Input	Yes / No - Some fixed rate loans define in the loan document a change to a new rate during the life of the loan, which may be a pre-determined rate or may be the then current market rate. Generally any such changes are less frequent than annual.
(34)	Is negative amortization allowed?	Input	Yes / No
(35)	Amortization type?	Input	1 = fully amortizing 2 = amortizing with balloon 3 = full I/O 4 = partial I/O, then amortizing
(36)	Rolling Average NOI	Computation	For 2013 – 100% of NOI For 2014 – 65% NOI + 35% NOI Prior For 2015 – 50% NOI + 30% NOI Prior + 20% NOI 2nd Prior For loans originated or valued within the current year, use 100% NOI. For loans originated 2013 or later and within 2 years, use 65% NOI and 35% NOI Prior

(37)	RBC Debt Service	Computation	This amount is the amount of 12 monthly principal and interest payments required to amortize the Total Loan Balance (13) using a Standardized Amortization period of 300 months and the Annual Loan Interest Rate (17).
(38)	RBC DCR	Computation	This is the ratio of the Net Operating Income (36) divided by the RBC Debt Service (37) rounded down to 2 decimal places. See Note 3 below for special circumstances.
(39)	NCREIF Price Index at Valuation	Computation	The value of the NCREIF Price Index on the last day of the calendar quarter that includes the date defined in (21) and (22).
(40)	Contemporaneous Property Value	Computation	The Property Value (20) times the ratio (rounded to 4 decimal places) of the Price Index current to the Price Index at valuation (39).
(41)	RBC LTV	Computation	The Total Loan Value (13) divided by the Contemporaneous Value (40) rounded to the nearest percent.
(42)	CM Category	Computation	The risk category determined by either being not in good standing (either 90 Days Past Due or In Process of Foreclosure) or the loan being in good standing or restructured and applying the DCR (38) and the LTV (41) to the criteria in Figure (3~~4~~), Figure (4~~5~~) or Figure (5~~6~~). See Notes 2, 3, 4, 5, and 6 below for special circumstances.

Note 1: Net Operating Income (NOI): The majority of commercial mortgage loans require the borrower to provide the lender with at least annual financial statements. The NOI would be determined at the RBC calculation date based on the most recent annual period from financial statements provided by the borrower and analyzed based on accepted industry standards. The most recent annual period is determined as follows:

- If the borrower reports on a calendar year basis, the statements for the calendar year ending December 31 of the year prior to the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the calendar year that ends 12/31/2011.
- If the borrower reports on a fiscal year basis, the statements for the fiscal year that ends after June 30 of the prior calendar year and no later than June 30 of the year of the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the fiscal year that ends after 6/30/2011 and no later than 6/30/2012.
- The foregoing time periods are used to provide sufficient time for the borrower to prepare the financial statements and provide them to the lender, and for the lender to calculate the NOI.

The accepted industry standards for determining NOI were developed by the Commercial Mortgage Standards Association now known as CRE Financial Council (CREFC). The company must develop the NOI using the standards provided by the CREFC Methodology for Analyzing and Reporting Property Income Statements ~~v.5.1~~. (www.crefc.org/irp). These standards are part of the CREFC Investor Reporting Package (CREFC IRP Section VII.) developed to support consistent reporting for commercial real estate loans owned by third party investors. This guidance would be a standardized basis for determining NOI for RBC.

The NOI will be adjusted to use a 3 year rolling average for the DSC calculation. For 2013, a single year of NOI will be used. For 2014, 2 years will be used, weighted 65% most recent year and 35% prior year. Thereafter, 3 years will be used weighted 50% most recent year, 30% prior year, and 20% 2nd prior year. This will apply when there is a history of NOI values. For new originations, including refinancing, the above schedule would apply by duration from origination. For the special circumstances listed below, the specific instructions below will produce the NOI to be used, without further averaging.

For purposes of the NOI inputs at (14), (15), (16), and the computation of a Rolling Average NOI at (36), an insurer may report 2020 NOI (i.e., NOI for any 12-month fiscal period ending after June 30, 2020 but not later than June 30, 2021) as the greater of: (1) actual NOI as determined under the CREF-C IRP Standards or (2) 85% of NOI determined for the immediate preceding fiscal year's annual report. This guidance with respect to 2020 NOI applies to the application of the 2020 NOI in risk-based capital reporting for 2021, 2022, and 2023. In cases where an insurer reports 85% of 2019 NOI as the 2020 NOI input, the insurer should retain information about actual 2020 NOI in its workpapers so that the information can be readily available to regulators.

Note 2: The calculation of debt service coverage and loan to value will include all debt secured by the property that is (1) senior to or pari passu with the insurer's investment; and (2) any debt subordinate to the insurer's investment that is not (a) subject to an intercreditor, standstill or subordination agreement with the insurer provided that the agreement does not grant the subordinate debt holder any rights that would materially affect the rights of the insurer and provided that the subordinate debt holder is prohibited from taking any action against the borrower that would materially affect the insurer's priority lien position with respect to the property without the prior written consent of the insurer, or (b) subject to governing laws that provide that the insurer's investment holds a senior position to the subordinated debt holder and provide substantially similar protections to the insurer as in (2)(a) above.

Note 3: *Unavailable Operating Statements*
There are a variety of situations where the most recent annual period's operating statement may not be available to assist in determining NOI. These situations will occur in distinct categories and each category requires special consideration. The categories are:

1. Loans on owner occupied properties

    a. For properties where the owner is the sole or primary tenant (50% or more of the rentable space), property level operating statements may not be available or meaningful. If the property is occupied and the loan, taxes and insurance are current, it will be acceptable to derive income and a reasonable estimate of expenses from the most recent appraisal or equivalent and additional known actual expenses (e.g., real estate taxes and insurance).
    b. For properties where the owner is a minority tenant (49% of less of the rentable space), the owner-occupied space should be underwritten at the average rent per square foot of the arm's length tenant leases. This income estimate should be added to the other tenant leases and combined with a reasonable estimate of expenses based on the most recent appraisal or equivalent and additional known actual expenses (e.g., real estate taxes and insurance).

2. Borrower does not provide the annual operating statement

    a. Borrower refuses to provide the annual operating statements
        i. If the leases are in place and evidenced by estoppels and inspections, NOI would be derived from normalized underwriting in accordance with the CREFC Methodology for Analyzing and Reporting Property Income Statements.
        ii. If there is evidence from inspection that the property is occupied, but there is no evidence of in place leases (e.g., lease documents or estoppels), NOI would be set equal to the lesser of calculated debt service (DSC=1.0) or the NOI from the normalized underwriting.
        iii. If there is no evidence from inspection that the property is occupied and no evidence of in place leases (e.g., lease documents or estoppels), assume NOI = $0.
    b. If the borrower does not have access to a complete previous year operating statement, determine NOI based on the CREFC guidelines for analyzing a partial year income statement.

Note 4: Construction loans**:**
Construction loans would be categorized as follows, based on a determination by the loan servicer whether the loan is in balance and whether construction issues exist:

a. In balance, no construction issues:	DSC = 1.0, LTV determined as usual
b. Not in Balance, no construction issues:	CM4
c. Construction issues:	CM5

A loan is *"in balance"* if the committed amount of the construction loan plus any lender held reserves and unfunded borrower equity is sufficient to cover the remaining costs of the development project, including debt service not anticipated to be paid from property operations.

A *"construction issue"* is a problem that may reasonably jeopardize the completion of the project. Examples of construction issues include the abandonment of construction and construction defects that are not being addressed.

Note 5: Credit enhancements: Where the loan payments are secured by a letter of credit from an investment grade financial institution or an escrow account held at an investment grade financial institution, NOI less than the debt service may be increased by these amounts until it is equal to but not exceeding the debt service. These situations are typically short term in nature and are intended to bridge the lease-up following renovation or loss of a major tenant.

Note 6: Non-income-producing land: NOI = $0

Note 7: Non-senior financing**:**

a. The company should first calculate DSC and LTV for non-senior financing using the standardized debt service and aggregate LTV of all financing pari passu and senior to the position held by the company.
b. The non-senior piece should then be assigned to the next riskier RBC category. For example, if the DSC and LTV metrics determined in (a) indicate a category of CM2, the non-senior piece would be assigned to category CM3. However, it would not be required to assign a riskier category than CM5 if the loan is not at least 90-days delinquent or in foreclosure.

Note 8: Definitions of each type of Farm Mortgage:

Timber: A loan is classified as a timber loan if more than 50% of the collateral market value (land and timber) of the security is attributable to land supporting a timber crop that is or will be of commercial value.

Farm & Ranch: Farm and ranch land utilized in the production of agricultural commodities of all kinds, including grains, cotton, sugar, nuts, fruits, vegetables, forage crops and livestock of all kinds, including, beef, swine, poultry, fowl and fish. Loans included in this category are those in which agricultural land accounts for more than 50% of total collateral market value.

Agribusiness Single Purpose: Specialized collateral utilized in the production, further processing, adding value or manufacturing of an agricultural commodity or forest product. In order for a loan to be classified as such, the market value of the single-purpose (special use) collateral would account for more than 50% of total collateral market value.

This collateral is generally not multi-functional and can only be used for a specific production, manufacturing and/or processing function within a specific sub-sector of the food or agribusiness industry and whereby such assets are not strategically important in nature to the overall industry capacity. These assets can be shut down or replicated easily in other locations, or existing plants can be expanded to absorb shuttered capacity. The assets are not generally limited in nature by environmental or operational permits and/or regulatory requirements. An example would be a poultry processing plant located in the Southeast of the United States where there is excess capacity inherent to the industry and production capacity is easily replaceable.

Other loans included in this category are those collateralized by single purpose (special use) confinement livestock production facilities in which the special use facilities account for more than 50% of total collateral market value.

Agribusiness All Other: Multiple-use collateral utilized in the production, further processing, adding value or manufacturing of an agricultural commodity or forest product. In order for a loan to be classified as such, the market value of any single use portion may not be greater than 50% of total collateral market value.

This collateral is multi-functional in nature, adaptable to other manufacturing, processing, or servicing food or agribusiness industries or sub-industries. Assets could also be very strategic in nature and not easily replaceable either due to cost, location, environmental permitting and/or government regulations. These assets may be single purpose in nature, but so vital to the industry capacity needs that they will be generally purchased by another like processing company or strategic or financial buyer. An example of these types of assets are strategically located and highly automated cold storage facilities whereby they can be used for dry storage, distribution centers or converted into warehouse or other type uses. Another example may be a cheese processing plant that is strategically located within the heart of the dairy industry, limited permits, environmental restrictions that would limit added capacity, or high barriers to entry to build a like facility within the industry. For example, one of the largest cheese plants in the industry is located in California and it is not easily replicated within the cheese processing industry due to its location, capacity, costs, access to fluid milk supply and related feed and water, as well as highly regulated environmental and government restrictions.

Other loans included in this category are those in which more than 50% of the collateral market value is accounted for by chattel assets or other assets related to the business and financial operations of agribusinesses, including inventories, accounts, trade receivables, cash and brokerage accounts, machinery, equipment, livestock and other assets utilized for or generated by agribusiness operations.

Note 9. The origination value is developed during the underwriting process using appropriate appraisal standards.
a. If values were received from a qualified third-party appraiser, those values must be used.
b. If the company performs internal valuations using standards comparable to an external appraisal, then the internal valuation may be used.

(Figure 34)

For Office, Industrial, Retail and Multi-family**:**

RISK CATEGORY	DSC LIMITS		LTV LIMITS
CM1	1.50 ≤ DSC	and	LTV < 85%
CM2	0.95 ≤ DSC < 1.50	and	LTV < 75%
CM2	1.15 ≤ DSC < 1.50	and	75% ≤ LTV < 100%
CM2	1.50 ≤ DSC	and	85% ≤ LTV < 100%
CM2	1.75 ≤ DSC	and	100% ≤ LTV
CM3	DSC < 0.95	and	LTV < 85%
CM3	0.95 ≤ DSC < 1.15	and	75% ≤ LTV < 100%
CM3	1.15 ≤ DSC < 1.75	and	100% ≤ LTV
CM4	DSC < 0.95	and	85% ≤ LTV < 105%
CM4	0.95 ≤ DSC < 1.15	and	100% ≤ LTV
CM5	DSC < 0.95	and	105% ≤ LTV
CM6	Loans 90 days past due but not yet in process of foreclosure		
CM7	Loans in process of foreclosure		

(Figure 4~~5~~)

For Hotels and Specialty Commercial**:**

RISK CATEGORY	DSC LIMITS		LTV LIMITS
CM1	1.85 ≤ DSC	and	LTV < 60%
CM2	1.45 ≤ DSC < 1.85	and	LTV < 70%
CM2	1.85 ≤ DSC	and	60% ≤ LTV < 115%
CM3	0.90 ≤ DSC < 1.45	and	≤ LTV < 80%
CM3	1.45 ≤ DSC < 1.85	and	70% ≤ LTV
CM3	1.85 ≤ DSC	and	115% ≤ LTV
CM4	DSC < 0. 90	and	LTV < 90%
CM4	0.90 ≤ DSC < 1.10	and	80% ≤ LTV < 90%
CM4	1.10 ≤ DSC < 1.45	and	80% ≤ LTV
CM5	1.10 ≤ DSC	and	90% ≤ LTV
CM6	Loans 90 days past due but not yet in process of foreclosure		
CM7	Loans in process of foreclosure		

(Figure 5~~6~~)

Farm Mortgages (Agricultural Loans)**:**

	Timber	Farm & Ranch	Agribusiness Single Purpose	Agribusiness All Other
CM1	LTV <= 55%	LTV <= 60%		LTV <= 60%
CM2	55% < LTV <= 65%	60% < LTV <= 70%	LTV <= 60%	60% < LTV <= 70%
CM3	65% < LTV <= 85%	70% < LTV <= 90%	60% < LTV <= 70%	70% < LTV <= 90%
CM4	85% < LTV <= 105%	90% < LTV <= 110%	70% < LTV <= 90%	90% < LTV <= 110%
CM5	105% < LTV	110% < LTV	90% < LTV	110% < LTV
CM6	Loans 90 days past due but not yet in process of foreclosure			
CM7	Loans in process of foreclosure			

SCHEDULE BA MORTGAGES

LR009

Basis of Factors

For Affiliated Mortgages**,** Line **12999999**, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined using a company generated worksheet ~~for In Good Standing~~ (Figure 10) ~~and (Figure 8) for Past Due or In Process of Foreclosure~~.

For Unaffiliated Mortgages, Line **11999999**, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined as follows:

1) For Investments that contain covenants whereby factors of maximum LTV and minimum DSC, or equivalent thresholds must be complied with and it can be determined that the Investments are in compliance, these investments would use the process for directly held mortgages using the maximum LTV and minimum DSC using the company generated worksheet and transferred to LR009 line (2) for mortgages with covenants that are in compliance.
2) Investments that are defeased with government securities will be assigned to CM1 and transferred to LR009 line (3).
3) Other investments comprised primarily of senior debt will be assigned to CM2 and transferred to LR009 line (4).
4) All other investments in this category will be assigned CM3 and transferred to LR009 line (5). This would include assets such as a mortgage fund that invests in mezzanine or sub debt, or investments that cannot be determined to be in compliance with the covenants.

Specific Instructions for Application of the Formula

Column (1)
Except for Lines (1), (12), and (16), calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the Schedule BA mortgage calculation worksheets ~~(Figure 8) and~~ (Figure 10) for how the individual mortgage calculations are completed. Line (20) should equal Schedule BA Part 1, Column 12, Line **11999999** plus Line **12999999**.

Column (2)
Companies are permitted to reduce the book/adjusted carrying value of mortgage loans reported in Schedule BA by any involuntary reserves. Involuntary reserves are equivalent to valuation allowances specified in the codification of statutory accounting principles. They are non-AVR reserves reported on Annual Statement Page 3, Line 25. These reserves are held as an offset for a particular troubled Schedule BA mortgage loan that would be required to be written down if the impairment was permanent.

Column (3)
Column (3) is calculated as the net of Column (1) less Column (2).

Column (4)
No longer used. Place "XXX" in any blanks for this column.~~For Lines (12) through (14) and Lines (16) through (18), summary amounts of the individual mortgage calculations are entered in this column for each class of mortgage investments. Refer to the Schedule BA mortgage calculation worksheet (Figure 8).~~

Column (5)
For Line (1), the pre-tax factor is 0.0014.
For Line (2), the average factor column is calculated as Column (6) divided by Column (3).
For Line (3), the pre-tax factor is 0.0090.
For Line (4), the pre-tax factor is 0.0175.
For Line (5), the pre-tax factor is 0.0300.

For Line (6), the pre-tax factor is 0.0090.
For Line (7), the pre-tax factor is 0.0175.
For Line (8), the pre-tax factor is 0.0300.
For Line (9), the pre-tax factor is 0.0500.
For Line (10), the pre-tax factor is 0.0750.
For Line (12), the pre-tax factor is 0.0027.
For Lines (13) through (14), the pre-tax factor is 0.1100.
For Line (15), the pre-tax factor is 0.0054.
For Lines (13) through (14), the pre-tax factor is 0.1300.

~~See Figure 9 for computation of appropriate factors.~~

Column (6)
For Lines (1), (3) through (10), (12) through (14), and (16) through (18), the RBC subtotal in Column (3) is multiplied by the average factor to calculate Column (6). The categories and subtotals will be determined in the company developed worksheet Figure (10).

For Line~~s~~ (~~1~~2)~~ through (14) and Lines (16) through (18)~~, summary amounts are entered for Column (6) based on calculations done on an individual mortgage basis as determined in the company developed worksheet Figure (10).~~ Refer to the Schedule BA mortgage calculation worksheet (Figure 8)~~.

~~(Figure 8)~~

~~Schedule BA Mortgage Worksheet A~~
~~Other Than In Good Standing~~

	~~(1)~~	~~(2)~~	~~(3)~~	~~(4)~~	~~(5)~~	~~(6)~~	~~(7)~~	~~(7a)~~	~~(8)~~	~~(9)~~	~~(10)~~
	~~Name / ID~~	~~Book/Adjusted Carrying Value~~	~~Involuntary Reserve Adjustment§~~	~~RBC Subtotal £~~	~~Cumulative Writedowns *~~	~~Category Factor~~	~~In Good Standing Factor~~	~~In Good Standing Category~~	~~Col (6) X [Col (4)+(5)] - Col (5)~~	~~Col (4) X Col (7)~~	~~RBC Requirement ‡~~
	~~90 Days Overdue – Insured or Guaranteed~~					~~‡~~	~~‡~~	~~‡~~			
~~(1)~~	~~All Mortgages Without Cumulative Writedowns~~				~~XXX~~	~~0.0027~~	~~0.0014~~	~~N/A~~			
~~(2)~~	~~With Cumulative Writedowns:~~					~~0.0027~~	~~0.0014~~	~~N/A~~			
~~(3)~~						~~0.0027~~	~~0.0014~~	~~N/A~~			
	~~Total~~										
	~~90 Days Overdue – Unaffiliated~~										
~~(1)~~	~~All Mortgages Without~~				~~XXX~~	~~0.1800~~	~~‡~~	~~‡~~			

	~~Cumulative Writedowns~~										
~~(2)~~	~~With Cumulative Writedowns:~~					~~0.1800~~	~~†~~	~~†~~			
~~(3)~~						~~0.1800~~	~~†~~	~~†~~			
	~~Total~~										
	~~90 Days Overdue – Affiliated~~										
~~(1)~~	~~All Mortgages Without Cumulative Writedowns~~				~~XXX~~	~~0.1800~~	~~†~~	~~†~~			
~~(2)~~	~~With Cumulative Writedowns:~~					~~0.1800~~	~~†~~	~~†~~			
~~(3)~~						~~0.1800~~	~~†~~	~~†~~			
	~~Total~~										
	~~In Process of Foreclosure – Insured or Guaranteed~~										
~~(1)~~	~~All Mortgages Without Cumulative Writedowns~~				~~XXX~~	~~0.0054~~	~~0.0014~~	~~N/A~~			
~~(2)~~	~~With Cumulative Writedowns:~~					~~0.0054~~	~~0.0014~~	~~N/A~~			
~~(3)~~						~~0.0054~~	~~0.0014~~	~~N/A~~			
	~~Total~~										
	~~In Process of Foreclosure – Unaffiliated~~										
~~(1)~~	~~All Mortgages Without Cumulative Writedowns~~				~~XXX~~	~~0.2300~~	~~†~~	~~†~~			
~~(2)~~	~~With Cumulative Writedowns:~~					~~0.2300~~	~~†~~	~~†~~			
~~(3)~~						~~0.2300~~	~~†~~	~~†~~			
	~~Total~~										
	~~In Process of Foreclosure – Affiliated~~										
~~(1)~~	~~All Mortgages Without Cumulative Writedowns~~				~~XXX~~	~~0.2300~~	~~†~~	~~†~~			
~~(2)~~	~~With Cumulative Writedowns:~~					~~0.2300~~	~~†~~	~~†~~			

~~(3)~~						~~0.2300~~	~~‡~~	~~‡~~			
	~~Total~~										
~~(99)~~	~~Total Schedule BA Mortgages~~										

~~This worksheet is prepared on a loan-by-loan basis for each of the mortgage categories listed in (Figure 9) that are applicable. The Column (2), (3), (5) and (10) subtotals for each category are carried over and entered in Columns (1), (2), (4) and (6) of the Schedule BA Mortgages (LR009) Lines (12) through (14) and Lines (16) through (18) in the risk-based capital formula. NOTE: This worksheet will be available in the risk-based capital filing software.~~

~~† See (Figure 9) for factors to use in the calculation. The In Good Standing Factor will be based on the CM category developed in the company generated worksheet (Figure 10) and reported in Column 7a.~~
~~‡ The RBC Requirement column (10) is calculated as the greater of Column (8) or Column (9), but not less than zero.~~
~~§ Involuntary reserves are reserves held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3, Line 25 of the annual statement.~~
~~£ Column (4) is calculated as Column (2) less Column (3).~~
~~* Cumulative writedowns include the total amount of writedowns, amounts non-admitted and involuntary reserves that have been taken or established with respect to a particular mortgage.~~

(Figure 9)

The mortgage factors are used in conjunction with the mortgage worksheet~~s~~ (Figure~~s 8 and~~ 10) to calculate the RBC Requirement for each individual mortgage in an affiliated structure and in an unaffiliated structure where there are covenants. ~~The factors are used in Columns (6) and (7) of the mortgage worksheet (Figure 8) and are dependent on which of the 14 mortgage categories below the mortgage falls into.~~ Residential Mortgages and Commercial Mortgages Insured or Guaranteed are classified as Category CM1. The following factors are used for each category of mortgages:

	Schedule BA Mortgage Factors		
LR009 Line Number		~~Category~~ Factor~~‡~~	~~In Good Standing Factor~~
(3)	Unaffiliated – defeased with government securities	0.0090~~N/A‡~~	~~0.0090~~
(4)	Unaffiliated investments comprised primarily of Senior Debt	0.0175~~N/A‡~~	~~0.0175~~
(5)	Unaffiliated – all other unaffiliated mortgages	0.0300~~N/A‡~~	~~0.0300~~
(6)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM1	0.0090~~N/A‡~~	~~0.0090~~
(7)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM2	0.0175~~N/A‡~~	~~0.0175~~
(8)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM3	0.0300~~N/A‡~~	~~0.0300~~
(9)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM4	0.0500~~N/A‡~~	~~0.0500~~

(10)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants ~~–~~ Category CM5	0.0750~~N/A‡~~	~~0.0750~~
(12)	90 Days Past Due - Insured or Guaranteed	0.0027	~~.0014~~
(13)	90 Days Past Due (CM6)- Unaffiliated with Covenants	~~0.1800~~0.1100	~~‡~~
(14)	90 Days Past Due (CM 6)~~–~~ Affiliated	~~0.1800~~0.1100	~~‡~~
(16)	In Process of Foreclosure - Insured or Guaranteed	0.0054	~~.0014~~
(17)	In Process of Foreclosure (CM7)- Unaffiliated with Covenants	~~0.2300~~0.1300	~~‡~~
(18)	In Process of Foreclosure (CM7)~~–~~ Affiliated	~~0.2300~~0.1300	~~‡~~

~~‡ The category factor is a factor used for a particular category of mortgage loans that are not in good standing.~~
~~‡ The RBC Requirement for mortgage loans in good standing are not calculated on Figure (8). These requirements are calculated on the company's Schedule BA Mortgage Worksheet and transferred to LR009 Schedule BA Mortgage Loans Lines (12) – (14) and (16) – (18).~~

(Figure 10)

Mortgage Worksheet (**c**ompany developed)
~~In Good Standing –~~ Commercial Mortgages and Farm Mortgages

Price Index current (year-end calculations to be based off of 3rd Quarter index of the given year)}	{input Price Index as of September 30}							
Name / ID (1)	Date of Origination (2)	Maturity Date (3)	Property Type (4)	Farm Loan Sub-property Type (5)	Postal Code (6)	Book/Adjusted Carrying Value (7)	Statutory Write-downs (8)	Statutory Involuntary Reserve (9)

Original Loan Balance (10)	Principal Loan Balance to Company (11)	Balloon Payment at Maturity (12)	Principal Balance Total (13)	NOI Second Prior Year (14)	NOI Prior Year (15)	NOI (16)	Interest Rate (17)

Trailing 12 Month Debt Service (18)	Original Property Value (19)	Property Value (20)	Year of Valuation (21)	Calendar Quarter of Valuation (22)	Credit Enhancement? (23)	Senior Debt (24)	Construction Loan (25)

Construction Loan out of Balance (26)	Construction Loan Issues (27)	Land Loan (28)	90 Days Past Due (29)	In Process of Foreclosure? (30)	Current payment lower than based on Loan Interest? (31)	Is loan interest floating? (32)	Is fixed rate reset during term? (33)

Is negative amortization allowed? (34)	Amortization Type (35)	Schedule BA mortgage? (36)	Affiliated Mortgage (37)	Covenant – Max LTV (39)	Covenant – Min DCR (40)	Loan Covenants in compliance? (41)	Defeased with government securities? (42)

Primarily Senior positions? (43)	Rolling Average NOI (44)	RBC DCR (45)	Price Index at Valuation (46)	Contemporaneous Property Value (47)	RBC - Loan to Value Ratio (48)	RBC Risk Category (49)

This worksheet is prepared on a loan-by-loan basis for each commercial mortgage – other or farm loan held in Schedule BA. The Column (7) and (9) subtotals for each category are carried over and entered in Columns (1) and (2) of the Mortgages (LR009) in the risk-based capital formula lines (2) – (10), (13) – (14), and (17) – (18). Small mortgages aggregated into one line on Schedule BA can be treated as one mortgage on this worksheet. ~~Amounts in Columns (7), (9) and (49) are carried individually to Worksheet A columns (2), (3) and (7a) for loans that are 90 Days Past Due and In Process of Foreclosure.~~ NOTE: This worksheet will not be available in the risk-based capital filing software and must be developed by the Company.

Column #	Heading		Description / Explanation of Item
			Price Index current is the value on 9/30 of the current year for the National Council of Real Estate Investor Fiduciaries Price Index for the United States.
(1)	Name / ID	Input	Identify each mortgage included as in good standing**.**
(2)	Date of Origination	Input	Enter the year and month that the loan was originated. If the loan has been restructured, extended, or otherwise re-written, enter that new date.
(3)	Maturity Date	Input	Enter earlier of maturity of the loan, or the date the lender can call the loan.
(4)	Property Type	Input	Enter 1 for mortgages with an Office, Industrial, Retail or multifamily property as collateral. Enter 2 for mortgages with a Hotel and Specialty Commercial as property type. For properties that are multiple use, use the property type with the greatest square footage in the property. Enter 3 for Farm Loans.
(5)	Farm Sub-type	Input	Sub-category – If Property Type=3 (Farm Loans), then you must enter a Sub Category: 1=Timber, 2=Farm and Ranch, 3=Agribusiness Single Purpose, 4=Agribusiness All Other**.** (See Note 8)
(6)	Postal Code	Input	Enter zip code of property for US properties. If multiple properties or zip codes, enter multiple codes. If foreign, enter postal code. If not available, N/A**.**
(7)	Book / Adjusted Carrying	Input	Enter the value that the loan is carried at on the company ledger.

	Value		
(8)	Statutory Writedowns	Input	Enter the value of any writedowns taken on this loan due to permanent impairment.
(9)	Involuntary Reserve	Input	Enter the amount of any involuntary reserve amount. Involuntary reserves are reserves that are held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3 Line 25 of the Annual Statement.
(10)	Original Loan Balance?	Input	Enter the loan balance at the time of origination of the loan.
(11)	Principal Balance to Co.	Input	Enter the value of the loan balance owed by the borrower.
(12)	Balloon Payment at Maturity	Input	Enter the amount of any balloon or principal payment due at maturity.
(13)	Principal Balance Total	Input	Enter the total amount of mortgage outstanding that is senior to or pari passu with the company's mortgage
(14)	NOI Second Prior	Input	Enter the NOI from the year prior to the value in (15). See Note 1.
(15)	NOI Prior	Input	Enter the NOI from the prior year to the value in (16). See Note 1.
(16)	NOI	Input	Enter the Net Operating Income for the most recent 12 month fiscal period with an end-date between July 1 of the year prior to this report and June 30 of the year of this report. The NOI should be reported following the guidance of the Commercial Real Estate Finance Council Investor Reporting Profile v.5.0. Section VII. See Notes 1, 2, 3, 4, 5 and 6 below.
(17)	Interest Rate	Input	Enter the annual interest rate at which the loan is accruing. -If the rate is floating, enter the larger of the current month rate or the average rate of interest for the prior 12 months, or -If the rate is fixed by the contract, not level over the year, but level for the next 12 months, use current rate. If the 'Total Loan Balance' consists of multiple loans, use an average loan interest rate weighted by principal balance.
(18)	Trailing 12 Month Debt Service	Input	Enter actual 12 months debt service for prior 12 months**.**
(19)	Original Property Value	Input	Enter the loan balance at the time of origination of the loan.
(20)	Property Value	Input	The value of the Property at time of loan origination, or at time of revaluation due to impairment underwriting, restructure, extension, or other re-writing.
(21)	Year of Valuation	Input	Year of the valuation date defining the value in (20). This will be either the date of origination, or time of restructure, refinance, or other event which precipitates a new valuation.
(22)	Quarter of Valuation	Input	Calendar quarter of the valuation date defining the value in (20).
(23)	Credit Enhancement	Input	Enter the full dollar amount of any credit enhancement. (see Note 5)
(24)	Senior Loan?	Input	Enter 'Yes' if senior position, 'No' if not. (see Note 7)
(25)	Construction Loan?	Input	Enter 'Yes' if this is a construction loan. (see Note 4)
(26)	Construction – not in balance	Input	Enter 'Yes' if this is a construction loan that is not in balance. (see Note 4)
(27)	Construction – Issues	Input	Enter 'Yes' if this is a construction loan with issues. (see Note 4)
(28)	Land Loan?	Input	Enter 'Yes' if this is a loan on non-income producing land. (see Note 6)
(29)	90 days past due?	Input	Enter 'Yes' if payments are 90 days past due.
(30)	In process of foreclosure?	Input	Enter 'Yes' if the loan is in process of foreclosure.
(31)	Is current payment lower than a payment based on the Loan Interest?	Input	Yes / No
(32)	Is loan interest a floating	Input	Yes / No

	rate?		
(33)	If not floating, does loan reset during term?	Input	Yes / No - Some fixed rate loans define in the loan document a change to a new rate during the life of the loan, which may be a predetermined rate or may be the then current market rate. Generally any such changes are less frequent than annual.
(34)	Is negative amortization allowed?	Input	Yes / No
(35)	Amortization type?	Input	1 = fully amortizing 2 = amortizing with balloon 3 = full I/O 4 = partial I/O, then amortizing
(36)	Schedule BA mortgage?	Input	Yes / No
(37)	Affiliated Mortgage?	Input	Yes / No
(38)	Covenant Max LTV	Input	For mortgage investments with covenants, what is the maximum LTV allowed?
(39)	Covenant Min DCR	Input	For mortgage investments with covenants, what is the minimum DCR allowed?
(40)	Covenants in compliance?	Input	Yes / No – for mortgage investments with covenants, is the investment in compliance with the covenants?
(41)	Defeased with government securities	Input	Yes / No – has the mortgage loan been defeased using government securities?
(42)	Primarily Senior Mortgages	Input	Is the mortgage pool primarily senior mortgage instruments? {If yes, assign to CM2}
(43)	Rolling Average NOI	Computation	For 2012 – 100% of NOI For 2014 – 65% NOI + 35% NOI Prior For 2015 – 50% NOI + 30% NOI Prior + 20% NOI 2nd Prior For loans originated or valued within the current year**,** use 100% NOI. For loans originated 2012 or later and within 2 years, use 65% NOI and 35% NOI Prior**.**
(44)	RBC Debt Service	Computation	RBC Debt Service Amount is the amount of 12 monthly principal and interest payments required to amortize the Total Loan Balance (13) using a Standardized Amortization period of 300 months and the Annual Loan Interest Rate (17).
(45)	RBC - DCR	Computation	Debt Coverage Ratio is the ratio of the Net Operating Income (43) divided by the RBC Debt Service (44) rounded down to 2 decimal places. See Note 3 below for special circumstances. For loan pools with covenants, this will be the minimum DCR by covenant.
(46)	NCREIF Index at Valuation	Computation	Price index is the value of the NCREIF Price Index on the last day of the calendar quarter that includes the date defined in (21) and (22).
(47)	Contemporaneous Property Value	Computation	Contemporaneous Value is the Property Value (11) times the ratio (rounded to 4 decimal places) of the Price Index current to the Price Index (46).
(48)	RBC - LTV	Computation	The Loan to Value ratio is the Loan Value (13) divided by the Contemporaneous Value (47) rounded to the nearest percent. For Loan Pools with covenants, this will be the max LTV by covenant.
(49)	CM Category	Computation	Commercial Mortgage Risk category is the risk category determined by either being not in good standing (either 90 Days Past Due or In Process of Foreclosure) or the loan being in good standing or restructured and by applying the DCR (45) and the LTV (48) to the criteria in Figure (11), Figure (12) or Figure (13). See Notes 2, 3, 4, 5, and 6 below for special circumstances. If (41) = yes, CM1. If (42) = yes, CM2. If no LTV and DCR, and (41) = no and (42) = no, CM3.

Note 1: Net Operating Income (NOI): The majority of commercial mortgage loans require the borrower to provide the lender with at least annual financial statements. The NOI would be determined at the RBC calculation date based on the most recent annual period from financial statements provided by the borrower and analyzed based on accepted industry standards. The most recent annual period is determined as follows:

- If the borrower reports on a calendar year basis, the statements for the calendar year ending December 31 of the year prior to the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the calendar year that ends 12/31/2011.
- If the borrower reports on a fiscal year basis, the statements for the fiscal year that ends after June 30 of the prior calendar year and no later than June 30 of the year of the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the fiscal year that ends after 6/30/2011 and no later than 6/30/2012.
- The foregoing time periods are used to provide sufficient time for the borrower to prepare the financial statements and provide them to the lender, and for the lender to calculate the NOI.

The accepted industry standards for determining NOI were developed by the Commercial Mortgage Standards Association now known as CRE Financial Council (CREFC). The company must develop the NOI using the standards provided by the CREFC Methodology for Analyzing and Reporting Property Income Statements ~~v. 5.1~~ (www.crefc.org/irp). These standards are part of the CREFC Investor Reporting Package (CREFC IRP Section VII.) developed to support consistent reporting for commercial real estate loans owned by third party investors. This guidance is a standardized basis for determining NOI for RBC.

The NOI will be adjusted to use a 3-year rolling average for the DSC calculation. For 2013, a single year of NOI will be used. For 2014, 2 years will be used, weighted 65% most recent year and 35% prior year. Thereafter, 3 years will be used weighted 50% most recent year, 30% prior year, and 20% 2nd prior year. This will apply when there is a history of NOI values. For new originations, including refinancing, the above schedule would apply by duration from origination. For the special circumstances listed below, the specific instructions below will produce the NOI to be used, without further averaging.

For purposes of the NOI inputs at (14), (15), (16), and the computation of a Rolling Average NOI at (43), an insurer may report 2020 NOI (i.e., NOI for any 12-month fiscal period ending after June 30, 2020 but not later than June 30, 2021) as the greater of: (1) actual NOI as determined under the CREF-C IRP Standards or (2) 85% of NOI determined for the immediate preceding fiscal year's annual report. This guidance with respect to 2020 NOI applies to the application of the 2020 NOI in risk-based capital reporting for 2021, 2022, and 2023. In cases where an insurer reports 85% of 2019 NOI as the 2020 NOI input, the insurer should retain information about actual 2020 NOI in its workpapers so that the information can be readily available to regulators.

Note 2: The calculation of debt service coverage and loan to value will include all debt secured by the property that is (1) senior to or pari passu with the insurer's investment; and (2) any debt subordinate to the insurer's investment that is not (a) subject to an intercreditor, standstill or subordination agreement with the insurer provided that the agreement does not grant the subordinate debt holder any rights that would materially affect the rights of the insurer and provided that the subordinate debt holder is prohibited from taking any action against the borrower that would materially affect the insurer's priority lien position with respect to the property without the prior written consent of the insurer, or (b) subject to governing laws that provide that the insurer's investment holds a senior position to the subordinated debt holder and provide substantially similar protections to the insurer as in (2)(a) above.

Note 3: *Unavailable Operating Statements:*
There are a variety of situations where the most recent annual period's operating statement may not be available to assist in determining NOI. These situations will occur in distinct categories and each category requires special consideration. The categories are:

1. Loans on owner occupied properties

a. For properties where the owner is the sole or primary tenant (50% or more of the rentable space), property level operating statements may not be available or meaningful. If the property is occupied and the loan, taxes and insurance are current, it will be acceptable to derive income and a reasonable estimate of expenses from the most recent appraisal or equivalent and additional known actual expenses (e.g., real estate taxes and insurance).

b. For properties where the owner is a minority tenant (49% of less of the rentable space), the owner-occupied space should be underwritten at the average rent per square foot of the arm's length tenant leases. This income estimate should be added to the other tenant leases and combined with a reasonable estimate of expenses based on the most recent appraisal or equivalent and additional known actual expenses (e.g., real estate taxes and insurance).

2. Borrower does not provide the annual operating statement

a. Borrower refuses to provide the annual operating statements
   i. If the leases are in place and evidenced by estoppels and inspections, NOI would be derived from normalized underwriting in accordance with the CREFC Methodology for Analyzing and Reporting Property Income Statements.
   ii. If there is evidence from inspection that the property is occupied, but there is no evidence of in place leases (e.g., lease documents or estoppels), NOI would be set equal to the lesser of calculated debt service (DSC=1.0) or the NOI from the normalized underwriting.
   iii. If there is no evidence from inspection that the property is occupied and no evidence of in place leases (e.g., lease documents or estoppels), assume NOI = $0.

b. If the borrower does not have access to a complete previous year operating statement, determine NOI based on the CREFC guidelines for analyzing a partial year income statement.

Note 4: Construction loans

Construction loans would be categorized as follows, based on a determination by the loan servicer whether the loan is in balance and whether construction issues exist:

a.	In balance, no construction issues:	DSC = 1.0, LTV determined as usual
b.	Not in Balance, no construction issues:	CM4
c.	Construction issues:	CM5

A loan is *"in balance"* if the committed amount of the construction loan plus any lender held reserves and unfunded borrower equity is sufficient to cover the remaining costs of the development project, including debt service not anticipated to be paid from property operations.

A *"construction issue"* is a problem that may reasonably jeopardize the completion of the project. Examples of construction issues include the abandonment of construction and construction defects that are not being addressed.

Note 5: Credit enhancements: Where the loan payments are secured by a letter of credit from an investment grade financial institution or an escrow account held at an investment grade financial institution, NOI less than the debt service may be increased by these amounts until it is equal to but not exceeding the debt service. These situations are typically short term in nature, and are intended to bridge the lease-up following renovation or loss of a major tenant.

Note 6: Non-income-producing land: NOI = $0

Note 7: Non-senior financing

a. The company should first calculate DSC and LTV for non-senior financing using the standardized debt service and aggregate LTV of all financing pari passu and senior to the position held by the company.

b. The non-senior piece should then be assigned to the next riskier RBC category. For example, if the DSC and LTV metrics determined in (a) indicate a category of CM2, the non-senior piece would be assigned to category CM3. However, it would not be required to assign a riskier category than CM5 if the loan is not at least 90-days delinquent or in foreclosure.

Note 8: Definitions of each type of Farm Mortgage:

Timber: A loan is classified as a timber loan if more than 50% of the collateral market value (land and timber) of the security is attributable to land supporting a timber crop that is or will be of commercial value.

Farm & Ranch: Farm and ranch land utilized in the production of agricultural commodities of all kinds, including grains, cotton, sugar, nuts, fruits, vegetables, forage crops and livestock of all kinds, including, beef, swine, poultry, fowl and fish. Loans included in this category are those in which agricultural land accounts for more than 50% of total collateral market value.

Agribusiness Single Purpose: Specialized collateral utilized in the production, further processing, adding value or manufacturing of an agricultural commodity or forest product. In order for a loan to be classified as such, the market value of the single-purpose (special use) collateral would account for more than 50% of total collateral market value.

This collateral is generally not multi-functional and can only be used for a specific production, manufacturing and/or processing function within a specific sub-sector of the food or agribusiness industry and whereby such assets are not strategically important in nature to the overall industry capacity. These assets can be shut down or replicated easily in other locations, or existing plants can be expanded to absorb shuttered capacity. The assets are not generally limited in nature by environmental or operational permits and/or regulatory requirements. An example would be a poultry processing plant located in the Southeast of the United States where there is excess capacity inherent to the industry and production capacity is easily replaceable.

Other loans included in this category are those collateralized by single purpose (special use) confinement livestock production facilities in which the special use facilities account for more than 50% of total collateral market value.

Agribusiness All Other: Multiple-use collateral utilized in the production, further processing, adding value or manufacturing of an agricultural commodity or forest product. In order for a loan to be classified as such, the market value of any single use portion may not be greater than 50% of total collateral market value.

This collateral is multi-functional in nature, adaptable to other manufacturing, processing, or servicing food or agribusiness industries or sub-industries. Assets could also be very strategic in nature and not easily replaceable either due to cost, location, environmental permitting and/or government regulations. These assets may be single purpose in nature, but so vital to the industry capacity needs that they will be generally purchased by another like processing company or strategic or financial buyer. An example of these types of assets are strategically located and highly automated cold storage facilities whereby they can be used for dry storage, distribution centers or converted into warehouse or other type uses. Another example may be a cheese processing plant that is strategically located within the heart of the dairy industry, limited permits, environmental restrictions that would limit added capacity, or high barriers to entry to build a like facility within the industry. For example, one of the largest cheese plants in the industry is located in California and it is not easily replicated within the cheese processing industry due to its location, capacity, costs, access to fluid milk supply and related feed and water, as well as highly regulated environmental and government restrictions.

Other loans included in this category are those in which more than 50% of the collateral market value is accounted for by chattel assets or other assets related to the business and financial operations of agribusinesses, including inventories, accounts, trade receivables, cash and brokerage accounts, machinery, equipment, livestock and other assets utilized for or generated by agribusiness operations.

(Figure 11)

For Office, Industrial, Retail and Multi-family

Risk Category	DSC Limits		LTV Limits
CM1	1.50 ≤ DSC	and	LTV < 85%
CM2	0.95 ≤ DSC < 1.50	and	LTV < 75%
CM2	1.15 ≤ DSC < 1.50	and	75% ≤ LTV < 100%
CM2	1.50 ≤ DSC	and	85% ≤ LTV < 100%
CM2	1.75 ≤ DSC	and	100% ≤ LTV
CM3	DSC < 0.95	and	LTV < 85%
CM3	0.95 ≤ DSC < 1.15	and	75% ≤ LTV < 100%
CM3	1.15 ≤ DSC < 1.75	and	100% ≤ LTV
CM4	DSC < 0.95	and	85% ≤ LTV < 105%
CM4	0.95 ≤ DSC < 1.15	and	100% ≤ LTV
CM5	DSC < 0.95	and	105% ≤ LTV
CM6	Loans 90 days past due but not yet in process of foreclosure		
CM7	Loans in process of foreclosure		

(Figure 12)

For Hotels and Specialty Commercial

Risk category	DSC limits		LTV limits
CM1	1.85 ≤ DSC	and	LTV < 60%
CM2	1.45 ≤ DSC < 1.85	and	LTV < 70%
CM2	1.85 ≤ DSC	and	60% ≤ LTV < 115%
CM3	0.90 ≤ DSC < 1.45	and	≤ LTV < 80%
CM3	1.45 ≤ DSC < 1.85	and	70% ≤ LTV
CM3	1.85 ≤ DSC	and	115% ≤ LTV
CM4	DSC < 0. 90	and	LTV < 90%
CM4	0.90 ≤ DSC < 1.10	and	80% ≤ LTV < 90%
CM4	1.10 ≤ DSC < 1.45	and	80% ≤ LTV
CM5	1.10 ≤ DSC	and	90% ≤ LTV
CM6	Loans 90 days past due but not yet in process of foreclosure		
CM7	Loans in process of foreclosure		

(Figure 13)

For Farm Loans:

	Timber	Farm & Ranch	Agribusiness Single Purpose	Agribusiness All Other

CM1	LTV <= 55%	LTV <= 60%		LTV <= 60%
CM2	55% < LTV <= 65%	60% < LTV <= 70%	LTV <= 60%	60% < LTV <= 70%
CM3	65% < LTV <= 85%	70% < LTV <= 90%	60% < LTV <= 70%	70% < LTV <= 90%
CM4	85% < LTV <= 105%	90% < LTV <= 110%	70% < LTV <= 90%	90% < LTV <= 110%
CM5	105% < LTV	110% < LTV	90% < LTV	110% < LTV
CM6	Loans 90 days past due but not yet in process of foreclosure			
CM7	Loans in process of foreclosure			

Draft: 8/10/23

Health Risk-Based Capital (E) Working Group
Virtual Meeting
July 25, 2023

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met July 25, 2023. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair, Aaron Hodges, and Caroline Choi (TX); Wanchin Chou and Sarah Mu (CT); Benjamin Ben (FL); Chut Tee (KS); Debbie Doggett (MO); Lindsay Crawford and Michael Muldoon (NE); and Tom Dudek and Matt Ryan (NY). Also participating was: Tom Botsko (OH).

1. Adopted its May 17 and April 17 Minutes

Drutz said the Working Group met May 17 and April 17. During these meetings, the Working Group took the following action: 1) adopted its Spring National Meeting minutes; 2) referred proposal 2023-01-CA to the Capital Adequacy (E) Task Force for exposure; 3) heard an update from the American Academy of Actuaries (Academy) on the health care receivables and H2-underwriting risk review projects; 4) discussed pandemic risk; and 5) exposed the proposal on the health test language for a 45-day public comment period ending June 30.

Chou made a motion, seconded by Doggett, to adopt the Working Group's May 17 (Attachment Three-A) and April 17 (Attachment Three-B) minutes. The motion passed unanimously.

2. Adopted its 2023 Health Risk-Based Capital Newsletter

Drutz said the 2023 health risk-based capital newsletter includes all proposals that the Working Group adopted for year-end 2023, along with editorial changes to the health risk-based capital (RBC) forecasting and instructions publication. He said the purpose of this adoption is to consider the content of the newsletter, and the format will later be revised. The adopted version of the newsletter will be posted to the Working Group's web page, with the final formatted version posted around Sept. 1

Dudek made a motion, seconded by Chou, to adopt the Working Group's 2023 health risk-based capital newsletter (Attachment Three-C). The motion passed unanimously.

3. Adopted its 2022 Health RBC Statistics

Drutz said the 2022 health RBC statistics were run July 5. There were 1,143 health RBC filings loaded onto the NAIC database, up from 1,095 in 2021. Twenty-eight companies triggered an action level in 2022, of which six were in a company action level, 10 were in a regulatory action level, and 12 were in a mandatory control level. There were 13 companies that triggered the trend test. The authorized control level and total adjusted capital amounts increased from 2021 to 2022. Chou said that the number of companies in an action level rose from 12 to 28 and asked if there were any significant reasons for the change. Drutz asked NAIC staff to review the companies at an action level and try to identify the cause of the action level. He said the Working Group could review this during its next meeting. Botsko said the number of companies that filed on the health blank grew by about 48 over the prior year and asked if it would be possible to identify how many new companies triggered an action level. Drutz agreed and said this was also something that could be investigated further. Jim Braue (UnitedHealth Group—UHG) suggested incorporating the operational risk component into the statistical report in future years. Crystal Brown (NAIC) said this could be added to the report beginning with 2023, but it would not include previous years because the report is run at a specific point in time, as the numbers can fluctuate due to amendments and late filings. The Working Group agreed to incorporate this into the report. Botsko asked that it also be added to the life and property/casualty (P/C) statistics beginning with 2023.

Doggett made a motion, seconded by Dudek, to adopt the 2022 health RBC statistics (Attachment Three-D). The motion passed unanimously.

4. Exposed Proposal 2023-11-Hl

Drutz said proposal 2023-11-H was developed to include Medicare and Medicaid fee-for-service and other risk revenue amounts in column (1), lines (4) and (10) on pages XR013 and XR014. This change creates consistency across column (1), lines (2), (3), (4), (7), and (10) since Medicare and Medicaid premiums and claims are already included in column (1), line (2), (3), and (7). Brown said that only page XR014 is referenced in the proposal because it references the annual statement pulls for the calculation used on XR013.

Hearing no objections, the Working Group agreed to expose proposal 2023-11-H for a 30-day public comment period ending Aug. 24.

5. Referred the Health Test Proposal to Blanks (E) Working Group

Drutz said the health test language proposal was exposed to all RBC working groups for a 45-day comment period that ended June 30. The Working Group received one comment letter from the New York Department of Financial Services (DFS). Ryan said the New York DFS believes any insurer that writes life business should file on the life blank and be regulated by the Life Bureau, and the Health Bureau agreed. He said the main concern is that the New York DFS has some domestics that cede a large portion of their life business. As a result, the net basis approach makes it appear that the company has a majority of health business when it actually has a significant amount of life business. He said that in those situations, they would want those companies to be filed on a life blank.

Drutz said the ad hoc group considered either an all-net or all-gross basis for the premium and reserve ratios due to the inconsistencies in the current calculation, where both net and gross basis amounts are included in the calculation of the reserve ratio. The ad hoc group also discussed lowering the 95% ratio to capture more companies. However, the group determined it best to leave the ratios at 95% and use an all-net basis. The group determined that if needed, it could re-evaluate in the future, given that more data is being captured on health business in the life blank and that the health blank includes the life supplement. Drutz said the ad hoc group intended to fix the ratio, but New York DFS' comments are strong arguments for using an all-gross basis. He noted that points have been made for both raising and lowering the ratio thresholds, and as a result, the group may need to consider revisions to the threshold in the future.

Doggett made a motion, seconded by Chou, to refer the health test proposal to the Blanks (E) Working Group (Attachment Three-E). The motion passed unanimously.

6. Received an Update from the Academy on the Health Care Receivables Project

Kevin Russell (American Academy of Actuaries—Academy) said Other Health Care Receivables included in line 06xxxxx on Exhibit 3 are part of incurred claims. He said those and four additional types of health care receivables (pharmaceutical rebates receivable, claim overpayment receivables, capitation arrangement receivables, and risk-sharing receivables) enter the calculation of incurred claims on the U&I Exhibit Part 2 line 6. He said loans and advances to providers are another type of health care receivable, but they are excluded from incurred claims if not yet expensed. He said the Academy has concerns that some filing companies may be using the other health care receivables line when another would be more appropriate—either a different type of health care receivable or some other type of receivable (one that is not a health care receivable). He said that because of differences in receivable factors, this is affecting the calculation of RBC. Russell said the Academy is looking at other health care receivables where the filing company provided a name of the debtor or a description of the receivable in that field. He noted that many filing companies do not provide a description of the receivable, so the Academy is grateful for those that did. Russell said the Academy is looking for the Working Group's approval for NAIC staff to contact the filing companies to ask questions related to the other health care receivable amounts. He said the expectation is that their answers will help guide improvements to the Instructions for filing or improvements to guidance. Russell said the Academy would provide recommendations on the questions to ask particular companies, and NAIC staff would contact the filing companies and compile their responses.

Drutz said the plan is to notify all states that the Working Group may be contacting some of their companies and is just looking for additional clarity and understanding of the reporting.

The Working Group approved the Academy's request to reach out to the filing companies. It directed NAIC staff to work with the Academy to begin reaching out to the companies for further clarification on the questions.

7. Received an Update from the Academy on the H2 – Underwriting Risk Review

Derek Skoog (Academy) said the Health Solvency Work Group is working on getting a better understanding of the definitions for claims and revenue in the health RBC formula. He summarized the Academy's letter regarding the nuances identified (Attachment Three-F). He said proposal 2023-11-H does help to address nuance 1 and 2. He said there are a couple of questions the proposal does not address, including: 1) how we should think about the fee for service revenue in the context of the RBC formula; and 2) whether the fee for service revenue should be netted. He said the annual statement instructions define the fee for service at a high level. He said the Academy noted that the reporting conventions appeared varied for those issuers who report a substantial portion of fee for service revenue. He said the Academy has looked at historical loss ratios by line of business, and a change to the calculation could result in a significant change.

Skoog noted one caveat is that few issuers report fee for service revenue, and it appears more unique to provider-sponsored plans. He said that when an issuer reports fee for service revenue, it tends to be a pretty material portion of the total revenue. He said the reason the Academy feels this is important is that there was a case where an issuer reported a substantial amount of fee for service revenue to its total revenue, and when it is netted out (fee for service revenue is not included in revenue nor claims), the observed loss ratio is very high. When it is not netted out, it is still high but has a more reasonable loss ratio.

Skoog said the Academy's view is to look at this on a gross basis and not net out the fee for service revenue. He said using Total Revenue (Line 7) in the Analysis of Operations would allow for a more simplistic approach to the calculation. He also noted that using line 7 would include aggregate write-in revenues (health and non-health). He said line 6 for aggregate write-in revenue for non-health was basically blank across the entire industry, and aggregate write-in revenue for health comprised a tiny portion of total revenue. He asked the medical loss ratio should use total revenue as the denominator or continue to use the nuanced view of net premium revenue plus unearned premium revenue plus fee for service revenue plus risk revenue but not include aggregate write-ins. Skoog asked if the Working Group preferred a net or gross-basis approach for total revenue. He said that from a results perspective, it does not appear to have too much of an impact.

Braue said the fee for service business is where the reporting entity is basically acting like a provider or provider intermediary. They are being paid directly for specific services, and it is not a prepaid sort of coverage like the premium and other risk revenue are. He asked that given that, while it might be that the entity is reflecting the potential gains from that business in its pricing, in terms of potential fluctuation in the results (not an RBC concern), wouldn't there be a much different pattern of fluctuation for that fee for service business versus the prepaid business. Skoog said that is what the Academy was expecting. However, based on the filings, the results in practice did not match that intuition. He said that it appeared after looking at several issuers that there was some relationship where they were pricing this into the products, but it was not obviously clear without reaching out to the issuer directly.

Braue asked if some are reporting losses on the fee for service business itself. Skoog said it is hard to parse that out because the fee-for-service component is included in other lines, and one does not see a stand-alone amount for fee-for-service profit or losses. Braue said he thought that the entity was supposed to report the number of claims netted against the revenue on that line. Skoog said companies are not doing that particularly well.

Drutz suggested meeting in regulator-to-regulator session to discuss specific companies to address the Academy's questions and possibly contacting specific companies to request additional clarification on the reporting.

The Working Group agreed to move forward with a regulator-to-regulator meeting and to expose the Academy letter for 30 days.

Hearing no objections, the Working Group agreed to expose the Academy letter for a 30-day public comment period ending Aug. 24.

8. Adopted its Updated Working Agenda

Drutz said its working agenda was revised to incorporate the following changes: 1) line X1 was updated to reference the adoption of proposal 2022-16-CA; 2) line X3 was updated to reference the adoption of proposal 2023-01-CA; 3) line X4 was updated to include the work with the Academy on the health care receivables; and 4) lines X5 and X10 were deleted because these items have been completed.

Dudek made a motion, seconded by Chou, to adopt its revised working agenda. The motion passed unanimously.

9. Received an Update on the Excessive Growth Charge Ad Hoc Group

Drutz said the Excessive Growth Charge Ad Hoc Group has continued to meet and move forward on its work of evaluating the existing health RBC excessive growth charge. He said the group has performed an extensive analysis of various data pieces, and based on the analysis to date, it appears that the current excessive growth charge is working at a reasonable level in identifying companies that incur an underwriting loss in the following year after revenue growth in excess of 10% is reported in the current year. He said there seem to be some limitations with the current charge in that it has a very narrow focus because the trigger is based on the RBC charge and does not seem to identify all companies that incur an underwriting loss in the following year. The group continues to meet generally monthly to determine the best approach to move forward. The group will continue to provide the Working Group with updates.

10. Discussed Pandemic Risk

Drutz said the Working Group has discussed pandemic risk and its effect on the health RBC formula in the last several meetings. During its April 17 meeting, the Working Group discussed some of the questions to think about, and some suggestions were made to look at any work done by the Society of Actuaries (SOA) on the COVID-19 public health emergency (PHE) and evaluate the RBC filings from 2020 to 2022. He suggested asking NAIC staff to:

1) reach out to the SOA on any work it has done on pandemic risk; 2) reach out to modeling firms to see if any model pandemic risk; 3) look at the templates for the calculation used by Solvency II; and 4) review the RBC filings from 2020 to 2022 to see if there are any discernable differences from year to year. Chou suggested also looking at the exposure by the Life Actuarial (A) Task Force on the historical mortality index, which included a discussion on pandemic risk.

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

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2023-2-Summer/HRBCWG/7-25-23 minutesTPR.docx

Draft: 7/10/23

Health Risk-Based Capital (E) Working Group
Virtual Meeting
May 17, 2023

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met May 17, 2023. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair, and Aaron Hodges (TX); Wanchin Chou and Sarah Mu (CT); Benjamin Ben (FL); Danielle Smith and Debbie Doggett (MO); and Tom Dudek (NY).

1. Exposed the Health Test Proposal

Drutz said the Working Group established the Health Test Ad Hoc Group in 2018 to review the existing health test language in the Annual Statement Instructions for all lines of business. He said the Working Group initially identified the concern when pulling the data for the Health Care Receivables (HCR) factor review. In 2016, approximately 28% of the overall health premiums were reported on the life blank, and 72% reported on the health blank, with less than 1% reported in the property/casualty (P/C) blank.

Drutz said in 2016, the life blank did not provide the same level of detail on health business and risks as the health blank. He said the following concerns were identified from a risk-based capital (RBC) perspective: 1) factor development; and 2) differences between the formulas. From a factor development perspective, only the data contained within the health blank could be used due to inconsistencies between the blanks. An example is HCRs, for which the factors are developed from data in Exhibit 3, Exhibit 3a, and Underwriting and Investment (U&I) Part 2B of the annual statement. These schedules were previously only available in the Health Annual Statement Blank. Drutz noted that there are also formula differences to consider; i.e., the health formula is driven primarily by the Underwriting Risk component, which in 2018 made up approximately 60–70% of the overall risk within the formula, while the life formula was driven more by asset risk. He also noted that the risk components are not accounted for identically between the health and life formulas. An example is that the health formula includes an excessive growth and HCR charge not included in the life RBC formula.

Drutz said prior to the establishment of the Ad Hoc Group, the Working Group reached out to other NAIC groups, such as the Financial Analysis (E) Working Group, the Financial Stability (E) Task Force, and the Blanks (E) Working Group to garner their feedback. From a financial analysis perspective, issues identified as concerns were group analysis and health insurance industry research and reporting. The Working Group established the Ad Hoc Group to consider the health test language, as it was included in the Annual Statement Instructions in 2018. The Ad Hoc Group was made up of state insurance regulators, industry, and NAIC staff. The health test language at the time the Ad Hoc Group was developed was as follows:

> An entity is deemed to have passed the current test if:
>
> > The values for the premium and reserve ratios in the Health Statement Test equal or exceed 95% for both the reporting and prior year AND The entity passing Health Statement Test is licensed and actively issuing and/or renewing business in five states or less AND At least seventy-five percent (75%) of the entity's current year premiums are written in its domiciliary state OR The values for the premium and reserve ratios in the Health Statement Test equal 100% for both the reporting and prior year, regardless of the number of states in which the entity is licensed.

Drutz said the Ad Hoc Group considered two approaches: 1) a bright line test, which was rules-based and maintained the current “test” concept. That is, if the test is passed, the presumption is that the insurer would switch to the health blank unless the state insurance regulator vetoed that move. Additional tests and considerations would be outlined to determine if special consideration should be given to the reporting entity moving to the health blank (e.g., separate accounts, large book of long-term care (LTC) business, etc.); or 2) an analysis/risk-based approach that would change the “test” concept to become an “analysis” process. The “test” would instead provide metrics to the state insurance regulator. When a metric exceeds the guideline, the state insurance regulator should consider whether the insurer should be reporting on the health blank. Drutz said the Ad Hoc Group always maintained that with either approach, the full authority and discretion in determining the blank to be filed by the reporting entity would remain with the domiciliary state. He said the Ad Hoc Group ultimately agreed to move forward and maintain a bright line test approach.

Drutz said the Phase 1 proposal was developed and exposed by the Working Group in December 2021. The primary components of this proposal included the following revisions: 1) removal of the requirements for licensed and actively writing in five states or less; 75% of current premiums are written in the domiciliary state; and the “or” statement for the premium and reserve ratio equal to 100%; 2) added a clarifying sentence to the Life and P/C portion of the Health Test language instructions that companies that report separate accounts or protected cells are not subject to the results of the health test but should continue to report on the existing blank; and 3) the General Interrogatory references for Life were updated to pull from the current Analysis of Operations by Line of Business—Accident and Health instead of the Life RBC.

Drutz said the Ad Hoc Group also discussed the premium and reserve ratios during the Phase 1 work. At one point, consideration was given to removing the reserve ratio as a requirement. Drutz said the Ad Hoc Group determined to maintain the existing 95% premium and reserve ratios for the time being and evaluate any changes to this requirement as part of Phase 2. The Working Group referred the Phase 1 proposal to the Blanks (E) Working Group in February 2022, and it was adopted for year-end 2022 reporting by the Blanks (E) Working Group.

Drutz said the Ad Hoc Group began its review of the premium and reserve ratios after the referral of the Phase 1 proposal. The primary discussion revolved around the reserve ratio. The focus of consideration and discussion by the Ad Hoc Group was on asset valuation reserve (AVR)/interest maintenance reserve (IMR), the actuarial opinion and asset adequacy testing (AAT), and the reserve ratio calculation itself. He said a question was raised on AAT when a reporting entity transitions from the life blank to the health blank and if the entity must continue to submit a Statement of Actuarial Opinion (SAO) based on asset adequacy analysis. The Ad Hoc Group worked closely with the Health Actuarial (B) Task Force and identified that there was not a general requirement that would require a health insurer to perform AAT, but there were other requirements that could compel such an analysis. The Ad Hoc Group also worked with the Working Group to draft a referral letter to ask the Health Actuarial (B) Task Force to consider adding a sentence to *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51) that says AAT must be completed regardless of statement type if such requirements are met.

Drutz said the discussion around calculating the life reserve ratio was multi-faceted. He said the initial concern identified in the existing calculation was that the numerator pulled from Exhibits 5, 6, and 8, while the denominator pulled from the Liabilities page. The Ad Hoc Group noted that using the varying schedules between the numerator and denominator was a less straightforward approach to the calculation. Drutz said the Ad Hoc Group started its initial review by identifying equivalent lines in Exhibits 5, 6, or 8 to the Liabilities reference in the denominator. After identifying these, the Ad Hoc Group recalculated the results to ensure consistency. However, as the Ad Hoc Group worked through this exercise, it identified an inconsistency in the lines used in the calculation. Some were reported on a net basis, while others were reported on a gross basis. As a result, the Ad Hoc Group identified and analyzed the results of the reserve ratio to be calculated on an all-net or all-gross basis. It determined that there was no material effect to one over the other, and it moved forward with a net basis approach, which will keep the premium and reserve ratio on a net basis.

Drutz said based on the analysis of the Ad Hoc Group, a Phase 2 proposal was drafted. This proposal includes revisions to the General Interrogatories, Part 2, Health Test Premium and Reserve Ratio calculations for life, property, and health. The changes reflected in this proposal were to clarify and create greater transparency in the calculation of both the numerator and the denominator in both the premium and reserve calculation. In both the premium and reserve ratios, the numerator and the denominator were calculated using separate schedules. Drutz said the changes align the denominator to pull from the same schedules as the numerator where possible. For example, the denominator in the calculation of the reserve ratio in the life general interrogatories was calculated using the Liabilities page, but the numerator utilized Exhibits 6 and 8. For greater transparency, the Ad Hoc Group then utilized those same schedules to now calculate the denominator. He said the current calculation of the reserve ratio utilizes both gross and net amounts, creating inconsistencies in the calculation. It was concluded that the net basis was the best way to move forward. This allowed for both the premium and reserve ratio to be calculated on a net basis. Drutz said additional clarifying instructions were also incorporated into the health test language on the timing of when a company would move if it has passed the test.

Drutz said the Ad Hoc Group also discussed whether the 95% ratio should be lowered, but it determined that no changes should be made at this time due to the extensive changes in the life and property annual statement filings for capturing health data. He said the Ad Hoc Group felt that all health data changes should be implemented, as well as the proposed health test changes, and then re-evaluated in a few years.

Hearing no objections, the Working Group exposed the proposal to the Health Risk-Based Capital (E) Working Group, the Property and Casualty Risk-Based Capital (E) Working Group, and the Life Risk Based-Capital (E) Working Group for a 45-day public comment period ending June 30.

2. Discussed Other Matters

Drutz said proposal 2022-09-CA was adopted for year-end 2023 reporting, and it revises the affiliated investment portion of the health RBC formula. He said as NAIC staff worked through the implementation of the changes, it was found that some clarifications were needed in the form of editorial changes, specifically for indirectly owned alien insurance subsidiaries and affiliates. He said the Working Group will work with the Capital Adequacy (E) Task Force on these editorial changes.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/

Draft: 7/10/23

Health Risk-Based Capital (E) Working Group
Virtual Meeting
April 17, 2023

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 17, 2023. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair (TX); Wanchin Chou, Qing He, and Sarah Mu (CT); Frances Tay and Benjamin Ben (FL); Tish Becker (KS); Danielle Smith and Debbie Doggett (MO); Lindsay Crawford, Michael Muldoon, and Margaret Garrison (NE); and Tom Dudek (NY).

1. Adopted its Spring National Meeting Minutes

Chou made a motion, seconded by Muldoon, to adopt the Working Group's March 21 minutes (*see NAIC Proceedings – Spring 2023, Capital Adequacy (E) Task Force, Attachment Two*). The motion passed unanimously.

2. Referred Proposal 2023-01-CA to the Capital Adequacy (E) Task Force for Exposure

Drutz said the intent is to refer proposal 2023-01-CA to the Capital Adequacy (E) Task Force for exposure, which the Working Group exposed at the Spring National Meeting for 20 days. No comments were received. Drutz said the purpose of the proposal was to clarify the instructions for stop loss business in the health risk-based capital (RBC) formula and align the life and property/casualty (P/C) RBC formulas with these changes. The following minor editorial changes were made to the proposal: 1) the "i.e." references were replaced with "e.g."; 2) the reference to "treaty" in the example provided under the Calendar Year was corrected to "contract"; and 3) the proposal number on the proposal form was corrected.

Hearing no objections, the Working Group agreed to refer proposal 2023-01-CA to the Capital Adequacy (E) Task Force for exposure.

3. Received an Update from the Academy on the Health Care Receivables Project

Kevin Russell (American Academy of Actuaries—Academy) provided an overview and update to the Working Group on the status of the health care receivable (HCR) factor review project. He provided a brief history, noting that Exhibit 3A was implemented in the Health Annual Statement Blank in 2013, which provides a follow-up study on HCRs, and an analogous exhibit was implemented in the Life, Accident and Health (A&H)/Fraternal Annual Statement Blank in 2021. He said the original RBC factor for all types of HCRs was 0.05. He said in 2016, the Academy recommended a change to the factors based on an analysis of amounts collected against receivables compared to admitted receivable assets. He said there was a separate analysis of drug rebates versus the other five types combined. For drug rebates, the 0.05 factor provides a likelihood of between 90% and 95% that the collected amounts would cover the admitted asset plus the amount added to the H3 credit risk calculation. Russell noted that the second largest category of receivables is claim overpayment receivables, and a separate analysis was considered but rejected in favor of including them with the other four types. The Academy recommended the following current factors: 0.05 for drug rebates and 0.19 for all other HCRs.

Russell noted that HCRs have been changing over the years, and drug rebate receivables continue to be the largest portion and still growing; i.e., 48% in 2014 and 65% in 2021. He said claim overpayment receivables have always been the second largest, but their percentage is shrinking—20% in 2014 to 14% in 2021—and risk-sharing receivables are growing as a percentage—3% in 2014 to 7% in 2021.

Russell said the Academy has looked at the 2018–2021 data provided for the Other HCRs, and less than one-third of the Other HCR (for 2018 through 2021) dollars have any description. He said a good amount have descriptions consistent with expectations, such as government programs (e.g., Medicare, Medicaid, and the Children's Health Insurance Program [CHIP]). However, there is a good amount where the descriptions do not seem to be appropriate for items that become a portion of incurred claims via the Underwriting and Investment (U&I) Exhibit Part 2. Examples are: 1) Reinsurance – Reinsurance receivables are part of the H3 Credit Risk but in a different section than HCRs; reinsurance is separately accounted for on the U&I Exhibit Part 2; 2) Interest – Investment income receivables are part of the H3 Credit Risk but in a different section than HCRs; and 3) Admin Fee – The H4 Business Risk covers administrative expenses. Russell said the Academy is considering making inquiries through the NAIC to better understand why these receivables are being reported as such, and the goal would be to produce recommendations to improve instruction clarity or provide additional guidance.

Russell said the Academy is investigating the following questions: 1) whether performance is better for drug rebates compared to the other five categories of HCRs for the filing companies whose receipts do not cover their accrual; 2) whether company performance has improved over time for the filing companies whose receipts do not cover their accrual (an outlier poor performance year might be excluded from the analysis to produce new recommended factors); 3) whether larger companies perform better than smaller ones for the filing companies whose receipts do not cover their accrual (this could indicate that smaller factors could be appropriate for larger receivable amounts, similar to the treatment of the Experience Fluctuation Risk component of the H2 Underwriting Risk).

David Quinn (Academy) shared a graphical representation of the initial analysis results with the Working Group (Attachment Three-B1). He said the density plots show how well companies collected if they did not collect at least 100%. Taller peaks towards 100% are desirable, while masses above 0% could be poor reporting or failure to collect on the receivable. The left-side charts are by year. The overlapping suggests that reporting is consistent across years. The right-side charts are by company size measured by total HCR dollars. The medium and large tiers are defined by $1 million and $10 million, respectively. Each tier is noticeably different in its distribution and thus may have different H3 risks as a function of size. Quinn said larger HCR companies typically did better than smaller ones, which has given rise to the consideration of using a tiered factor approach.

Muldoon said it is interesting that claims overpayment appears to be a much bigger group getting no collections in the prior year, and it could have been estimated erroneously, or there is a dispute with a company that thinks they have made overpayments, but the provider disagrees. Quinn agreed that this is very plausible, and he said it could be the size, as fewer companies hold this type of receivable, so there is more volatility from a small sample size. Russell said the receivable is set up, but the collection often does not come as a separate payment against the accruals. Rather, it comes as an offset made against future claim payments. This may be difficult for companies to quantify because it looks like an adjustment to a claim. He said a large portion is not reporting any collections against the accruals made, and this may be an inquiry to be made.

Drutz asked if the items identified in the analysis as questionable or incorrect were omitted from the analysis. Russell said they were not omitted, and in many cases, they had recoveries reported. The question was the propriety of the receivable type that they were reported as and if it was truly an HCR or some other type of receivable. Drutz asked if the clarification of the Annual Statement Instructions provided any improvement in the data integrity in the last several years. Russell said the Academy did not see much difference in the data integrity in the last four years.

Robin Marcotte (NAIC) asked if it was not a true reinsurance recoverable but instead perhaps related to Medicare or Medicaid. Russell said that is something that has been considered, and it is not uncommon on the Medicaid side for states to keep out of their managed care capitations; i.e., claims in excess of $500,000 for the plan year.

Russell said the state may ask the health plan to pay the whole claim and then submit a stop loss request back to the state, so the HCR could be mislabeled.

The Working Group agreed that it wants the Academy to continue its work on the HCR factor review and prepare a list of possible inquiries.

4. Received an Update from the Academy on the H2 – Underwriting Risk Review

Derek Skoog (Academy) said the Health Solvency Work Group has been working in several different subgroups to advance the following topics: 1) redesigning the structure of the underwriting risk formula; 2) data analysis; and 3) redesigning the managed care credit. He said the Work Group continues to work towards providing more analyses related to where it is seeing volatility in the performance of various lines of business over time and what that may imply for initial underwriting risk factors and structural changes.

5. Discussed Pandemic Risk

Drutz said the Working Group agreed to begin discussing pandemic risk at the Spring National Meeting, and he asked if state insurance regulators consider it to be a missing risk. Muldoon said he has not seen any definitive studies about the impact on RBC because of the pandemic. He said in 2020, the government stepped in and shut down all elective surgeries, and because health companies did not have to cover them, many had a big underwriting gain; however, many companies experienced an increase in telehealth and mental health services, as well as the COVID-19 vaccine. He asked if the assumption is that there would be the same type of government action to step in when the next pandemic hits, and if so, the risk of many health companies becoming insolvent could be minimized. He said he was not clear on what could be changed in the RBC at this time. Drutz noted the limited hospital space during the pandemic, and he asked how the limited space could affect the risk. He also noted the pent-up demand for medical care following the worst of the pandemic, and he asked if this demand could have a bigger effect than the pandemic. He said there appeared to be more volatility for some carriers in 2021 and 2022 because of this pent-up demand.

Drutz asked if anyone has any knowledge or information on modeling pandemic risk and if any industry participants model for pandemic risk. Muldoon said Nebraska has not seen much on modeling pandemic risk in its reviews of companies. Drutz asked if anyone has any information related to the Solvency II requirements for modeling pandemic risk. Richard said he has seen some requirements for Solvency II for the United Kingdom (UK). He said the approach was as follows: if the number of policyholders is X, assume X percent will have an office visit, X will have a more severe case, and X will have a higher severity case. Then, there is an assumed frequency for each of the three levels of severity multiplied by the corresponding costs. Richard said the templates for the calculation are all public through the European Insurance and Occupational Pensions Authority (EIOPA).

Drutz asked if the Working Group feels it should dive deeper into pandemic risk, and if so, if there are any thoughts on how to begin this work or questions to consider. Muldoon suggested looking at what work the Society of Actuaries (SOA) is still doing with its monitoring spreadsheets. He also suggested looking at the RBC filings from 2020–2022 to see if any discernable differences were noted. Drutz suggested looking to see if there was a general decline in RBC results. Muldoon also suggested segregating the companies into groups, such as major medical.

The Working Group agreed to begin looking at pandemic risk.

6. Discussed Other Matters

Drutz said the Health Test Ad Hoc Group met April 12, and a question was raised on the proposal's effective date and when a company would move if they passed the health test based on the language currently included in it. The Ad Hoc Group determined that that language was not overly clear, and it would be beneficial to look at it further. As a result, the Ad Hoc Group will meet again April 26 to look at clarifications for the language on “Passing the Test” and “Failing the Test.”

Drutz said the Capital Adequacy (E) Task Force established an ad hoc group at the Spring National Meeting to review or analyze current non-investment charges, missing risks, and modernizing asset concentration instructions. He said if anyone has any thoughts on non-investment charges or missing risks in the health RBC formula, they should reach out to him or Crystal Brown (NAIC).

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

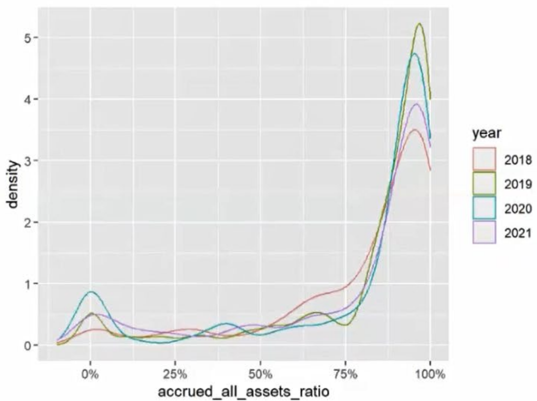
SharePoint/NAIC Support Staff Hub/Member Meetings/

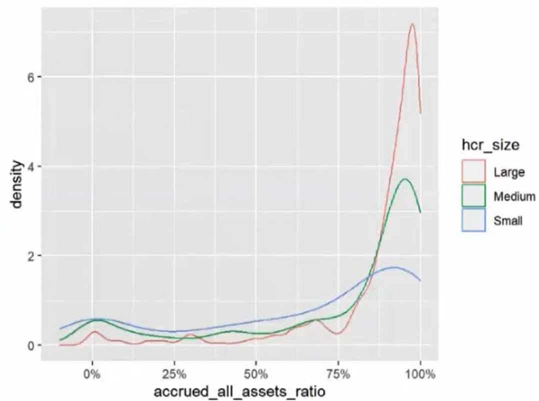
Rx Rebates

```
## # A tibble: 4 x 2
##   year  accrued_all_assets_ratio
##   <chr>                    <dbl>
## 1 2018                     0.887
## 2 2019                     0.923
## 3 2020                     0.926
## 4 2021                     0.923
```

```
## # A tibble: 3 x 3
##   hcr_size median count
##   <chr>     <dbl> <int>
## 1 Large     0.938   422
## 2 Medium    0.921   303
## 3 Small     0.803   176
```

3A Rx Rebates



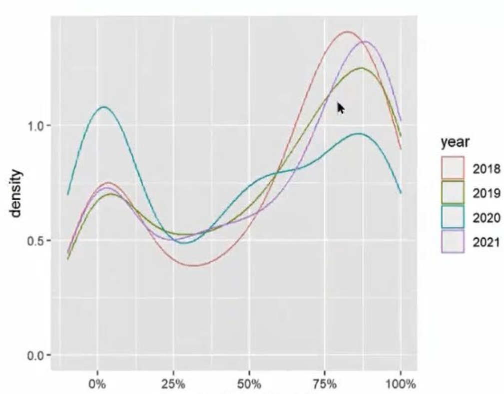


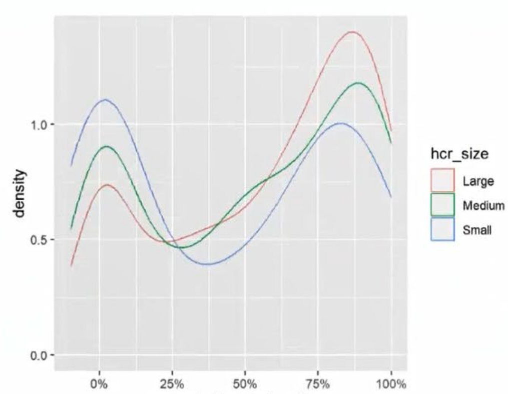
Claim Overpayments

```
## # A tibble: 4 x 2
##   year  accrued_all_assets_ratio
##   <chr>                    <dbl>
## 1 2018                     0.711
## 2 2019                     0.660
## 3 2020                     0.509
## 4 2021                     0.685
```

```
## # A tibble: 3 x 3
##   hcr_size median count
##   <chr>     <dbl> <int>
## 1 Large     0.674   299
## 2 Medium    0.589   213
## 3 Small     0.475    85
```

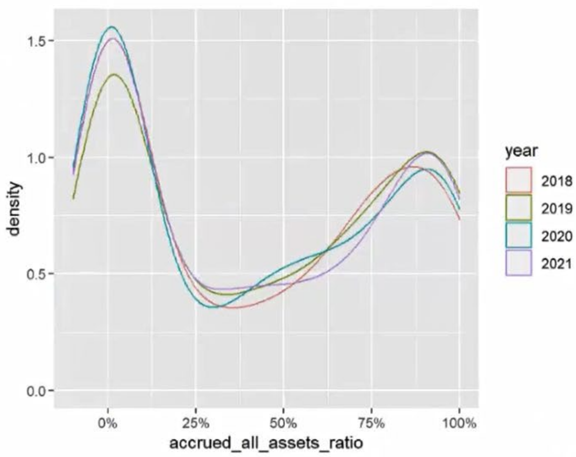
3A Claims Overpayment

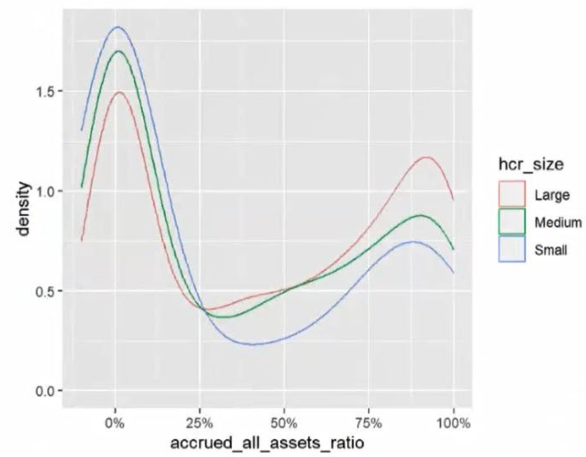





```
## # A tibble: 3 x 3
##   hcr_size median count
##   <chr>      <dbl> <int>
## 1 Large      0.494   889
## 2 Medium     0.283   454
## 3 Small      0       179
```

3A All non-Rx Rebate



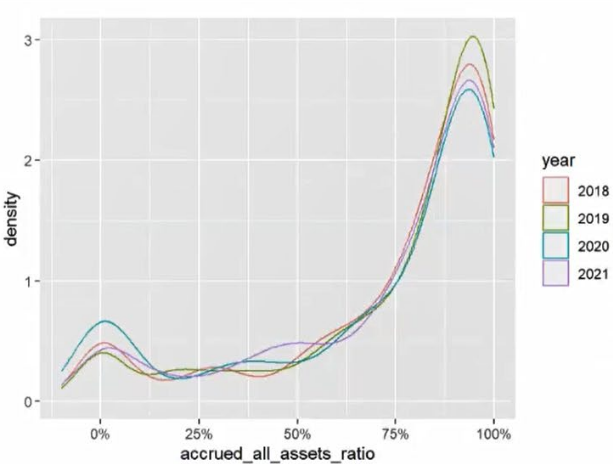


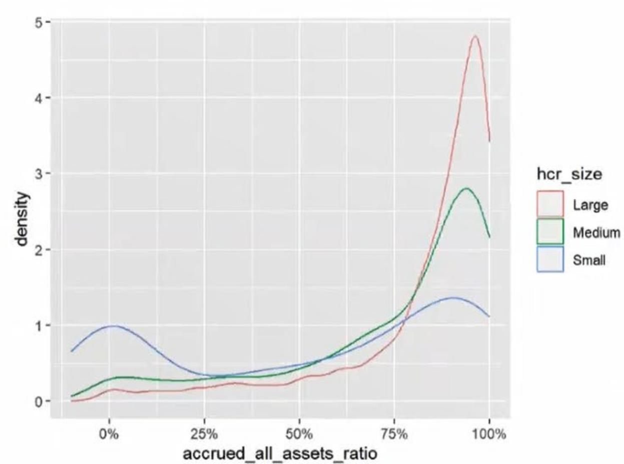
All HCR

```
## # A tibble: 4 x 2
##   year  accrued_all_assets_ratio
##   <chr>                    <dbl>
## 1 2018                     0.865
## 2 2019                     0.880
## 3 2020                     0.869
## 4 2021                     0.871
```

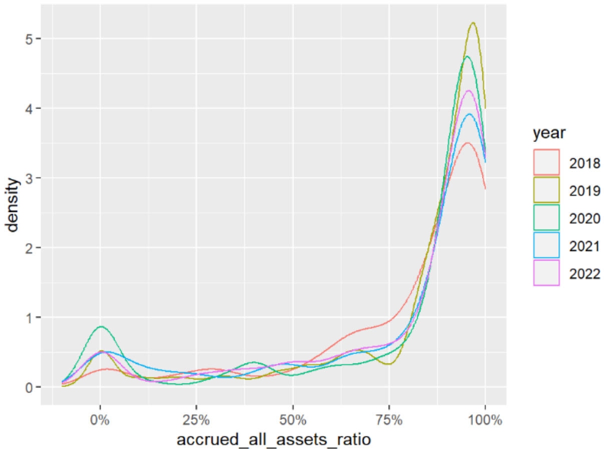
```
## # A tibble: 3 x 3
##   hcr_size median count
##   <chr>      <dbl> <int>
## 1 Large      0.908   455
## 2 Medium     0.863   389
## 3 Small      0.682   253
```

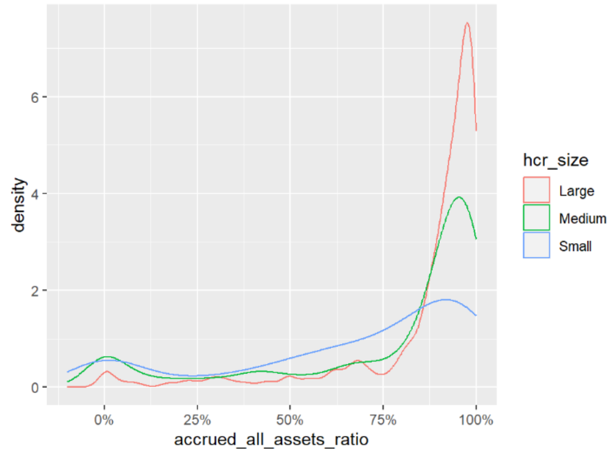
3A All HCRs



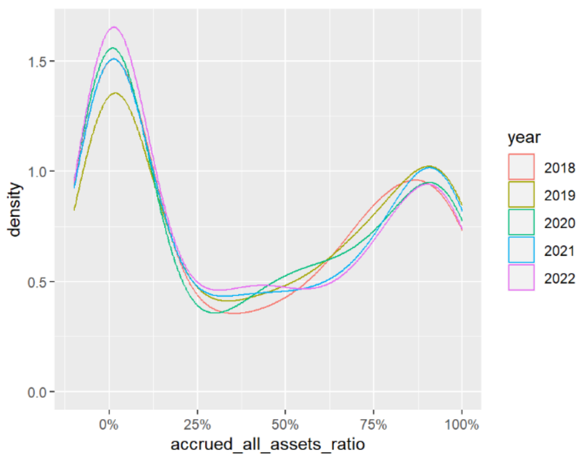


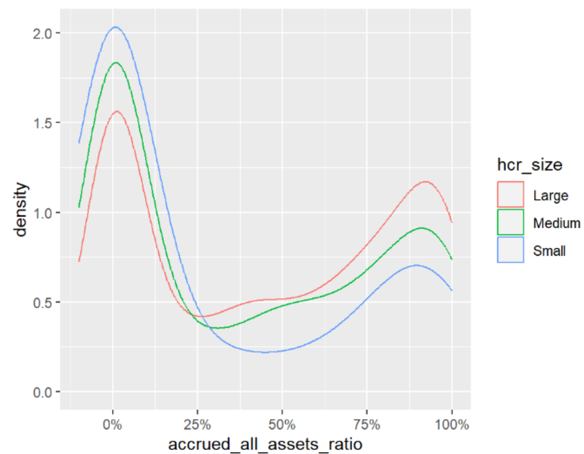
3A Rx Rebates



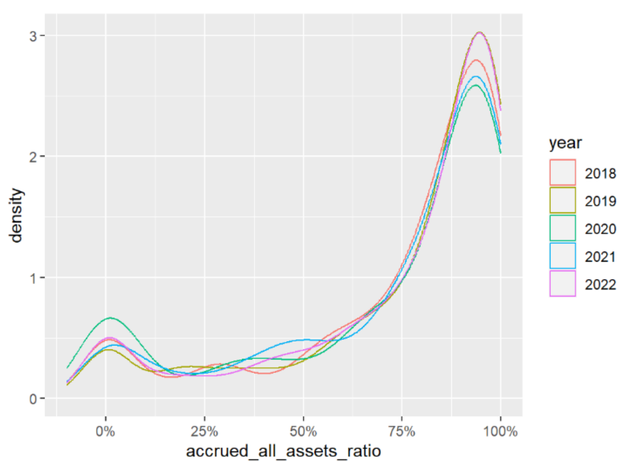


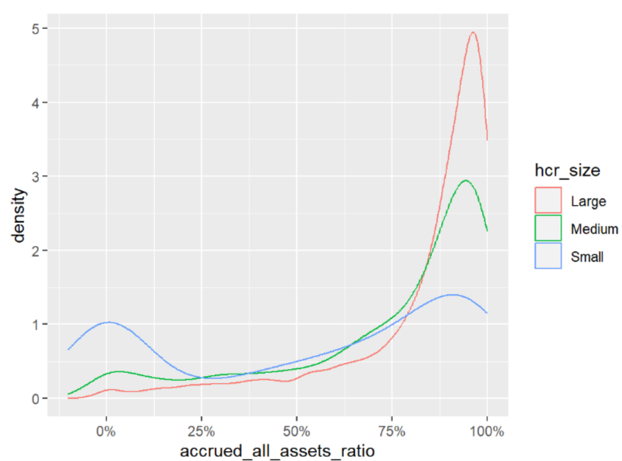
3A All non-Rx Rebate





3A All HCRs





NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Newsletter Items for Adoption for 2023 for Health RBC:

Date: July 2023
Volume: 25.1

Page 1: Intro Section:

What Risk-Based Capital Pages Should Be Submitted?

For the year-end 2023 health risk-based capital (RBC) filing, submit hard copies of pages **XR001 through XR027** to any state that requests a hard copy in addition to the electronic filing. Beginning with year-end 2007, a hard copy of the RBC filings was not required to be submitted to the NAIC. Other pages, outside of pages XR001 through XR027, do not need to be submitted. Those pages would need to be retained by the company as documentation.

Page 1+: Items Adopted for 2023:

Modification to the Affiliated Investment Structure and Instructions

The Capital Adequacy (E) Task Force adopted proposal 2022-09-CA during its March 23 meeting to revise the instructions and structure of the Affiliated Investment pages (pages XR002–XR004) to provide consistent treatment of affiliated investments between the Health, Life, and Property/Casualty (P/C) RBC formulas. The Capital Adequacy (E) Task Force adopted proposal 2022-09-CA (MOD) during its June 30 call. The modified proposal clarified the examples provided for the Indirectly Owned Alien Insurance Affiliates/Subsidiaries section within the instructions and added a footnote for the "% Owned" column within the blank.

Preferred Stock Instructions

The Capital Adequacy (E) Task Force adopted proposal 2022-10-H during its Dec. 14, 2022, meeting to delete the reference to bond factors and revise for consistency with the P/C RBC preferred stock instructions.

Underwriting Risk – Annual Statement – Analysis of Operations References

The Capital Adequacy (E) Task Force adopted proposal 2022-11-H during its Dec. 14, 2022,

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
www.naic.org

meeting. The purpose of this proposal was to update the annual statement source descriptions and align the lines of business on pages XR013 and XR014 with the changes in the Annual Statement Analysis of Operations based on Blanks proposal 2021-17BWGMOD.

Trend Test Instructions
The Capital Adequacy (E) Task Force adopted proposal 2022-14-H during its March 23 meeting to remove the informational-only trend test instructions.

Renumbering of Page XR008
The Capital Adequacy (E) Task Force adopted proposal 2022-15-H during its March 23 meeting to renumber the lines on page XR008 so it starts with line number 1.

Underwriting Risk Factors – Investment Income Adjustment
The Capital Adequacy (E) Task Force adopted proposal 2022-16-CA during its June 30 meeting. This proposal updated the comprehensive medical, Medicare supplement, and dental and vision factors to include a 5% investment yield adjustment. The revised factors are:

	Comprehensive Medical	Medicare Supplement	Dental & Vision
$0–$3 Million	0.1434	0.0980	0.1148
$3–$25 Million	0.1434	0.0603	0.0711
Over $25 Million	0.0838	0.0603	0.0711

Stop Loss Premiums
The Capital Adequacy (E) Task Force adopted proposal 2023-01-CA during its June 30 meeting. This proposal clarifies the instructions for stop loss premiums in the Underwriting Risk – Experience Fluctuation Risk, Other Underwriting Risk, and Stop Loss Interrogatories.

Page 2+: Editorial Changes:

1. An editorial change was made to the Annual Statement Source column on page XR014 for the following:
    a. Column (1), Line (7) was updated to reference "Pg. 7, Col. 2+3+8+9, Line 17."
    b. Column (7), Line (2) was updated to reference "Pg. 7, Col. 8, Lines 1+2."
    c. Column (7), Line (3) was updated to reference "Pg. 7, Col. 9, Lines 1+2."
2. An editorial change was made to the instructions for Affiliated Investments to remove the reference "and Line 93999999" from the end of the following sentence: "The total of all reported affiliate/subsidiary stock should equal the amounts reported on Schedule D, Part 2, Section 1, Line 4409999999 plus Schedule D, Part 2, Section 2, Line 5979999999 and should also equal Schedule D, Part 6, Section 1, Line 0999999 plus Line 1899999."
3. An editorial change was made to the Annual Statement Source on page XR023, Lines (5) and (13), to update the line reference to Line 7.
4. An editorial change was made to remove the page number reference from the electronic-only stop loss tables on page XR015 of the forecasting file.

Last Page: RBC Forecasting & Warning:

Risk-Based Capital Forecasting and Instructions

The Health RBC forecasting spreadsheet calculates RBC using the same formula presented in the *2023 NAIC Health Risk-Based Capital Report Including Overview & Instructions for Companies*, and it can be downloaded from the NAIC Account Manager. The *2023 NAIC Health Risk-Based Capital Report Including Overview & Instructions for Companies* publication is available for purchase in an electronic format 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 Forecasting & Instructions.

WARNING: The RBC forecasting spreadsheet CANNOT be used to meet the year-end RBC electronic filing requirement. RBC filing software from an annual 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:

2023 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Health Risk-Based Capital Newsletter Volume 25.1. Published annually or whenever needed by the NAIC for state insurance regulators, professionals, and consumers.

Direct correspondence to: Crystal Brown, RBC Newsletters, NAIC, 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197. Phone: 816-783-8146. Email: cbrown@naic.org.

Aggregated Health Risk-Based Capital Data
2022 Data as of 7/5/2023

	2022 Health RBC	2021 Health RBC	2020 Health RBC Excluding ACA Fees	2020 Health RBC	2019 Health RBC Excluding ACA Fees	2019 Health RBC	2018 Health RBC Excluding ACA Fees	2018 Health RBC	2017 Health RBC Excluding ACA Fees	2017 Health RBC
Companies that have an RBC loaded on the database	1143	1095	1067	1067	1,012	1,012	965	965	937	937
Companies with action levels:	28	12	15	15	31	15	18	18	42	21
Percentage of total RBC's loaded	2.45%	1.10%	1.41%	1.41%	3.06%	1.48%	1.87%	1.87%	4.48%	2.24%
Company Action Level - Trend Test	13	15	12	12	27	14	13	13	23	12
Company Action Level	6	5	4	4	14	3	4	4	24	10
Regulatory Action Level	10	2	3	3	5	3	5	5	10	5
Authorized Control Level	0	2	2	2	3	2	2	2	0	0
Mandatory Control Level	12	3	6	6	9	7	7	7	8	6
Total H0 (H0 - Asset Risk - Affiliates w/RBC)	6,291,267,994	6,077,847,595	5,192,392,682	5,192,392,682	4,782,424,393	4,782,424,393	4,487,634,571	4,487,634,571	4,332,880,131	4,332,880,131
Total H1 (H1 - Asset Risk - Other)	14,838,262,774	15,015,094,709	11,292,103,225	11,292,103,225	9,743,938,557	9,743,938,557	8,589,245,210	8,589,245,210	8,315,790,867	8,315,790,867
Total H2 (H2 - Underwriting Risk)	58,513,470,158	52,350,782,384	45,819,164,666	45,819,164,666	44,037,638,071	44,037,638,071	40,572,604,055	40,572,604,055	38,787,031,590	38,787,031,590
Total H3 (H3 - Credit Risk)	5,526,140,601	4,762,549,718	4,199,732,859	4,199,732,859	3,626,933,231	3,626,933,231	3,408,034,022	3,408,034,022	3,143,155,975	3,143,155,975
Total H4 (H4 - Business Risk)	8,609,609,597	7,882,405,838	7,481,764,896	7,481,764,896	6,571,143,274	6,571,143,274	6,468,297,728	6,468,297,728	5,739,438,653	5,739,438,653
Total RBC Before Covariance	93,778,751,124	86,088,680,244	73,985,158,328	73,985,158,328	68,762,077,526	68,762,077,526	63,525,815,586	63,525,815,586	60,318,297,216	60,318,297,216
Total Adjusted Capital	220,326,411,094	211,045,740,619	193,852,790,008	193,859,548,232	160,266,143,771	171,305,834,767	156,735,204,883	156,738,377,038	132,169,821,412	142,062,265,048
ACA Fees			6,758,224		11,039,690,995		3,172,155		9,892,443,636	
Authorized Control Level RBC *	36,522,419,595	33,256,637,840	28,853,148,695	28,853,148,695	27,216,649,996	27,216,654,287	25,020,328,688	25,020,329,600	23,228,424,178	23,228,428,544
Aggregate RBC %	603%	635%	672%	672%	548%	629%	626%	626%	526%	612%
Median RBC %	628%	633%	706%	707%	640%	672%	668%	668%	609%	640%
# of Companies with an RBC Ratio of > 10,000%	148	121	143	143	156	156	134	134	112	112
# of Companies with an RBC Ratio of < 10,000% & > 1,000%	232	243	259	259	202	215	223	224	201	213
# of Companies with an RBC Ratio of < 1,000% & > 500%	333	356	320	320	257	282	267	267	237	251
# of Companies with an RBC Ratio of < 500% & > 300%	341	301	278	278	267	285	256	255	247	268
# of Companies with an RBC Ratio of < 300% & > 250%	**35**	**32**								
# of Companies with an RBC Ratio of < 250% & > 200%	**25**	**28**								
# of Companies with an RBC Ratio of < 300% & > 200%			52	52	99	59	67	67	97	71
# of Companies with an RBC Ratio of < 200% **& <> 0%**	28	12	14	14	31	15	18	18	42	21
# of Companies with an RBC Ratio of Zero	1	2	1	1	0	0	0	0	1	1
Total Companies with RBC	1,143	1,095	1,067	1,067	1,012	1,012	965	965	937	937
Total Revenue	998,270,459,614	888,638,436,244	806,712,759,846	806,712,759,846	731,800,228,651	731,800,228,651	689,327,716,795	689,327,716,795	643,856,047,265	643,856,047,265
Underwriting Deductions	973,220,456,829	873,483,482,222	774,563,533,665	774,563,533,665	715,077,656,883	715,077,656,883	668,918,380,940	668,918,380,940	625,985,270,784	625,985,270,784
Aggregate Premium	285,669,735,439	278,391,052,611	277,819,028,596	277,819,028,596	268,818,431,635	268,818,431,635	271,400,290,484	271,400,290,484	262,662,393,744	262,662,393,744
Aggregate Net Incurred Claims	806,428,955,513	721,841,094,774	622,491,724,778	622,491,724,778	585,439,850,066	585,439,850,066	541,009,426,163	541,009,426,163	511,376,831,853	511,376,831,853

* Authorized Control Level RBC amount reported in the Health RBC Excluding ACA Fees column is pulled from Line (18), page XR026, and the Authorized Control Level RBC amount reported in the Health RBC column is pulled from Line (4), page XR027.

Source: NAIC Financial Data Repository

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

	DATE:	**5-17-23**
CONTACT PERSON:	**Crystal Brown**	
TELEPHONE:	**816-783-8146**	
EMAIL ADDRESS:	**cbrown@naic.org**	
ON BEHALF OF:	**Health Risk-Based Capital (E) Working Group**	
NAME:	**Steve Drutz**	
TITLE:	**Chair**	
AFFILIATION:	**WA Office of Insurance Commissioner**	
ADDRESS:		

FOR NAIC USE ONLY

Agenda Item #____________
Year 2024
Changes to Existing Reporting [ ]
New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [ ]
Modifies Required Disclosure [ ]

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[ ] Adopted Date ________________
[ ] Rejected Date ________________
[ ] Deferred Date ________________
[ ] Other (Specify) ________________

BLANK(S) TO WHICH PROPOSAL APPLIES

[x] **ANNUAL STATEMENT**	[x] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[ ] **QUARTERLY STATEMENT**	[ ] **BLANK**	
[x] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[ ] Title
[x] Property/Casualty	[ ] Protected Cell	[ ] Other ______________________
[x] Health	[ ] Health (Life Supplement)	

Anticipated Effective Date:______________________________

IDENTIFICATION OF ITEM(S) TO CHANGE

Revise the Health Test Language and General Interrogatories.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this change is to clarify and create better transparency in the calculation of the premium and reserve ratios in the health test.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:____

Other Comments:

** **This section must be completed on all forms.** **Revised 7/18/202**

INSTRUCTIONS

GENERAL

The annual statement is to be completed in accordance with the *Annual Statement Instructions* and *Accounting Practices and Procedures Manual* except to the extent that state law, rules or regulations are in conflict with these publications. In cases of conflict, the life, accident and health annual statement will be filed pursuant to such state's filing requirements. The domiciliary state's insurance regulatory authority shall maintain full discretion in determining which NAIC annual statement blank must be filed. The annual statement blank filed with the domiciliary state shall be the blank submitted to, and maintained by, the NAIC, and barring conflict as described above, should be filed with all jurisdictions in which the reporting entity is licensed.

1. **Health Statement Test:**

If a reporting entity is licensed as a life and health insurer and completes the life, accident and health annual statement for the reporting year, the reporting entity must complete the Health Statement Test. ~~H~~However, a reporting entity that is required to also file the Separate Accounts Statement is not subject to the results of the Health Statement Test, and should continue to complete the life, accident and health/fraternal blank.

The Health Statement Test is designed to determine whether a reporting entity reports predominantly health lines of business. Health lines include hospital or medical policies or certificates, comprehensive major medical expense insurance and managed care contracts and exclude other health coverage such as credit insurance, disability income coverage, automobile medical coverage, workers' compensation, accidental death and dismemberment policies and long-term care policies.

Passing the Test:

A reporting entity is deemed to have passed the Health Statement Test if:

The values for the premium and reserve ratios in the Health Statement Test equal or exceed 95% for both the reporting and prior year.

If a reporting entity is a) licensed as a life and health insurer; b) completes the Life, Accident and Health annual statement for the reporting year; and c) passes the Health Statement Test (as described above), the reporting entity must complete the health statement beginning with the first quarter's statement for the second year following the reporting year in which the reporting entity passes the Health Statement Test and must also file the corresponding risk-based capital report and the life supplements for that year-end. For example, if the reporting entity reports premium and reserve ratios of 95% or greater in 20X1 and again reports premium and reserve ratios of 95% or greater in 20X2, the reporting entity is deemed to have passed the Health Statement Test as of 20X2. Therefore, the reporting entity would begin completing the health statement in the first quarter of 20X4. ~~(As noted above, the domiciliary state regulator maintains full discretion in determining which annual statement blank must be filed and when the reporting entity is to move.)~~

	20X1	20X2	20X3	20X4
Premium Ratio	95% or greater	95% or greater	Work with domestic regulator~~s~~ to move effective Quarter 1 20X4	Move to Orange Blank Quarter 1
Reserve Ratio	95% or greater	95% or greater		

As noted above, the domiciliary state regulator maintains full discretion in determining which annual statement blank must be filed and when the reporting entity is to move.

Variances from following these instructions:

If a reporting entity's domestic regulator requires the reporting entity to complete an annual statement form and risk-based capital report that differs from these instructions, the domestic regulator shall notify the reporting entity in writing by June 1 of the year following the reporting year in which a Health Statement Test is submitted.

PART 2 – LIFE ACCIDENT HEALTH COMPANIES/FRATERNAL BENEFIT SOCIETIES INTERROGATORIES

Life and Accident Health Companies/Fraternal Benefit Societies:

2. This General Interrogatory is designed to determine whether a reporting entity reports predominantly health lines of business. Health lines include hospital or medical policies or certificates, comprehensive major medical expense insurance and managed care contracts and exclude other health coverage such as credit insurance, disability income coverage, automobile medical coverage, workers compensation, accidental death and dismemberment policies and long-term care policies.

   All reporting entities should file the test; however, a reporting entity that is required to also file the Separate Accounts Statement is not subject to the results of the Health Statement Test, and should continue to complete the life, accident and health/fraternal blank.

   Premium and reserve information is obtained from the annual statement sources referenced on the form ~~or from the related risk-based capital report for the corresponding premium descriptions~~ relating to the current and prior reporting periods. The premium and reserve ratios are calculated on the net basis reporting.

Item	Description	Reporting Year Annual Statement Data	Prior Year Annual Statement Data
2.1	Premium Numerator	Health Premium values listed in the Analysis of Operations by Lines of Business – Accident and Health: The sum of Line 1, Columns 2-9 (Column 9 Medicaid should include Medicaid Pass-Through Payments Reported as Premium) plus Line 1, Column 13 in part (~~include only Medicare Part D and Stop Loss and Minimum Premium~~exclude credit insurance, disability income coverage, automobile medical coverage, workers' compensation, accidental death and dismemberment policies and long-term care policies) of the reporting year's annual statement.	Health Premium values listed in the Analysis of Operations by Lines of Business – Accident and Health: The sum of Line 1, Columns 2-9 (Column 9 Medicaid should include Medicaid Pass-Through Payments Reported as Premium) plus Line 1, Column 13 in part (exclude credit insurance, disability income coverage, automobile medical coverage, workers' compensation, accidental death and dismemberment policies and long-term care policies) of the prior year's annual statement. ~~**Health Premium** values listed in the statement value column (Column 1) of the reporting year's Life RBC report:~~ ~~Individual Lines:~~ ~~Usual and Customary Major Medical and Hospital~~ ~~Medicare Supplement~~ ~~Medicare Part D~~ ~~Dental and Vision~~ ~~Group Lines:~~ ~~Usual and Customary Major Medical and Hospital~~ ~~Medicare Supplement~~ ~~Medicare Part D~~ ~~Stop Loss and Minimum Premium~~ ~~Dental and Vision~~ ~~Federal Employee Health and Benefit Plan~~
2.2	Premium Denominator	~~Premium and Annuity Considerations (Page 4, Line 1) of the reporting year's annual statement~~Analysis of Operations by Lines of Business – Summary, Column 1, Line 1 of the reporting year's annual statement.	Analysis of Operations by Lines of Business – Summary, Column 1, Line 1~~Premium and Annuity Considerations (Page 4, Line 1)~~ of the prior year's annual statement
2.3	Premium Ratio	**2.1/2.2**	**2.1/2.2**
2.4(a)	Reserve Numerator	Net A&H Policy and Contract Claims	Net A&H Policy and Contract Claims

		without Credit Health (Exhibit 8, Part 1, Line 4.4, Column 9 and Column 11 (excluding Dread Disease, Disability Income and Long-Term Care)) plus Aggregate Reserves for A&H Policies without Credit Health (Exhibit 6, Column 1 less Columns 10, 11, 12 and Dread Disease included in Column 13) for Total (Net) ~~Unearned Premiums~~ (Line 17) or the reporting year's annual statement. ~~and Future Contingent Benefits (Line 4)~~	without Credit Health (Exhibit 8, Part 1, Line 4.4, Columns 9 and 11 (excluding Dread Disease, Disability Income and Long-Term Care)) plus Aggregate Reserves for A&H Policies without Credit Health (Exhibit 6, Column 1 less Columns 10, 11, 12 and Dread Disease included in Column 13) for ~~Unearned Premiums~~ Total (Net) (Line 17) of the prior year's annual statement. ~~and Future Contingent Benefits (Line 4)~~
2.5	Reserve Denominator	Aggregate Reserve (~~Page 3, Column 1, Lines 1+2+4.1+4.2~~Exhibit 5, Column 2, Line 9999999 plus Exhibit 6, Column 1, Line 17 plus Exhibit 8, Part 1, Column 1, Line 4.4) of the reporting year's annual statement. ~~minus additional actuarial reserves (Exhibit 6, Column 1, Lines 3+11 plus Exhibit 5, Misc. Reserves Section, Line 0799999)~~	Aggregate Reserve (Exhibit 5, Column 2, Line 9999999 plus Exhibit 6, Column 1, Line 17 plus Exhibit 8, Part 1, Column 1, Line 4.4 of the prior year's annual statement. ~~Page 3, Column 1, Lines 1+2+4.1+4.2~~) ~~minus additional actuarial reserves (Exhibit 6, Column 1, Lines 3+11 plus Exhibit 5, Misc. Reserves Section, Line 0799999)~~
2.6	Reserve Ratio	**2.4/2.5**	**2.4/2.5**

(a) Alternative Reserve Numerator – Company records may be used to adjust the reserve numerator to provide consistency between the values reported in the reserve numerator (2.4) and the premium numerator (2.1).

INSTRUCTIONS

For Completing Health Annual Statement Blank

GENERAL

The annual statement is to be completed in accordance with the *Annual Statement Instructions* and *Accounting Practices and Procedures Manual* except to the extent that state law, rules or regulations are in conflict with these publications. In cases of conflict, the health annual statement will be filed pursuant to such state's filing requirements. The domiciliary state's insurance regulatory authority shall maintain full discretion in determining which NAIC annual statement blank must be filed. The annual statement blank filed with the domiciliary state shall be the blank submitted to, and maintained by, the NAIC, and barring conflict as described above, should be filed with all jurisdictions in which the reporting entity is licensed.

1. **Health Statement Test:**

If a reporting entity completes the health annual statement for the reporting year, the reporting entity must complete the Health Statement Test.

The Health Statement Test is designed to determine whether a reporting entity reports predominantly health lines of business. Health lines include hospital or medical policies or certificates, comprehensive major medical expense insurance and managed care contracts and exclude other health coverage such as credit insurance, disability income coverage, automobile medical coverage, workers' compensation, accidental death and dismemberment policies and long-term care policies.

Passing the Test:

A reporting entity is deemed to have passed the Health Statement Test if the values for the premium and reserve ratios in the Health Statement Test equal or exceed 95% for both the reporting and prior year and will continue to report on the Health Statement

Failing the Test:

If a reporting entity, licensed as a life, accident and health or property and casualty insurer in its domiciliary state, is required to file the health annual statement for the reporting year and does not pass the Health Statement Test in the reporting year, it will revert to the annual statement form and risk-based capital report associated with the type of license held in its domestic state in the first quarter of the second year following the reporting year. For example, if the reporting entity reports a premium or reserve ratio below 95% in 20X1, the reporting entity is deemed to have not passed the Health Statement Test. Therefore, the reporting entity would revert to the annual statement form and risk-based capital report associated with the type of license held in its domestic state in the first quarter of 20X3. However, if the reporting entity reports premium and reserve ratios of 95% or greater in 20X2, it should work with its domiciliary regulator to determine the appropriate blank to file on to avoid movement back and forth between blanks. (As noted above, the domiciliary state regulator maintains full discretion in determining which annual statement blank must be filed and when the reporting entity is to move.)

If a reporting entity, licensed as a health insurer in its domiciliary state, is required to file the health annual statement for the reporting year and does not pass the Health Statement Test in the reporting year, it should continue to file the health annual statement.

Variances from following these instructions:

If a reporting entity's domestic regulator requires the reporting entity to complete an annual statement form and risk-based capital report that differs from these instructions, the domestic regulator shall notify the reporting entity in writing by June 1 of the year following the reporting year in which a Health Statement Test is submitted.

PART 2 – HEALTH INTERROGATORIES

2. This General Interrogatory is designed to determine whether a reporting entity reports predominantly health lines of business. Health lines include hospital or medical policies or certificates, comprehensive major medical expense insurance and managed care contracts and exclude other health coverage such as credit insurance, disability income coverage, automobile medical coverage, workers' compensation, accidental death and dismemberment policies and long-term care policies.

   All reporting entities should file the test.

   Premium and reserve information is obtained from the annual statement sources referenced on the form ~~or from the related risk-based capital report for the corresponding premium descriptions~~ relating to the current and prior reporting periods. The premium and reserve ratios are calculated on the net basis reporting.

Item	Description	Reporting Year Annual Statement Data	Prior Year Annual Statement Data
2.1	Premium Numerator	Health Premium values listed in the Analysis of Operations by Lines of Business, Line 1 plus Line 2, Column 2 through Column ~~8~~9 plus Line 1 plus Line 2, Column ~~9~~13 in part (excluding credit A&H and dread disease coverage, LTC, Disability Income) of the reporting year's annual statement.	Health Premium values listed in the Analysis of Operations by Line of Business, Line 1 plus Line 2, Column ~~1~~ 2 through Column 9 plus Line 1 plus Line 2, Column 13~~9~~ ~~(~~in part (excluding ~~for~~ credit A&H and dread disease coverage, LTC, Disability Income) ~~Column 10~~ of the ~~reporting~~ prior year's annual statement.
2.2	Premium Denominator	Analysis of Operations by Lines of Business~~Net Premium Income (Page 4, Line 2, Column 2)~~ Column 1, Line 1 plus Line 2 of the reporting year's annual statement.	~~Net Premium Income (Page 4, Line 2, Column 2)~~Analysis of Operations by Lines of Business, Column 1, Line 1 plus Line 2 of the prior year's annual statement.
2.3	Premium Ratio	**2.1/2.2**	**2.1/2.2**
2.4 (a)	Reserve Numerator	Health Reserve – Underwriting and Investment Exhibit, Part 2B (Column 3 + 4, Line 13 minus (Lines 9, 10, 11 and any dread disease coverage reported in Line 12) plus Line 16)~~13 minus Line 11) exclude Line 10 health care receivables, dread disease coverage, and credit A&H)~~ + Part 2D (Line 8+14, Column 1 minus (Columns ~~9~~10, 11, 12 and any dread disease coverage reported in Column 13) ~~) include stand-alone health care related plans only (i.e. stand-alone prescription drug plans, etc.), exclude dread disease coverage, credit A&H, LTC, Disability Income, etc.~~ of the reporting year's annual statement.	Health Reserve – Underwriting and Investment Exhibit, Part 2B (Column 3 + 4, Line 13 minus (Lines 9, 10, 11 and any dread disease coverage reported in Line 12) plus Line 16) ~~13 minus Line 11) exclude Line 10 health care receivables, dread disease coverage, and credit A&H~~ + Part 2D (Line 8+14, Column 1 minus Columns 10, 11, 12 and any dread disease coverage reported in Column 13~~9~~) ~~include stand-alone health care related plans only (i.e. stand-alone prescription drug plans, etc.), exclude dread disease coverage, credit A&H, LTC, Disability Income, etc.~~ of the ~~reporting~~prior year's annual statement.
2.5	Reserve Denominator	Underwriting and Investment Exhibit, Part 2A, Col. 1, Line 4.4 plus Underwriting and Investment Exhibit, Part 2, Column 1, Line 5 plus Underwriting and Investment Exhibit, Part 2D, Col. 1, Lines 8+14 plus Page 3, Column 3, Lines 5 + 6 ~~Claims Unpaid and Aggregate Reserves (Page 3, Column 3, Lines 1 + 2 + 4 + 7)~~ of the reporting year's annual statement.	Underwriting and Investment Exhibit, Part 2A, Col. 1, Line 4.4 plus Underwriting and Investment Exhibit, Part 2, Column 1, Line 5 plus Underwriting and Investment Exhibit, Part 2D, Col. 1, Lines 8+14 plus Page 3, Column 3, Lines 5 + 6~~Claims Unpaid and Aggregate Reserves (Page 3, Column 3, Lines 1 + 2 + 4 + 7)~~ of the prior year's annual statement.
2.6	Reserve Ratio	**2.4/2.5**	**2.4/2.5**

(a) Alternative Reserve Numerator – Alternative Reserve Numerator – Company records may be used to adjust the reserve numerator to provide consistency between the values reported in the reserve numerator (2.4) and the premium numerator (2.1).

INSTRUCTIONS

For Completing Property and Casualty Annual Statement Blank

GENERAL

The annual statement is to be completed in accordance with the *Annual Statement Instructions* and *Accounting Practices and Procedures Manual* except to the extent that state law, rules or regulations are in conflict with these publications. In cases of conflict, the property and casualty annual statement will be filed pursuant to such state's filing requirements. The domiciliary state's insurance regulatory authority shall maintain full discretion in determining which NAIC annual statement blank must be filed. The annual statement blank filed with the domiciliary state shall be the blank submitted to, and maintained by, the NAIC, and barring conflict as described above, should be filed with all jurisdictions in which the reporting entity is licensed.

1. **Health Statement Test:**

If a reporting entity is licensed as a property and casualty insurer and completes the property and casualty annual statement for the reporting year, the reporting entity must complete the Health Statement Test. However, a reporting entity that is required to also file the Protected Cell Statement is not subject to the results of the Health Statement Test and should continue to complete the property blank.

The Health Statement Test is designed to determine whether a reporting entity reports predominantly health lines of business. Health lines include hospital or medical policies or certificates, comprehensive major medical expense insurance and managed care contracts and exclude other health coverage such as credit insurance, disability income coverage, automobile medical coverage, workers' compensation, accidental death and dismemberment policies and long-term care policies.

Passing the Test:

A reporting entity is deemed to have passed the Health Statement Test if:

The values for the premium and reserve ratios in the Health Statement Test equal or exceed 95% for both the reporting and prior year.

If a reporting entity is a) licensed as a property and casualty insurer; b) completes the property and casualty annual statement for the reporting year; and c) passes the Health Statement Test (as described above), the reporting entity must complete the health statement beginning with the first quarter's statement for the second year following the reporting year in which the reporting entity passes the Health Statement Test and must also file the corresponding risk-based capital report and the property/casualty supplements for that year-end. For example, if the reporting entity reports premium and reserve ratios of 95% or greater in 20X1 and again reports premium and reserve ratios of 95% or greater in 20X2, the reporting entity is deemed to have passed the Health Statement Test as of 20X2. Therefore, the reporting entity would begin completing the health statement in the first quarter of 20X4. ~~(As noted above, the domiciliary state regulator maintains full discretion in determining which annual statement blank must be filed and when the reporting entity is to move.)~~

	20X1	20X2	20X3	20X4
Premium Ratio	95% or greater	95% or greater	Work with domestic regulator to move effective Quarter 1 20X4	Move to Orange Blank Quarter 1
Reserve Ratio	95% or greater	95% or greater		

As noted above, the domiciliary state regulator maintains full discretion in determining which annual statement blank must be filed and when the reporting entity is to move.

Variances from following these instructions:

If a reporting entity's domestic regulator requires the reporting entity to complete an annual statement form and risk-based capital report that differs from these instructions, the domestic regulator shall notify the reporting entity in writing by June 1 of the year following the reporting year in which a Health Statement Test is submitted.

PART 2 – PROPERTY AND CASUALTY INTERROGATORIES

2. This General Interrogatory is designed to determine whether a reporting entity reports predominantly health lines of business. Health lines include hospital or medical policies or certificates, comprehensive major medical expense insurance and managed care contracts and exclude other health coverage such as credit insurance, disability income coverage, automobile medical coverage, workers compensation, accidental death and dismemberment policies and long-term care policies.

   All reporting entities should file the test; however, a reporting entity that is required to also file the Protected Cell Statement is not subject to the results of the Health Statement Test and should continue to complete the property blank.

   Premium and reserve information is obtained from the annual statement sources referenced on the form ~~or from the related risk based capital report for the corresponding premium descriptions~~ relating to the current and prior reporting periods. The premium and reserve ratios are calculated on the net basis reporting.

Item	Description	Reporting Year Annual Statement Data	Prior Year Annual Statement Data
2.1	Premium Numerator	**Health Premium** values listed in the ~~Net~~ Premiums ~~Written~~Earned During Year column (Column ~~4~~6) of the reporting year's U&I Part 1~~B~~: Lines 13.1 and 13.2 Lines 15.1, 15.2, 15.4, 15.6, and 15.8 Line 15.5 (should include Medicare Pass-Through Payments Reported as Premium) Line 15.9 in part (exclude credit insurance, disability income coverage, automobile medical coverage, workers' compensation, accidental death and dismemberment policies and long-term care policies~~include only Medicare Part D and Stop Loss and Minimum Premium~~)	**Health Premium** values listed in the Premiums Earned During Year column (Column 4) of the reporting year's U&I Part 1: Lines 13.1 and 13.2 Lines 15.1, 15.2, 15.4, 15.6, and 15.8 Line 15.5 (should include Medicare Pass-Through Payments Reported as Premium) Line 15.9 in part (exclude credit insurance, disability income coverage, automobile medical coverage, workers' compensation, accidental death and dismemberment policies and long-term care policies) ~~**Health Premium** values as listed in the statement value column (Column 1) of the prior year's P&C RBC report:~~ ~~Individual Lines~~ ~~Usual and Customary Major Medical and Hospital~~ ~~Medicare Supplement~~ ~~Medicare Part D~~ ~~Dental and Vision~~ ~~Group Lines~~ ~~Usual and Customary Major Medical and Hospital~~ ~~Medicare Supplement~~ ~~Medicare Part D~~ ~~Stop Loss and Minimum Premium~~ ~~Dental and Vision~~ ~~Federal Employee Health and Benefit Plan~~
2.2	Premium Denominator	~~Premiums Earned (Page 4, Line 1) of the reporting year's annual statement~~Underwriting and Investment Exhibit, Part 1, Column 4, Line 35	Underwriting and Investment Exhibit, Part 1, Column 4, Line 35~~Premium Earned (Page 4, Line 1) of the prior year's annual statement~~
2.3	Premium Ratio	2.1/2.2	2.1/2.2
2.4(a)	Reserve Numerator	Part 2A, Unpaid Losses and Loss Adjustment Expenses (Columns 8+9, Lines 13+15 (excluding Line 15.3 Disability Income, Line 15.7 Long-Term Care), Line 15.9 in part (include only Medicare Part D and Stop Loss and Minimum Premium)) plus Part 1A, Recapitulation of all Premiums (Columns 1+2, Lines 13+15 (excluding Line 15.3 Disability Income, Line 15.7 Long-Term Care), Line 15.9 in part (include only Medicare Part D and Stop Loss and Minimum Premium)) of the reporting	Part 2A, Unpaid Losses and Loss Adjustment Expenses (Columns 8+9, Lines 13+15) (excluding Line 15.3 Disability Income, Line 15.7 Long-Term Care), Line 15.9 in part (include only Medicare Part D and Stop Loss and Minimum Premium)) plus Part 1A, Recapitulation of all Premiums (Columns 1+2, Lines 13+15 (excluding Line 15.3 Disability Income, Line 15.7 Long-Term Care), Line 15.9 in part (include only Medicare Part D and Stop Loss and

		year's annual statement.	Minimum Premium))) of the prior year's annual statement.
2.5	Reserve Denominator	~~Unpaid Loss and LAE (Page 3, Column 1, Lines 1+2+3)~~ Part 2A, Unpaid Losses and Loss Adjustment Expenses, (Line 35, Columns 8+9) plus Part 1A, Recapitulation of all Premiums (Line 35, Columns 1+2) of the reporting year's annual statement.	Part 2A, Unpaid Losses and Loss Adjustment Expenses, (Line 35, Columns 8+9)~~Unpaid Loss and LAE (Page 3, Column 1, Lines 1+2+3)~~ plus Part 1A, Recapitulation of all Premiums (Line 35, Columns 1+2) of the prior year's annual statement.
2.6	Reserve Ratio	**2.4/2.5**	**2.4/2.5**

(a) Alternative Reserve Numerator – Company records may be used to adjust the reserve numerator to provide consistency between the values reported in the reserve numerator (2.4) and the premium numerator (2.1).

AMERICAN ACADEMY of ACTUARIES

July 13, 2023

Steve Drutz
Chair, Health Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners (NAIC)

Re: Request for Comprehensive Review of the H2—Underwriting Risk Component and Managed Care Credit Calculation in the Health Risk-Based Capital Formula

Dear Chair Drutz:

On behalf of the Health Underwriting Risk Factors Analysis Work Group of the Health Solvency Subcommittee of the American Academy of Actuaries (Work Group),[1] I appreciate the opportunity to provide these updates to the National Association of Insurance Commissioners (NAIC) Health Risk-Based Capital (E) Working Group in response to the request to comprehensively review the H2—Underwriting Risk Component and the Managed Care Credit Calculation in the Health Risk-Based Capital (HRBC) formula.

As part of the work group's review of the H2—Underwriting Risk Component, we identified several components of the current formula that merit discussion within the NAIC HRBC Working Group. We have described the issues below and would appreciate the opportunity to discuss them with the Working Group at the July 25, 2023, NAIC HRBC Working Group meeting.

For background, the critical source of the Experience Fluctuation Risk (EFR) formula within Underwriting Risk is the Analysis of Operations by Lines of Business (page 7 of the annual statutory financial statements). The page includes a buildup of underwriting gain/(loss), starting with net premium income, adding various other sources of revenue, then subtracting claims and administrative expenses. Some lines within the exhibit, including Fee-for-service and Risk revenue, are not broadly applicable, and the proportion of filers that utilize these fields is relatively small. Still, they often make up a material portion of revenue for those filers.

Those smaller components of the Analysis of Operations by Lines of Business have nuanced treatment within the current EFR formula that is likely not broadly understood. This nuanced treatment includes:

Nuance #1: Fee-for-service revenue is netted against incurred claims for Comprehensive Major Medical but not Medicare or Medicaid.

- The RBC instructions do not include the rationale for the distinction between lines of business.
- We do not see an intuitive rationale for the distinction and believe it may have been an inadvertent drafting error.

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

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Nuance #2: The fee-for-service revenue netting can result in erratic net loss ratio experience for health plans with significant fee-for-service revenue levels.

- After investigating several instances of health plans reporting fee-for-service revenue, it appears that filer understanding of the field is mixed.
- Additionally, if health plans report a significant amount of fee-for-service revenue, the net loss ratio may look problematic:
  - For example, we observed a health plan with an approximately 100% gross loss ratio and a 140% net loss ratio; the gross loss ratio is more likely to resemble the "priced" loss ratio.
  - The risk charge is effectively applied to the net claims level, which is tantamount to a managed care credit discount of 1.0.

Nuance #3: Other Health Risk Revenue is included in the revenue calculation for Comprehensive Major Medical but not for Medicare or Medicaid.

- The RBC instructions do not include a rationale for the distinction between lines of business.
- We do not see an intuitive rationale for the distinction and believe it may have been an inadvertent drafting error.

Nuance #4: Aggregate write-in revenue (health and non-health) is excluded from the calculation.

- "Aggregate write-ins for other health care related revenues" is commonly populated and often represents pass-through revenue related to Aggregate write-ins for other hospital and medical (line 14), which is included in line 17.
- "Aggregate write-ins for other non-health care revenues" are infrequently populated and generally immaterial.

These nuances may need to be addressed within the existing formula but should be considered as part of any significant change to the EFR formula. For simplicity, one option to change the formula may be to use lines 7 and 17 for revenue and claims for each applicable line of business; however, we welcome additional suggestions based on feedback from the Working Group.

*****

If you have any questions or would like to discuss further, please contact Matthew Williams, the Academy's senior health policy analyst, at williams@actuary.org.

Sincerely,

Derek Skoog, MAAA, FSA
Chairperson, Health Solvency Subcommittee, Health Underwriting Risk Factors Analysis Work Group
American Academy of Actuaries

Cc: Crystal Brown, Senior Health RBC Specialist & Education Lead, Financial Regulatory Affairs, NAIC

Draft: 8/23/23

Life Risk-Based Capital (E) Working Group
Seattle, Washington
August 13, 2023

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task met Aug. 13, 2023. The following Working Group members participated: Philip Barlow, Chair (DC); Sanjeev Chaudhuri (AL); Thomas Reedy (CA); Qing He (CT); Mike Yanacheak (IA); Vincent Tsang (IL); Fred Andersen (MN); William Leung (MO); Michael Muldoon and Margaret Garrison (NE); Jennifer Li (NH); Seong-min Eom (NJ); Michael Cebula (NY); Andrew Schallhorn (OK); Iris Huang (TX); and Tomasz Serbinowski (UT).

1. Adopted its June 22, April 14, and Spring National Meeting Minutes

Yanacheak made a motion, seconded by Leung, to adopt the Working Group's June 22 (Attachment Four-A), April 14 (Attachment Four-B), and March 22 (*see NAIC Proceedings – Spring 2023, Capital Adequacy (E) Task Force, Attachment Three*) minutes. The motion passed unanimously.

2. Adopted the 2023 RBC Newsletter

Yanacheak made a motion, seconded by Muldoon, to adopt the 2023 Life Risk-Based Capital (RBC) Newsletter (Attachment Four-C). The motion passed unanimously.

3. Adopted the 2022 Life RBC Statistics

Muldoon made a motion, seconded by Reedy, to adopt the 2022 Life RBC Statistics (Attachment Four-D). The motion passed unanimously.

4. Adopted its Working Agenda

Andersen made a motion, seconded by Yanacheak, to adopt the Working Group's working agenda. The motion passed unanimously.

5. Discussed Repurchase Agreements

Brian Bayerle (American Council of Life Insurers—ACLI) and Martin Mair (ACLI) presented a proposal on the repurchase agreement charge. Mair walked through the proposal and talked through some of the enhancements and additional changes necessary. Barlow asked whether it is possible that repos presumably open the possibility of 364 days of nonconforming repos and one day of conforming repos at the end of the year since they are a series of short-term transactions. He asked whether it is a program or a series of unrelated transactions. Mair said it is a program that must be set up with appropriate financial disclosures ahead of time. He said a transaction cannot be rolled over from a nonconforming program to a conforming program. Muldoon asked whether the risk would be the same for state-sponsored funds, asset managers, and money market funds. He also asked about the asset manager risk. Mair said all of them would typically be very highly rated. He said asset managers have extra cash, which is a good, collateralized way for them to lend out their cash in a low-risk way. The Working Group agreed to expose the ACLI's proposal for a 45-day public comment period.

6. Discussed C-2 Mortality Risk

Barlow said the C-2 mortality risk will be discussed on a call in September to provide clarity on the proposal for year-end 2023.

Tip Tipton (Thrivent), said interested parties are proposing some modifications to the annual statement blanks for 2024, which would subsequently feed the RBC formula and they are working with Dave Fleming (NAIC) and NAIC support staff for the Blanks (E) Working Group on this. Fleming said the Statutory Accounting Principles (E) Working Group received comments, and there have been some decisions on possible changes to the placement of the data in the annual statement. He said what will be in place for 2023 is not contingent upon the note.

7. Discussed Other Matters

Barlow said one of the items that the Life Risk-Based Capital (E) Working Group plans to look at is the covariance. He said the American Academy of Actuaries (Academy) is working on something related to the covariance that it will present to the Working Group when it is ready.

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

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2023-2-Summer/Life RBC Investment Risk 08-13-23 Minutes.docx

Draft: 8/7/23

Life Risk-Based Capital (E) Working Group
Virtual Meeting
June 22, 2023

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met June 22, 2023. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy (CA); Wanchin Chou (CT); Hannah Howard (FL); Mike Yanacheak (IA); Vincent Tsang (IL); Fred Andersen and Ben Slutsker (MN); William Leung (MO); Seong-min Eom (NJ); Bill Carmello and Roberto Paradis (NY); Andrew Schallhorn (OK); Rachel Hemphill (TX); and Tomasz Serbinowski (UT).

1. Adopted the Generator of Economic Scenarios (E/A) Subgroup Charges

Barlow said a new joint subgroup of the Working Group and the Life Actuarial (A) Task Force has been formed, and the charges need to be adopted by both groups.

Hemphill made a motion, seconded by Yanacheak, to adopt the charges of the Generator of Economic Scenarios (E/A) Subgroup. The motion passed unanimously.

2. Discussed Proposal 2023-08-L

Barlow said one comment letter was received on proposal 2023-08-L (Custody Control Accounts) (Attachment Four-A1). Paradis said this is not a credit for reinsurance issue but whether the security interest is sufficient to mitigate the counterparty risk and results in the risk-based capital (RBC) charge. He said the proposal leaves control over the supporting assets with the reinsurer, and it does not seem to mitigate the counterparty credit exposure for the cedant. Andrew Holland (Sidley Austin LLP) said the intention is that a security interest is affected either through the reinsurance agreement or a separate security agreement. Barlow asked if Holland and Paradis would be willing to discuss this further to come to a consistent understanding so the Working Group can move forward with the proposal. Both agreed.

3. Discussed the Working Agenda

Slutsker suggested adding all payout annuities to the scope of the work on longevity. Barlow asked Slutsker to work with NAIC staff on changing the wording.

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

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2023-2-Summer/Life RBC 6-22-23 Minutes.docx

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force	☐ Health RBC (E) Working Group	☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup	☐ P/C RBC (E) Working Group	☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup	☐ Economic Scenarios (E/A) Subgroup	☐ RBC Investment Risk & Evaluation (E) Working Group

DATE: 4/11/23

CONTACT PERSON: Andrew Holland
TELEPHONE: 212-839-5882
EMAIL ADDRESS: aholland@sidley.com
ON BEHALF OF: J.P. Morgan Securities LLC
NAME: Philip Prince
TITLE: Managing Director
AFFILIATION: Interested Party
ADDRESS: 383 Madison Ave., 7th Floor
New York, NY 10017

FOR NAIC USE ONLY

Agenda Item # 2023-08-L
Year 2023

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) ____________
☐ WORKING GROUP (WG) ____________
☐ SUBGROUP (SG) ____________

EXPOSED:
☐ TASK FORCE (TF) ____________
☐ WORKING GROUP (WG) ____________
☐ SUBGROUP (SG) ____________

REJECTED:
☐ TF ☐ WG ☐ SG ____________

OTHER:
☐ DEFERRED TO ____________
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) ____________

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

☐ Health RBC Blanks	☐ Property/Casualty RBC Blanks	☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions	☐ Property/Casualty RBC Instructions	☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula	☐ Property/Casualty RBC Formula	☐ Life and Fraternal RBC Formula

☐ OTHER ____________

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

See attached.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

RBC Proposal Form – Custody Control Accounts

Background

- Life reinsurance transactions with Reinsurers which are licensed, accredited or approved as reciprocal jurisdiction reinsurers in a Cedant's state of domicile generally do not require a collateral mechanism to provide credit for reinsurance (CFR).

- In many life reinsurance transactions, however, the parties nonetheless negotiate and agree to collateral arrangements for commercial reasons.

    - Such collateral arrangements are common in a variety of life reinsurance transactions, including block acquisitions, embedded value and reserve financings, and pension risk transfers.

- The Life RBC Manual instructions currently allow a Cedant to avoid an overstatement of RBC charges that would otherwise be applied for credit exposure to reinsurance counterparties if such collateral is held by the Cedant as funds withheld or a "comfort" reinsurance trust is established by the Reinsurer.

- Other collateral mechanisms can provide the same level of security to Cedants with lower costs and greater flexibility.

    - The Finance industry widely supports and leverages custodial control accounts ("Custody Control Accounts") where segregated collateralization under third-party control is required (e.g., pledges of assets to Federal Home Loan Banks, posting of initial margin and variation margin on derivatives transactions).

- A Custody Control Account can similarly hold assets pledged by a Reinsurer for the benefit of a Cedant in connection with a reinsurance transaction.

- A Custody Control Account can provide the same protections to the Cedant as would be provided by a trust arrangement. However, a Custody Control Account operates at a reduced cost due to increased scale and automation.

- This proposal would amend the Life RBC formula to similarly avoid overstatement of credit risk on a reinsurance transaction when collateral is held by the Cedant in a Custody Control Account.

    - No changes to the Credit for Reinsurance Model Law or Credit for Reinsurance Model Regulation are being proposed.

Proposed Changes to Life RBC Instructions

From Risk-Based Capital Forecasting & Instructions – Life and Fraternal, 2019

REINSURANCE

LR016 (p. 53 of the 2019 Edition)

There is a risk associated with recoverability of amounts from reinsurers. The risk is deemed comparable to that represented by bonds between risk classes 1 and 2 and is assigned a pre-tax factor of 0.78 percent. To avoid an overstatement of risk-based capital, the formula gives a 0.78 percent pre-tax credit for reinsurance with non-authorized and certified companies, for reinsurance among affiliated companies, for reinsurance with funds withheld or reinsurance with authorized reinsurers that is supported by equivalent trusteed **or custodied** collateral ~~that meets the requirements~~ **of the types** stipulated in **paragraph 18 of** Appendix A-785 (Credit for Reinsurance), where there have been regular bona fide withdrawals from such trusteed **or custodied** collateral to pay claims or recover payments of claims during the calendar year covered by the RBC report, and for reinsurance involving policy loans. Withdrawals from trusteed **or custodied** collateral that are less than the amounts due the ceding company shall be deemed to not be bona fide withdrawals. **For purposes of these instructions, "custodied collateral" shall mean assets held pursuant to a custodial arrangement with a qualified U.S. financial institution (as defined in Appendix A-785 (Credit for Reinsurance)) pursuant to which the underlying assets are segregated from other assets of the reinsurer and are subject to the exclusive control of, and available to, the ceding company in the event of the reinsurer's failure to pay under, and otherwise pursuant to the terms of, the subject reinsurance agreement.**

Additional Resource Materials

- Presentation dated October 2022 containing Summary of Contractual Terms for Custody Control Arrangement and Schematic Diagram
- Form of Custody Control Agreement Wording
- Comparison Chart – CFR Trust, Comfort Reinsurance Trust and Custody Control Account

Draft: 8/7/23

Life Risk-Based Capital (E) Working Group
Virtual Meeting
April 14, 2023

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 14, 2023. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy (CA); Wanchin Chou (CT); Mike Yanacheak and Carrie Mears (IA); Fred Andersen and Ben Slutsker (MN); William Leung (MO); Seong-min Eom (NJ); Bill Carmello (NY); Andrew Schallhorn (OK); Rachel Hemphill (TX); and Tomasz Serbinowski (UT).

1. Adopted Proposal 2023-05-L

Barlow said the dual presentation is no longer needed, and one comment letter was submitted in support of proposal 2023-05-L (Remove Dual Trend Test). Brian Bayerle (American Council of Life Insurers—ACLI) confirmed that the ACLI supports the proposal.

Chou made a motion, seconded by Andersen, to adopt proposal 2023-05-L (Attachment Two-D). The motion passed unanimously.

2. Adopted Proposal 2023-06-L

Barlow said one comment letter (Attachment Four-B1) was received. Bayerle said the two items the ACLI noted are a minor edit and a request for clarification on some of the language. The ACLI requests that the American Academy of Actuaries (Academy) provide that clarification in writing or on a future call. Dave Fleming (NAIC) said the first item the ACLI noted has already been addressed. He said while the Academy provided two alternatives for the Working Group to consider, one, noted as update two, that included the introduction of a new financial statement note to facilitate the population of the schedule, is not contingent upon the note being in place, and it could be adopted with a simple line description change to company records, along with a guidance document from the Working Group.

Barlow asked Bayerle if he had any questions or concerns. Bayerle said the ACLI is comfortable with the note if it is adopted, but the path that Fleming suggests in terms of clarifying the sources makes sense. Connie Jasper Woodroof (CJW Associates) said she submitted a comment letter to both the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group, but she should have included the Life Risk-Based Capital (E) Working Group. She said she does not have a problem with having a note to pull information for risk-based capital (RBC), but she believes the proposed note goes above and beyond the proposed purpose of the note. Additionally, she said the proposed note includes information that is already available in the annual statement, and one of the things the Blanks (E) Working Group has been charged with is reducing redundant reporting. She said she had submitted an alternative to the proposed note that would address those pieces needed for RBC that cannot be pulled from the annual statement. To be clear, Barlow said it sounds like the proposed note might change, but that will not affect what the Working Group needs to decide. Fleming agreed and said if the note changes or is not in place, the dynamic is the same and requires only a simple line description change to company records, along with a guidance document from the Working Group.

Andersen made a motion, seconded by Reedy, to adopt proposal 2023-06-L (C-2 Mortality Structure and Instruction Changes) (Attachment Two-E). Slutsker said his understanding of the new language in the Academy's proposal is that the RBC treatment and categorization could differ depending upon reinsurance, and he suggested that this be part of discussions about the proposed note. The motion passed unanimously.

3. Adopted Proposal 2023-07-L

Barlow said no comments were received on proposal 2023-07-L (CM6 & CM7 Mortgage Structure Change).

Andersen made a motion, seconded by Leung, to adopt proposal 2023-07-L (Attachment Two-F). The motion passed unanimously.

4. Exposed Proposal 2023-08-L for Comment

The Working Group agreed to expose proposal 2023-08-L (Comfort Trusts) for a 45-day public comment period.

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

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2023-2-Summer/Life 4-14-23 Minutes.docx

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March 1, 2023

Phillip Barlow
Chair, NAIC Life Risk-Based Capital (E) Working Group (LRBC)

Re: Academy Proposal for Life C-2 Structural and Instruction Updates and a New Financial Statement Note

Dear Mr. Barlow:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the American Academy of Actuaries' (Academy) Proposal for Life C-2 Structural and Instruction Updates and a New Financial Statement Note which was made available for public comment on January 26, 2023.

ACLI has no opposition to this proposal and is supportive of its adoption during a future LRBC call. With that said, there was one issue we seek clarification on in addition to one minor change we feel should be made help mitigate any potential uncertainty brought about by this APF:

1. What was the reasoning behind the change "in excess of the mortality cost expected under the moderately adverse scenario"?

2. Should the word "term" be removed from the group life reference (highlighted portion below)? This would make it consistent with our understanding of how the size band tiers have been done historically and avoid confusion with the Group & Credit Term Life bucket.

The NAR size bands apply to the total amounts for individual & industrial life and group ~~term~~ & credit life. The size bands are allocated proportionately to the NAR for each of the factor categories. Size band 1 is for NAR amounts up to $500 million. Size band 2 is for NAR amounts greater than $500 million and up to $25 billion. Size band 3 is for NAR amounts greater than $25 billion.

Thank you once again and we are looking forward to further discussion.

[illegible] Colin Masterson

cc: Dave Fleming

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Newsletter Items for Adoption for 2023 for Life and Fraternal RBC:

Date: July 2023
Volume: 29

Page 1: Intro Section:

What RBC Pages Should Be Submitted?
For year-end 2023 life and fraternal risk-based capital (RBC), submit hard copies of pages LR001 through LR049 to any state that requests a hard copy in addition to the electronic filing. Starting with year-end 2007 RBC, a hard copy was not required to be submitted to the NAIC. However, a portable document format (PDF) file representing the hard copy filing is part of the electronic filing.

If any actuarial certifications are required per the RBC instructions, those should be included as part of the hard copy filing. Starting with year-end 2008 RBC, the actuarial certifications were also part of the electronic RBC filing as PDF files, similar to the financial annual statement actuarial opinion.

Other pages, such as the mortgage and real estate worksheets, do not need to be submitted. However, they still need to be retained by the company as documentation.

Page 1+: Items Adopted for 2023:

Removal of Dual Trend Test
The Capital Adequacy (E) Task Force adopted proposal 2023-05-L to remove the dual presentation of the trend test during its April 28 meeting. This proposal eliminates the presentation of the test at the former 2.5 threshold while member jurisdictions transitioned to the current 3.0 threshold. That transition is now complete, so the dual presentation is not needed.

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

www.naic.org

CM6 and CM7 Mortgages

The Capital Adequacy (E) Task Force adopted proposal 2023-07-L during its April 28 meeting. This proposal aligns the CM6 and CM7 factors for non-performing commercial and farm mortgages with the factors for Schedule A and Schedule BA investments in real estate as those factors were adjusted in 2021. It also adopts the same formula for calculating RBC amounts for non-performing and performing residential, commercial and farm mortgages.

Structure and Instruction Changes to Update the Treatment of C-2 Mortality Risk

The Capital Adequacy (E) Task Force adopted update 2 in proposal 2023-06-L during its April 28 meeting. This proposal makes structural changes and instructional changes for LR025, Life Insurance. The proposal assigns the same factors to group permanent life as individual permanent life for categories stating with and without pricing flexibility. The proposal also included a new financial statement note to develop the net amounts at risk in the categories needed for the Life C-2 schedule to create a direct link to a financial statement source. The new note was deferred for yearend 2023 which will necessitate the line references to the new note to be company records for 2023 and will be supplemented by guidance from the Life Risk-Based Capital (E) Working Group.

Residual Tranches

The Capital Adequacy (E) Task Force adopted proposals 2023-03-IRE and 2023-04-IRE during its April 28 meeting. These proposals added a line to isolate residual tranches reported on Schedule BA and the asset valuation reserve for a specific base factor and to add lines for residual tranches to the sensitivity testing exhibits, respectively. During its June 30 meeting, the Capital Adequacy (E) Task Force adopted proposals 2023-09-IRE and 2023-10-IRE. The first proposal applies a base factor of .30 for yearend 2023 and a base factor for yearend 2024 of .45 which is subject to adjustment based on additional information. The second proposal applies a .15 factor for sensitivity testing for yearend 2023 to be adjusted for yearend 2024.

Modification to the Affiliated Investment Structure and Instructions

The Capital Adequacy (E) Task Force adopted proposal 2022-09-CA during its March 23, 2023 meeting, to revise the instructions and structure of the Affiliated Investment pages to provide consistent treatment of affiliated investments between the Health, Life and Property and Casualty Risk-Based Capital formulas.

Underwriting Risk Factors – Investment Income Adjustment

The Capital Adequacy (E) Task Force adopted proposal 2022-16-CA during its June 30, 2023 meeting. This proposal updated the comprehensive medical, Medicare supplement and dental and vision factors to include a 5% investment yield adjustment. The revised factors are:

	Comprehensive Medical	Medicare Supplement	Dental & Vision
$0-$3 Million	0.1434	0.0980	0.1148
$3-$25 Million	0.1434	0.0603	0.0711
Over $25 Million	0.0838	0.0603	0.0711

Stop Loss Premiums

The Capital Adequacy (E) Task Force adopted proposal 2023-01-CA during its June 30 meeting. This proposal clarifies the instructions for stop loss premiums in the Underwriting Risk – Experience Fluctuation Risk, Other Underwriting Risk and Stop Loss Interrogatories.

Last Page: RBC Forecasting & Warning:

RBC Forecasting and Instructions

The Life and Fraternal RBC forecasting spreadsheet calculates RBC using the same formula presented in the 2023 Life and Fraternal Risk-Based Capital Forecasting & Instructions for Companies, and it is available to download from the NAIC Account Manager. The 2023 Life and Fraternal Risk-Based Capital Forecasting & Instructions for Companies publication is available for purchase in electronic format through the NAIC Publications Department. This publication is available on or about November 1 each year. The User Guide is no longer included in the Forecasting & Instructions.

Warning: The RBC Forecasting Spreadsheet CANNOT be used to meet the year-end RBC electronic filing requirement. RBC filing software from an annual 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:

2023 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Life Risk-Based Capital Newsletter Volume 29. Published annually or whenever needed by the NAIC for insurance regulators, professionals and consumers.

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AGGREGATED LIFE RBC AND ANNUAL STATEMENT DATA
2022 Data as of 7/6/2023

		Year-End 2022	Year-End 2021	Year-End 2020	Year-End 2019	Year-End 2018	Year-End 2017	Year-End 2016	Year-End 2015	Year-End 2014	Year-End 2013
# of Companies Filed RBC		742	750	760	772	703	704	718	725	727	750
# of Companies Filed Annual Statement		755	766	774	786	722	729	739	750	763	770
% of RBC Companies		98%	98%	98%	98%	97%	97%	97%	97%	95%	97%
Company Action Level - Trend Test at 300%		6	8	5	7	6	6	3	2	6	6
Company Action Level - Trend Test at 250%		1	1	1	3	4	4	2	1	4	3
Company Action Level	1	2	3	2	4	2	3	4	6	5	5
Regulatory Action Level	2	0	1	0	0	2	4	1	1	0	1
Authorized Control Level	3	0	0	0	1	1	0	1	1	1	1
Mandatory Control Level	4	3	3	4	3	3	3	3	4	2	4
Total		12	16	12	18	18	20	14	15	18	20
		1.62%	2.13%	1.58%	2.33%	2.56%	2.84%	1.95%	2.07%	2.48%	2.67%
# of Companies with RBC Ratio > 10,000%		45	55	52	50	47	56	57	53	61	67
# of Companies with RBC Ratio >1000 & < 10,000%		298	292	306	312	275	311	319	338	333	337
# of Companies with RBC Ratio >500 & <1,000%		313	315	317	332	311	275	274	270	270	279
# of Companies with RBC Ratio >300 & <500%		**69**	**73**								
# of Companies with RBC Ratio >250 & <300%		**9**	**9**								
# of Companies with RBC Ratio >250 & < 500%				78	68	58	50	57	53	52	56
# of Companies with RBC Ratio > 200 & < 250%		3	2	2	4	4	5	3	4	7	4
# of Companies with RBC Ratio < 200% & <> 0%		5	4	5	6	8	7	8	7	4	6
# of Companies with RBC Ratio of Zero		0	0	0	0	0	0	0	0	0	1
Total		742	750	760	772	703	704	718	725	727	750
Total Adjusted Capital		696,198,240,900	710,746,904,192	635,213,337,716	606,901,270,691	540,392,904,821	526,559,144,783	508,747,679,200	495,365,058,593	486,612,658,608	472,894,118,204
Authorized Control Level RBC		81,640,007,079	80,264,014,541	74,177,610,650	70,095,026,244	64,286,923,366	56,351,687,796	53,371,992,970	51,286,679,826	49,962,064,876	49,205,729,081
Aggregate RBC %		853%	886%	856%	866%	841%	934%	953%	966%	974%	961%
Median RBC %		931%	965%	972%	964%	945%	1024%	1040%	1080%	1066%	1053%
Total C-0 Asset Risk - Affilates		33,786,700,697	32,282,896,095	27,669,014,696	25,328,213,376	23,856,057,914	21,480,358,294	19,961,695,520	19,307,626,448	18,663,109,500	19,306,580,061
Total C-1cs Asset Risk - Common Stock		54,900,737,718	55,182,980,709	45,635,935,886	42,580,467,817	36,644,436,197	29,944,288,495	26,649,848,001	25,801,853,730	26,039,253,312	23,483,229,549
Total C-1o Asset Risk - All Other		64,146,694,016	62,725,689,661	60,109,306,053	55,635,242,506	50,712,357,646	43,686,249,070	42,489,721,515	40,179,612,473	38,560,998,099	37,913,777,872
Total C-2 Insurance Risk		31,195,104,008	37,296,986,893	29,241,196,797	29,733,905,846	28,086,687,917	25,145,118,818	24,540,625,751	24,094,786,786	23,232,226,881	22,969,556,371
Total C-3a Interest Rate Risk		17,190,092,747	16,066,024,280	16,792,371,276	15,883,584,969	15,698,296,624	16,323,727,158	15,229,088,812	14,970,305,244	14,530,687,343	13,910,184,618
Total C-3b Health Credit Risk		18,337,840	111,552,562	104,729,771	92,196,729	88,414,538	77,374,674	36,706,313	2,309,153	2,081,557	5,892,497
Total C-3c Market Risk		3,529,226,438	4,295,739,257	6,181,583,664	5,209,040,590	4,036,702,207	2,288,518,186	2,208,998,999	1,906,066,557	2,224,840,425	2,669,688,425
Total C-4a Business Risk		10,224,912,322	9,240,542,060	8,816,493,013	8,678,807,068	8,042,986,598	7,739,505,134	7,747,940,544	7,357,039,841	6,998,502,423	6,829,950,654
Total C-4b Business Risk Admin. Expenses		583,359,049	620,386,794	680,883,943	652,941,471	679,693,954	584,193,165	649,189,658	677,624,067	647,290,652	688,425,241
		215,575,164,835	217,822,798,311	195,231,515,099	183,794,400,372	167,845,633,595	147,269,332,994	139,513,815,113	134,297,224,299	130,898,990,192	127,777,285,288
Total C-0 Asset Risk - Affilates		15.67%	14.82%	14.17%	13.78%	14.21%	14.59%	14.31%	14.38%	14.26%	15.11%
Total C-1cs Asset Risk - Common Stock		25.47%	25.33%	23.38%	23.17%	21.83%	20.33%	19.10%	19.21%	19.89%	18.38%
Total C-1o Asset Risk - All Other		29.76%	28.80%	30.79%	30.27%	30.21%	29.66%	30.46%	29.92%	29.46%	29.67%
Total C-2 Insurance Risk		14.47%	17.12%	14.98%	16.18%	16.73%	17.07%	17.59%	17.94%	17.75%	17.98%
Total C-3a Interest Rate Risk		7.97%	7.38%	8.60%	8.64%	9.35%	11.08%	10.92%	11.15%	11.10%	10.89%
Total C-3b Health Credit Risk		0.01%	0.05%	0.05%	0.05%	0.05%	0.05%	0.03%	0.00%	0.00%	0.00%
Total C-3c Market Risk		1.64%	1.97%	3.17%	2.83%	2.41%	1.55%	1.58%	1.42%	1.70%	2.09%
Total C-4a Business Risk		4.74%	4.24%	4.52%	4.72%	4.79%	5.26%	5.55%	5.48%	5.35%	5.35%
Total C-4b Business Risk Admin. Expenses		0.27%	0.28%	0.35%	0.36%	0.40%	0.40%	0.47%	0.50%	0.49%	0.54%
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Total Assets		8,439,367,712,664	8,832,312,765,460	8,297,856,845,231	7,697,670,761,108	6,932,444,757,225	7,116,411,490,040	6,721,817,618,789	6,430,733,066,141	6,358,609,540,768	6,091,050,647,565
Total Invested Assets		5,312,077,013,619	5,159,452,752,770	4,907,504,359,175	4,582,985,123,381	4,209,696,503,206	4,155,136,070,920	3,976,564,473,802	3,787,990,147,128	3,712,771,901,125	3,565,197,915,336
Reserves (Liabilities Line 1 + 2)		3,580,757,824,976	3,468,243,938,821	3,394,241,406,583	3,285,116,770,876	3,075,849,385,426	3,012,277,013,582	2,923,377,679,259	2,790,917,216,424	2,714,010,331,232	2,596,164,893,854
Surplus (Liabilities Line 37)		589,231,822,136	599,394,009,357	543,174,466,456	521,516,943,871	475,856,634,572	465,945,183,027	452,449,163,848	439,868,508,114	426,214,329,287	410,481,152,085
Premiums Earned (Page 4 Line 1)		714,406,215,905	649,749,402,737	635,918,317,202	691,912,622,389	603,752,144,878	597,830,528,981	601,805,999,830	640,574,026,890	647,586,767,390	580,738,513,565
Claims Incurred (Page 4 Lines 10 Through 13)		327,099,260,850	345,503,167,520	319,751,913,923	308,204,032,091	290,149,583,149	280,435,511,539	270,358,842,590	262,562,416,881	249,920,819,580	265,507,549,061

Source: NAIC Financial Data Repository

Draft: 8/3/23

Property and Casualty Risk-Based Capital (E) Working Group
Virtual Meeting
July 27, 2023

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met July 27, 2023. The following Working Group members participated: Tom Botsko, Chair (OH); Wanchin Chou, Vice Chair, Jack Broccoli, and Amy Waldhauer (CT); Rolf Kaumann and Mitchell Bronson (CO); Jane Nelson (FL); Judy Mottar (IL); Sandra Darby (ME); Anna Krylova (NM); HauMichael Ying (NY); Will Davis (SC); Miriam Fisk (TX); and Darcy Paskey and Jody Ullman (WI). Also participating were: Elizabeth Perri (AS); Giovanni Muzzarelli, Mitra Sanandajifar, and Rebecca Armon (CA); Travis Grassel (IA); Julie Lederer and Danielle Smith (MO); Lindsay Crawford (NE); Jesse Kolodin (NJ).

1. Adopted its June 16 and April 24 Minutes

Botsko said the Working Group met June 16 and April 24. During these meetings, the Working Group took the following action: 1) adopted its Spring National Meeting minutes; 2) adopted proposal 2023-02-P, which 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; and 3) adopted proposal 2023-02-P-MOD, which updated the H/F, WC, and CMP reserve factors due to an incorrect calculation.

Chou made a motion, seconded by Darby, to adopt the Working Group's June 16 (Attachment Five-A) and April 24 (Attachment Five-B) minutes. The motion passed unanimously.

2. Adopted the Report of the Catastrophe Risk (E) Subgroup

Chou said the Subgroup met July 18. During this meeting, the Subgroup took the following action: 1) adopted its Spring National Meeting minutes; 2) discussed its working agenda; 3) received an update from its Catastrophe Model Technical Review Ad Hoc Group; 4) discussed the wildfire peril impact analysis; 5) heard a presentation from Verisk on a severe convective storms model update and technical review; and 6) discussed the flood insurance market.

Chou made a motion, seconded by Davis, to adopt the report (Attachment Five-C) of the Catastrophe Risk (E) Subgroup. The motion passed unanimously.

3. Adopted the 2023 P/C RBC Newsletter

Botsko said the 2023 P/C RBC newsletter reflects the adopted proposals for year-end 2023. He said as mentioned last year, the purpose of the adoption is to consider the content of the newsletter, and the format will later be revised. He said when the formatting of the newsletter is complete, it will be posted to the Working Group's web page.

Chou made a motion, seconded by Darby, to adopt the 2023 P/C RBC newsletter (Attachment Five-D). The motion passed unanimously.

4. Discussed 2022 RBC Statistics

Botsko said the 2022 P/C RBC statistics were run on June 29. He said there were 2,522 P/C RBC filings loaded onto the NAIC database, up from 2,511 in 2021. He stated that there were 54 companies that triggered an action level in 2022: 1) 27 were in company action level; 2) seven were in regulatory action level; 3) three were in an authorized control level (ACL); and 4) 17 were in a mandatory control level. Also, there were 19 companies that triggered the trend test. However, the aggregate RBC percentage decreased from 617% in 2021 to 586% in 2022 due to the decrease of both ACL and total adjusted capital (TAC) amounts. Botsko also stated that the interested parties suggested that adding the operational risk component will provide a complete picture of the RBC formula. Without hearing any objections, the Working Group agreed to include the operational risk amount in the 2023 RBC statistics.

5. Discussed its Working Agenda

Botsko summarized the changes of the Working Group's 2023 working agenda, which included the following substantial changes: 1) update the Sept. 26 comment from conduct a review on different convective storm models to conduct a review on severe convective storm models, and add an additional comment of "the SG is finishing reviewing the following SCS vendor models: RMS, Verisk, KCC and Corelogic" in the comment section in item P1; 2) remove item #P5 as the proposal 2022-07-P has been adopted at the 2022 Fall National Meeting; and 3) add a new Item P8 for adding pet insurance line in the RBC formula due to the adoption of the Annual Statement Blanks proposal 2023-01BWG.

6. Discussed the Possibility of Reviewing and Analyzing the P/C RBC Charges That Have Not Been Reviewed Since Developed

Botsko said the Risk Evaluation Ad Hoc Group has met a few times since established. During the last meeting, the Ad Hoc Group decided to create three subgroups to potentially streamline the process of making progress on specific topics: 1) Asset Concentration Ad Hoc Subgroup; 2) RBC Purposes and Guidelines Ad Hoc Subgroup; and 3) Geographic Concentration Ad Hoc Subgroup. He encouraged all the interested parties to contact NAIC staff if anyone is interested in joining the ad hoc subgroups. Also, Botsko anticipated that the ad hoc subgroups will start meeting regularly after the Summer National Meeting.

7. Heard Updates on Current P/C RBC Projects from the Academy

Ron Wilkins (American Academy of Actuaries—Academy) said the purpose of the presentation (Attachment Five-E) is to provide: 1) the background of the report that will be released in the coming days; 2) a summary of the results; and 3) adjustment for catastrophe risk. He stated that the report is currently undergoing final public policy review by the Academy; it should be formally sent to the Working Group in a few days. Botsko said the Working Group is planning to expose the report for a 60-day comment period upon receiving it from the Academy.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/Summer 2023 National Meeting/Task Forces/CapAdequacy/PCRBC WG/07-27propertyrbcwg.docx

Draft: 6/20/23

Property and Casualty Risk-Based Capital (E) Working Group
E-Vote
June 16, 2023

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force conducted an e-vote that concluded June 16, 2023. The following Working Group members participated: Tom Botsko, Chair (OH); Wanchin Chou, Vice Chair (CT); Rolf Kaumann (CO); Sandra Darby (ME); Anna Krylova (NM); Will Davis (SC); and Miriam Fisk (TX).

1. Adopted Proposal 2023-02-P-MOD

The Working Group and the Subgroup conducted an e-vote to consider adoption of proposal 2023-02-P-MOD. The purpose of this modification is to update the H/F, WC, and CMP reserve factors due to an incorrect calculation.

Darby made a motion, seconded by Kaumann, to adopt proposal 2023-02-P-MOD (Attachment One-A). The motion passed unanimously.

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

SharePoint/NAIC Support Staff Hub/ Member Meetings/E Cmte/CADTF/2023-2-Summer/PCRBCWG/PC Email Vote 061623

Draft: 4/26/23

Property and Casualty Risk-Based Capital (E) Working Group
Virtual Meeting
April 24, 2023

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 24, 2023. The following Working Group members participated: Tom Botsko, Chair (OH); Wanchin Chou, Vice Chair, Jack Broccoli, and Qing He (CT); Virginia Christy and Nicole Crockett (FL); Judy Mottar (IL); Sandra Darby (ME); Anna Krylova (NM); HauMichael Ying (NY); Will Davis (SC); Miriam Fisk and Monica Avila (TX); and Adrian Jaramillo and Michael Erdman (WI). Also participating were: Jeff Cordell and Leo Liu (AR); Kevin Clark (IA); Julie Lederer (MO); Lindsay Crawford (NE); Doug Hartz (OR); Trey Hancock (TN); and Steve Drutz (WA).

1. Adopted its Spring National Meeting Minutes

Botsko said the Working Group met March 22.

Chou made a motion, seconded by Darby, to adopt the Working Group's March 22 minutes (*see NAIC Proceedings – Spring 2023, Capital Adequacy (E) Task Force*). The motion passed unanimously.

2. Adopted Proposal 2023-02-P

Botsko said proposal 2023-02-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 also stated that the Working Group did not receive any comments during the exposure period.

Darby made a motion, seconded by Krylova, to adopt proposal 2023-02-P (Attachment Two-A). The motion passed unanimously.

3. Forwarded the Referral Regarding the Deferral of Adoption of Blanks Proposal 2023-01BWG

Botsko said the Blanks (E) Working Group exposed proposal 2023-01BWG (Attachment Five-B1) on March 7. The purpose of this proposal is to remove pet insurance from the Inland Marine line within the existing P/C Annual Statement Blank for the Underwriting and Investment Exhibits, Exhibit of Premiums and Losses (State Page), and Insurance Expense Exhibit and add new Schedule P Parts 1 through 4 specifically to pet insurance. Botsko said the Working Group reviewed the proposal and suggested sending a referral (Attachment Five-B2) to the Blanks (E) Working Group to delay this proposal for at least one year to allow state insurance regulators time to collect more industry information through other means. He also commented that cyber is also a significantly growing line of business, and it is using the supplemental data option. He indicated that while pet insurance seems to have grown significantly in the past few years, there are only a few carriers that write this line of business, and it is not clear if this supports adding an additional line of business without sufficient data support. Tip Tipton (Thrivent) said the Blanks (E) Working Group interested parties group supports a delayed implementation of at least one year as indicated in the attached memo. He stated that the interested parties group raised concerns about how the new line of business would address RBC and Market Conduct Annual Statement (MCAS) items.

After reviewing the referral, the Working Group agreed to forward the referral regarding the deferral of adoption of Blanks proposal 2021-01BWG to the Blanks (E) Working Group.

4. Discussed Annual Statement Blanks Proposal 2022-15BWG

Botsko said the Blanks (E) Working Group adopted proposal 2022-15BWG (Attachment Five-B3) during its March 7 meeting, which removes the current 5% of premium filing exemption (FE) on the Schedule H, Part 5 for P/C annual statement filing. He stated that the Working Group had a discussion at the Spring National Meeting on whether the same 5% rule should be removed from the P/C RBC formula to be consistent with the change in the annual statement. Connie Jasper Woodroof (CJW Associates) commented that both items are not related at all. It is just a coincidence that 5% is mentioned in both circumstances. She also stated that it would lose some valuable information in the P/C RBC health section by removing the 5% accident and health (A&H) threshold. The Working Group agreed with Woodroof's comment; no adjustment will be made to the P/C RBC formula.

5. Heard Updates on Current P/C RBC Projects from the Academy

Botsko said the Property and Casualty Risk-Based Capital Committee of the American Academy of Actuaries (Academy) provided a presentation at the Spring National Meeting on the following: 1) an overview of the methodology used to determine premium and reserve risk factors; and 2) the adjustment for investment income to the Working Group. Also, he said the Academy will need the NAIC's assistance to perform different impact analyses before sharing the report with the Working Group. He said the Academy anticipates that the report will be delivered in June 2023. Then, the Academy will focus on additional analysis related to premium and reserve risk.

6. Discussed the Possibility of Reviewing and Analyzing the P/C RBC Charges That Have Not Been Reviewed Since Developed

Botsko said the Capital Adequacy (E) Task Force established the Risk Evaluation Ad Hoc Group at the Spring National Meeting to: 1) re-evaluate some of the missing risks to determine if it should now include them in the RBC calculation or whether it appropriately handles those risks utilizing other regulatory methods; and 2) review those factors and instructions that have never been reviewed since development to determine if modifications should be made. He stated that NAIC staff received more than 80 industry requests to be involved in the ad hoc group. He commented that being a member of the group will require active participation in the group discussions, and status updates will be provided in every Task Force meeting. He asked all the interested parties to contact Eva Yeung (NAIC) if they do not plan on participating in the group discussion. Lastly, he said the ad hoc group plans to schedule the first meeting in May.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/Summer 2022 National Meeting/Task Forces/CapAdequacy/PCRBC WG/04-26propertyrbcwg.docx

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

		FOR NAIC USE ONLY
	DATE: 11/4/2022	Agenda Item # 2023-01BWG Year 2024 Changes to Existing Reporting [X] New Reporting Requirement [ ]
CONTACT PERSON:	Debbie Doggett (MO DCI) & Gavin Friedman (American Pet Ins Co; ZPIC Ins Co)	
TELEPHONE:	Debbie (573) 526-2944 / Gavin (310) 254-5256	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT** No Impact [X] Modifies Required Disclosure [ ]
EMAIL ADDRESS:	debbie.doggett@insurance.mo.gov / gavin.friedman@trupanion.com	
ON BEHALF OF:	Joint submission by (i) the MO Dept of Commerce and Insurance and (ii) American Pet Ins Co and ZPIC Ins Co	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No] ****If Yes, complete question below****
NAME:	Debbie Doggett	**DISPOSITION**
TITLE:	Chief Financial Analyst	
AFFILIATION:	Missouri DCI	[ ] Rejected For Public Comment [ ] Referred To Another NAIC Group [ ] Received For Public Comment
ADDRESS:	301 W Hight St. #530, Jefferson City, MO 65101	[ ] Adopted Date ________ [ ] Rejected Date ________ [ ] Deferred Date ________ [ ] Other (Specify) ________

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[X] **CROSSCHECKS**
[X] **QUARTERLY STATEMENT**	[X] **BLANK**	
[ ] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[ ] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other ________
[ ] Health	[ ] Health (Life Supplement)	

Anticipated Effective Date: January 1, 2024

IDENTIFICATION OF ITEM(S) TO CHANGE

Remove Pet Insurance from Inland Marine line of business and add a new line of business to Appendix – P/C Lines of Business. Add Pet Insurance line within the existing P/C Blank for the Underwriting and Investment Exhibits, Exhibit of Premiums and Losses (State Page), and Insurance Expense Exhibit. Add new Schedule P Parts 1 through 4 specific to Pet Insurance.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

See Page 2 for detailed reason and justification for change.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:________

Other Comments:

** **This section must be completed on all forms.** **Revised 11/17/2022**

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE

Pet insurance is reported today as an Inland Marine product. Separating Pet Insurance from Inland Marine for financial reporting purposes within the existing Blank is warranted for a number of reasons, including:

- There is no public or regulator visibility into the vast majority of the pet insurance industry's financial reporting. Other than for a monoline insurer that writes only pet insurance, the rest of the industry's pet insurance business financial reporting is included in Inland Marine, along with anything else in that broadly-defined line that the respective insurer has written. In short, regulators do not have clear visibility into even the most basic information about pet insurers and the pet insurance market, such as who is underwriting pet coverage, the volume being sold, losses, and who is selling it.

- The pet insurance industry has grown rapidly, and this high growth rate continues. The industry's self-reported data shows growth in annual gross written premium from $836.5 M in 2016 to $2.59 B in 2021, including more than 30% annual growth from 2020 to 2021. This growth rate makes the absence of visibility into each participating company's financial information more an acute challenge with each passing year.

- Relying on regulator data calls to gather basic information such as premium written and loss information is time-consuming for all involved, and prone to inconsistencies and errors.

- The NAIC's D Committee is proceeding with MCAS for pet insurance. It would be inapposite and have potential for inconsistent data, to require MCAS reporting while not requiring dedicated pet insurance financial reporting. In addition, separate financial reporting will be a useful complement to MCAS reporting, both to supplement the MCAS information and to validate it.

- Dedicated financial reporting of pet insurance will be helpful to state regulators' assessment of the appropriate amount of surplus insurers writing this business should hold. It is anticipated that once sufficient history is obtained, a separate RBC factor for pet insurance can be established.

ANNUAL STATEMENT INSTRUCTIONS – PROPERTY/CASUALTY

APPENDIX

PROPERTY AND CASUALTY LINES OF BUSINESS

These definitions should be applied when reporting all applicable amounts for the following schedules: Underwriting and Investment Exhibit Parts 1, 1A, 1B, 2, and 2A; Exhibit of Premiums and Losses (Statutory Page 14); and the Insurance Expense Exhibit. Policy fees, service charges or membership charges are to be included with the line of business or in Other Income, as determined by *SSAP No. 53—Property and Casualty Contracts – Premiums*.

Detail Eliminated to Conserve Space

Line 9.1 – Inland Marine

Coverage for property that may be in transit, held by a bailee, at a fixed location, a movable good that is often at different locations (e.g., off-road construction equipment) or scheduled property (e.g., Homeowners Personal Property Floater), including items such as live animals, property with antique or collector's value, etc. This line also includes instrumentalities of transportation and communication, such as bridges, tunnels, piers, wharves, docks, pipelines, power and phone lines, and radio and television towers.

Animal Mortality

Coverage that provides a death benefit to the owner of a policy in the event of the death of the insured livestock.

EDP Policies

Coverage to protect against losses arising out of damage to or destruction of electronic data processing equipment and its software.

Communication Equipment (Cellular Telephones)

Provides insured subscribers of Communications Equipment Service Provider replacement coverage for loss of and damage, theft or mechanical breakdown to communications equipment. Communications equipment means wireless telephones and pagers, and any other devices incorporating wireless phone and pager capabilities, including but not limited to personal digital assistants (PDA) and wireless aircards.

Line 9.2 – Pet Insurance Plans

Veterinary care plan insurance policy providing care for a pet animal (e.g., dog or cat) of the insured owner in the event of its illness or accident.

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SCHEDULE P

SCHEDULE P – PART 1

Part 1 – Summary is the total of the Schedule P lines. For the property lines, it is necessary to supplement the data in the individual sections of Schedule P in order to complete the Part 1 – Summary for all lines for all years. Non-proportional assumed reinsurance – Property, Liability and Financial Lines can be summed together as reported.

Detail Eliminated to Conserve Space

Non-proportional assumed reinsurance –Property Reinsurance

Includes all the following lines: Fire, Allied Lines, Ocean Marine, Inland Marine, Pet Insurance Plans, Earthquake, Group Accident and Health, Credit Accident and Health, Other Accident and Health, Auto Physical Damage, Boiler and Machinery, Burglary and Theft and International (of the foregoing).

Detail Eliminated to Conserve Space

SCHEDULE P – PARTS 1A THROUGH 1U

Reporting entities should complete Schedule P in thousands only but must report all claim counts in whole numbers.

Detail Eliminated to Conserve Space

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ANNUAL STATEMENT BLANKS – PROPERTY/CASUALTY

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 – PREMIUMS EARNED

Line of Business	1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year- per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year- per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1. Fire				
2.1 Allied lines				
2.2 Multiple peril crop				
2.3 Federal flood				
2.4 Private crop				
2.5 Private flood				
3. Farmowners multiple peril				
4. Homeowners multiple peril				
5.1 Commercial multiple peril (non-liability portion)				
5.2 Commercial multiple peril (liability portion)				
6. Mortgage guaranty				
8. Ocean marine				
9.1 Inland marine				
9.2. Pet Insurance Plans				
10. Financial guaranty				
11.1 Medical professional liability—occurrence				
11.2 Medical professional liability—claims-made				
12. Earthquake				
13.1 Comprehensive (hospital and medical) individual				
13.2 Comprehensive (hospital and medical) group				
14. Credit accident and health (group and individual)				
15.1 Vision only				
15.2 Dental only				
15.3 Disability income				
15.4 Medicare supplement				
15.5 Medicaid Title XIX				
15.6 Medicare Title XVIII				
15.7 Long-term care				
15.8 Federal employees health benefits plan				
15.9 Other health				
16. Workers' compensation				
17.1 Other liability—occurrence				
17.2 Other liability—claims-made				
17.3 Excess workers' compensation				
18.1 Products liability—occurrence				
18.2 Products liability—claims-made				
19.1 Private passenger auto no-fault (personal injury protection)				
19.2 Other private passenger auto liability				
19.3 Commercial auto no-fault (personal injury protection)				
19.4 Other commercial auto liability				
21.1 Private passenger auto physical damage				
21.2 Commercial auto physical damage				
22. Aircraft (all perils)				
23. Fidelity				
24. Surety				
26. Burglary and theft				
27. Boiler and machinery				
28. Credit				
29. International				
30. Warranty				
31. Reinsurance-nonproportional assumed property				
32. Reinsurance-nonproportional assumed liability				
33. Reinsurance-nonproportional assumed financial lines				
34. Aggregate write-ins for other lines of business				
35. TOTALS				
DETAILS OF WRITE-INS				
3401.				
3402.				
3403.				
3498. Sum. of remaining write-ins for Line 34 from overflow page				
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)				

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1A – RECAPITULATION OF ALL PREMIUMS

	Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (a)	2 Amount Unearned (Running More Than One Year from Date of Policy) (a)	3 Earned but Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1+2+3+4
1.	Fire					
2.1	Allied lines					
2.2	Multiple peril crop					
2.3	Federal flood					
2.4	Private crop					
2.5	Private flood					
3.	Farmowners multiple peril					
4.	Homeowners multiple peril					
5.1	Commercial multiple peril (non-liability portion)					
5.2	Commercial multiple peril (liability portion)					
6.	Mortgage guaranty					
8.	Ocean marine					
9.1	Inland marine					
9.2	Pet Insurance Plans					
10.	Financial guaranty					
11.1	Medical professional liability—occurrence					
11.2	Medical professional liability—claims-made					
12.	Earthquake					
13.1	Comprehensive (hospital and medical) individual					
13.2	Comprehensive (hospital and medical) group					
14.	Credit accident and health ....(group and individual)					
15.1	Vision only					
15.2	Dental only					
15.3	Disability income					
15.4	Medicare supplement					
15.5	Medicaid title XIX					
15.6	Medicare title XVIII					
15.7	Long-term care					
15.8	Federal employees health benefits plan					
15.9	Other health					
16.	Workers' compensation					
17.1	Other liability—occurrence					
17.2	Other liability—claims-made					
17.3	Excess workers' compensation					
18.1	Products liability—occurrence					
18.2	Products liability—claims-made					
19.1	Private passenger auto no-fault (personal injury protection)					
19.2	Other private passenger auto liability					
19.3	Commercial auto no-fault (personal injury protection)					
19.4	Other commercial auto liability					
21.1	Private passenger auto physical damage					
21.2	Commercial auto physical damage					
22.	Aircraft (all perils)					
23.	Fidelity					
24.	Surety					
26.	Burglary and theft					
27.	Boiler and machinery					
28.	Credit					
29.	International					
30.	Warranty					
31.	Reinsurance-nonproportional assumed property					
32.	Reinsurance-nonproportional assumed liability					
33.	Reinsurance-nonproportional assumed financial lines					
34.	Aggregate write-ins for other lines of business					
35.	TOTALS					
36.	Accrued retrospective premiums based on experience					
37.	Earned but unbilled premiums					
38.	Balance (Sum of Lines 35 through 37)					
	DETAILS OF WRITE-INS					
3401.						
3402.						
3403.						
3498.	Sum. of remaining write-ins for Line 34 from overflow page					
3499.	Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)					

(a) State here basis of computation used in each case ....

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UNDERWRITING AND INVESTMENT EXHIBIT

PART 1B – PREMIUMS WRITTEN

Line of Business	1 Direct Business (a)	Reinsurance Assumed 2 From Affiliates	Reinsurance Assumed 3 From Non-Affiliates	Reinsurance Ceded 4 To Affiliates	Reinsurance Ceded 5 To Non-Affiliates	6 Net Premiums Written Cols. 1+2+3-4-5
1. Fire						
2.1 Allied lines						
2.2 Multiple peril crop						
2.3 Federal flood						
2.4 Private crop						
2.5 Private flood						
3. Farmowners multiple peril						
4. Homeowners multiple peril						
5.1 Commercial multiple peril (non-liability portion)						
5.2 Commercial multiple peril (liability portion)						
6. Mortgage guaranty						
8. Ocean marine						
9.1 Inland marine						
9.2 Pet Insurance Plans						
10. Financial guaranty						
11.1 Medical professional liability—occurrence						
11.2 Medical professional liability—claims-made						
12. Earthquake						
13.1 Comprehensive (hospital and medical) individual						
13.2 Comprehensive (hospital and medical) group						
14. Credit accident and health (group and individual)						
15.1 Vision only						
15.2 Dental only						
15.3 Disability income						
15.4 Medicare supplement						
15.5 Medicaid Title XIX						
15.6 Medicare Title XVIII						
15.7 Long-term care						
15.8 Federal employees health benefits plan						
15.9 Other Health						
16. Workers' compensation						
17.1 Other liability—occurrence						
17.2 Other liability—claims-made						
17.3 Excess workers' compensation						
18.1 Products liability—occurrence						
18.2 Products liability—claims-made						
19.1 Private passenger auto no-fault (personal injury protection)						
19.2 Other private passenger auto liability						
19.3 Commercial auto no-fault (personal injury protection)						
19.4 Other commercial auto liability						
21.1 Private passenger auto physical damage						
21.2 Commercial auto physical damage						
22. Aircraft (all perils)						
23. Fidelity						
24. Surety						
26. Burglary and theft						
27. Boiler and machinery						
28. Credit						
29. International						
30. Warranty						
31. Reinsurance-nonproportional assumed property	XXX					
32. Reinsurance-nonproportional assumed liability	XXX					
33. Reinsurance-nonproportional assumed financial lines	XXX					
34. Aggregate write-ins for other lines of business						
35. TOTALS						
DETAILS OF WRITE-INS						
3401.						
3402.						
3403.						
3498. Sum. of remaining write-ins for Line 34 from overflow page						
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)						

(a) Does the company's direct premiums written include premiums recorded on an installment basis? Yes [ ] No [ ]
If yes: 1. The amount of such installment premiums $............................
2. Amount at which such installment premiums would have been reported had they been recorded on an annualized basis $............

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UNDERWRITING AND INVESTMENT EXHIBIT
PART 2 – LOSSES PAID AND INCURRED

	Losses Paid Less Salvage				5	6	7	8
	1	2	3	4				
Line of Business	Direct Business	Reinsurance Assumed	Reinsurance Recovered	Net Payments (Cols. 1 + 2 - 3)	Net Losses Unpaid Current Year (Part 2A, Col. 8)	Net Losses Unpaid Prior Year	Losses Incurred Current Year (Cols. 4 + 5 - 6)	Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
1. Fire								
2.1 Allied lines								
2.2 Multiple peril crop								
2.3 Federal flood								
2.4 Private crop								
2.5 Private flood								
3. Farmowners multiple peril								
4. Homeowners multiple peril								
5.1 Commercial multiple peril (non-liability portion)								
5.2 Commercial multiple peril (liability portion)								
6. Mortgage guaranty								
8. Ocean marine								
9.1 Inland marine								
9.2 Pet Insurance Plans								
10. Financial guaranty								
11.1 Medical professional liability—occurrence								
11.2 Medical professional liability—claims-made								
12. Earthquake								
13.1 Comprehensive (hospital and medical) individual								
13.2 Comprehensive (hospital and medical) group								
14. Credit accident and health (group and individual)								
15.1 Vision only								
15.2 Dental only								
15.3 Disability income								
15.4 Medicare supplement								
15.5 Medicaid Title XIX								
15.6 Medicare Title XVIII								
15.7 Long-term care								
15.8 Federal employees health benefits plan								
15.9 Other health								
16. Workers' compensation								
17.1 Other liability—occurrence								
17.2 Other liability—claims-made								
17.3 Excess workers' compensation								
18.1 Products liability—occurrence								
18.2 Products liability—claims-made								
19.1 Private passenger auto no-fault (personal injury protection)								
19.2 Other private passenger auto liability								
19.3 Commercial auto no-fault (personal injury protection)								
19.4 Other commercial auto liability								
21.1 Private passenger auto physical damage								
21.2 Commercial auto physical damage								
22. Aircraft (all perils)								
23. Fidelity								
24. Surety								
26. Burglary and theft								
27. Boiler and machinery								
28. Credit								
29. International								
30. Warranty								
31. Reinsurance-nonproportional assumed property	XXX							
32. Reinsurance-nonproportional assumed liability	XXX							
33. Reinsurance-nonproportional assumed financial lines	XXX							
34. Aggregate write-ins for other lines of business								
35. TOTALS								
DETAILS OF WRITE-INS								
3401.								
3402.								
3403.								
3498. Sum. of remaining write-ins for Line 34 from overflow page								
3499. Totals (Lines 3401 through 3403 + 3498) (Line 34 above)								

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UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A – UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

	Reported Losses				Incurred But Not Reported			8	9
Line of Business	1 Direct	2 Reinsurance Assumed	3 Deduct Reinsurance Recoverable	4 Net Losses Excl. Incurred But Not Reported (Cols. 1+2-3)	5 Direct	6 Reinsurance Assumed	7 Reinsurance Ceded	Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	Net Unpaid Loss Adjustment Expenses
1. Fire									
2.1 Allied lines									
2.2 Multiple peril crop									
2.3 Federal flood									
2.4 Private crop									
2.5 Private flood									
3. Farmowners multiple peril									
4. Homeowners multiple peril									
5.1 Commercial multiple peril (non-liability portion)									
5.2 Commercial multiple peril (liability portion)									
6. Mortgage guaranty									
8. Ocean marine									
9.1 Inland marine									
9.2 Pet Insurance Plans									
10. Financial guaranty									
11.1 Medical professional liability—occurrence									
11.2 Medical professional liability—claims-made									
12. Earthquake									
13.1 Comprehensive (hospital and medical) individual								(a)	
13.2 Comprehensive (hospital and medical) group								(a)	
14. Credit accident and health (group and individual)									
15.1 Vision only								(a)	
15.2 Dental only								(a)	
15.3 Disability income								(a)	
15.4 Medicare supplement								(a)	
15.5 Medicaid Title XIX								(a)	
15.6 Medicare Title XVIII								(a)	
15.7 Long-term care								(a)	
15.8 Federal employees health benefits plan								(a)	
15.9 Other health								(a)	
16. Workers' compensation									
17.1 Other liability—occurrence									
17.2 Other liability—claims-made									
17.3 Excess workers' compensation									
18.1 Products liability—occurrence									
18.2 Products liability—claims-made									
19.1 Private passenger auto no-fault (personal injury protection)									
19.2 Other private passenger auto liability									
19.3 Commercial auto no-fault (personal injury protection)									
19.4 Other commercial auto liability									
21.1 Private passenger auto physical damage									
21.2 Commercial auto physical damage									
22. Aircraft (all perils)									
23. Fidelity									
24. Surety									
26. Burglary and theft									
27. Boiler and machinery									
28. Credit									
29. International									
30. Warranty									
31. Reinsurance-nonproportional assumed property	XXX				XXX				
32. Reinsurance-nonproportional assumed liability	XXX				XXX				
33. Reinsurance-nonproportional assumed financial lines	XXX				XXX				
34. Aggregate write-ins for other lines of business									
35. TOTALS									
DETAILS OF WRITE-INS									
3401.									
3402.									
3403.									
3498. Sum. of remaining write-ins for Line 34 from overflow page									
3499. Totals (Lines 3401 through 3403 + 3498) (Line 34 above)									

(a) Including $..for present value of life indemnity claims reported in Lines 13 and 15.

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EXHIBIT OF PREMIUMS AND LOSSES (Statutory Page 14)

NAIC Group Code ____________________ **BUSINESS IN THE STATE OF** **DURING THE YEAR** NAIC Company Code ________________

	Gross Premiums, Including Policy and Membership Fees, Less Return Premiums and Premiums on Policies not Taken		3	4	5	6	7	8	9	10	11	12
Line of Business	1 Direct Premiums Written	2 Direct Premiums Earned	Dividends Paid or Credited to Policyholders on Direct Business	Direct Unearned Premium Reserves	Direct Losses Paid (deducting salvage)	Direct Losses Incurred	Direct Losses Unpaid	Direct Defense and Cost Containment Expense Paid	Direct Defense and Cost Containment Expense Incurred	Direct Defense and Cost Containment Expense Unpaid	Commissions and Brokerage Expenses	Taxes, Licenses and Fees
1. Fire												
2.1 Allied Lines												
2.2 Multiple Peril Crop												
2.3 Federal Flood												
2.4 Private Crop												
2.5 Private Flood												
3. Farmowners Multiple Peril												
4. Homeowners Multiple Peril												
5.1 Commercial Multiple Peril (Non-Liability Portion)												
5.2 Commercial Multiple Peril (Liability Portion)												
6. Mortgage Guaranty												
8. Ocean Marine												
9.1 Inland Marine												
9.2 Pet Insurance Plans												
10. Financial Guaranty												
11.1 Medical Professional Liability—Occurrence												
11.2 Medical Professional Liability—Claims-Made												
12. Earthquake												
13.1 Comprehensive (hospital and medical) ind (b)												
13.2 Comprehensive (hospital and medical) group (b)												
14. Credit A&H (Group and Individual)												
15.1 Vision Only (b)												
15.2 Dental Only (b)												
15.3 Disability Income (b)												
15.4 Medicare Supplement (b)												
15.5 Medicaid Title XIX (b)												
15.6 Medicare Title XVIII (b)												
15.7 Long-Term Care (b)												
15.8 Federal Employees Health Benefits Plan (b)												
15.9 Other Health (b)												
16. Workers' Compensation												
17.1 Other Liability—Occurrence												
17.2 Other Liability—Claims-Made												
17.3 Excess Workers' Compensation												
18.1 Products Liability—Occurrence												
18.2 Products Liability—Claims-Made												
19.1 Private Passenger Auto No-Fault (Personal Injury Protection)												
19.2 Other Private Passenger Auto Liability												
19.3 Commercial Auto No-Fault (Personal Injury Protection)												
19.4 Other Commercial Auto Liability												
21.1 Private Passenger Auto Physical Damage												
21.2 Commercial Auto Physical Damage												
22. Aircraft (all perils)												
23. Fidelity												
24. Surety												
26. Burglary and Theft												
27. Boiler and Machinery												
28. Credit												
29. International												
30. Warranty												
31 Reins nonproportional assumed property	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
32 Reins nonproportional assumed liability	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
33 Reins nonproportional assumed financial lines	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
34. Aggregate Write-Ins for Other Lines of Business												
35. TOTAL (a)												
DETAILS OF WRITE-INS												
3401.												
3402.												
3403.												
3498. Sum of remaining write-ins for Line 34 from overflow page												
3499. TOTAL (Lines 3401 through 3403 plus 3498) (Line 34 above)												

(a) Finance and service charges not included in Lines 1 to 35 $ ....
(b) For health business on indicated lines report: Number of persons insured under PPO managed care products ________________________ and number of persons insured under indemnity only products ________________ .

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INSURANCE EXPENSE EXHIBIT
PART II – ALLOCATION TO LINES OF BUSINESS NET OF REINSURANCE
PREMIUMS, LOSSES, EXPENSES, RESERVES AND PROFITS AND PERCENTAGES TO PREMIUMS EARNED FOR BUSINESS NET OF REINSURANCE
($000 OMITTED)

									Loss Adjustment Expense						Loss Adjustment Expense							
	Premiums Written (Pg. 8, Pt. 1B, Col. 6)		Premiums Earned (Pg. 6, Pt. 1, Col. 4)		Dividends to Policyholders (Pg. 4, Line 17)		Incurred Loss (Pg. 9, Pt. 2, Col. 7)		Defense and Cost Containment Expenses Incurred		Adjusting and Other Expenses Incurred		Unpaid Losses (Pg. 10, Pt. 2A, Col. 8)		Defense and Cost Containment Expenses Unpaid		Adjusting and Other Expenses Unpaid		Unearned Premium Reserves (Pg. 7, Pt. 1A, Col. 5)		Agents' Balances	
	1 Amount	2 %	3 Amount	4 %	5 Amount	6 %	7 Amount	8 %	9 Amount	10 %	11 Amount	12 %	13 Amount	14 %	15 Amount	16 %	17 Amount	18 %	19 Amount	20 %	21 Amount	22 %
1. Fire		XXX		100.0																		
2.1 Allied Lines		XXX		100.0																		
2.2 Multiple Peril Crop		XXX		100.0																		
2.3 Federal Flood		XXX		100.0																		
2.4 Private Crop		XXX		100.0																		
2.5 Private Flood		XXX		100.0																		
3. Farmowners Multiple Peril		XXX		100.0																		
4. Homeowners Multiple Peril		XXX		100.0																		
5.1 Comm Mult Peril (Non-Liab)		XXX		100.0																		
5.2 Comm Mult Peril (Liab)		XXX		100.0																		
6. Mortgage Guaranty		XXX		100.0																		
8. Ocean Marine		XXX		100.0																		
9.1 Inland Marine		XXX		100.0																		
9.2 Pet Insurance Plans		XXX		100.0																		
10. Financial Guaranty		XXX		100.0																		
11.1 Med Prof Liab—Occurence		XXX		100.0																		
11.2 Med Prof Liab—Claims-Made		XXX		100.0																		
12. Earthquake		XXX		100.0																		
13.1 Comprehensive Individual		XXX		100.0																		
13.2 Comprehensive Group		XXX		100.0																		
14. Credit A&H		XXX		100.0																		
15.1 Vision Only		XXX		100.0																		
15.2 Dental Only		XXX		100.0																		
15.3 Disability Income		XXX		100.0																		
15.4 Medicare Supplement		XXX		100.0																		
15.5 Medicaid Title XIX		XXX		100.0																		
15.6 Medicare Title XVIII		XXX		100.0																		
15.7 Long-Term Care		XXX		100.0																		
15.8 FEHBP		XXX		100.0																		
15.9 Other Health		XXX		100.0																		
16. Workers' Compensation		XXX		100.0																		
17.1 Other Liability—Occurrence		XXX		100.0																		
17.2 Other Liability—Claims-Made		XXX		100.0																		
17.3 Excess Workers' Compensation		XXX		100.0																		
18.1 Products Liab—Occurrence		XXX		100.0																		
18.2 Products Liab— Claims-Made		XXX		100.0																		
19.1 Priv Passenger Auto No-Fault		XXX		100.0																		
19.2. Other Priv Passenger Auto Liab		XXX		100.0																		
19.3 Commercial Auto No-Fault		XXX		100.0																		
19.4. Other Commercial Auto Liability		XXX		100.0																		
21.1 Priv Passenger Auto Phys Damage		XXX		100.0																		
21.2 Commercial Auto Phys Damage		XXX		100.0																		
22. Aircraft (all perils)		XXX		100.0																		
23. Fidelity		XXX		100.0																		
24. Surety		XXX		100.0																		
26. Burglary and Theft		XXX		100.0																		
27. Boiler and Machinery		XXX		100.0																		
28. Credit		XXX		100.0																		
29. International		XXX		100.0																		
30 Warranty		XXX		100.0																		
31 Reins-Nonproportional Assumed Property		XXX		100.0																		
32. Reins-Nonproportional Assumed Liab		XXX		100.0																		
33. Reins-Nonproportional Assumed Fin Lines		XXX		100.0																		
34. Aggr Write-Ins for Other Lines of Bus		XXX		100.0																		
35. TOTAL (Lines 1 through 34)		XXX		100.0																		
DETAILS OF WRITE-INS																						
3401.		XXX		100.0																		
3402.		XXX		100.0																		
3403.		XXX		100.0																		
3498. Summary of remaining write-ins for Line 34 from overflow page		XXX		100.0																		
3499. TOTAL (Lines 3401 through 3403 plus 3498 (Line 34 above)		XXX		100.0																		

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INSURANCE EXPENSE EXHIBIT

PART II—ALLOCATION TO LINES OF BUSINESS NET OF REINSURANCE (Continued)

PREMIUMS, LOSSES, EXPENSES, RESERVES AND PROFITS AND PERCENTAGES TO PREMIUMS EARNED FOR BUSINESS NET OF REINSURANCE
($000 OMITTED)

	Other Underwriting Expenses																			
	Commission and Brokerage Expenses Incurred (IEE Pt. 1, Line 2.8, Col. 2)		Taxes, Licenses & Fees Incurred (IEE Pt. 1, Line 20.5, Col. 4)		Other Acquisitions, Field Supervision, and Collection Expenses Incurred (IEE Pt. 1, Line 25 minus 2.8 Col. 2)		General Expenses Incurred (IEE Pt. 1, Line 25, Col. 3)		Other Income Less Other Expenses (Pg. 4, Line 15 minus Line 5)		Pre-Tax Profit or Loss Excluding All Investment Gain		Investment Gain on Funds Attributable to Insurance Transactions		Profit or Loss Excluding Investment Gain Attributable to Capital and Surplus		Investment Gain Attributable to Capital and Surplus		Total Profit or Loss	
	23 Amount	24 %	25 Amount	26 %	27 Amount	28 %	29 Amount	30 %	31 Amount	32 %	33 Amount	34 %	35 Amount	36 %	37 Amount	38 %	39 Amount	40 %	41 Amount	42 %
1. Fire																				
2.1 Allied Lines																				
2.2 Multiple Peril Crop																				
2.3 Federal Flood																				
2.4 Private Crop																				
2.5 Private Flood																				
3. Farmowners Multiple Peril																				
4. Homeowners Multiple Peril																				
5.1 Comm Mult Peril (Non-Liab)																				
5.2 Comm Mult Peril (Liab)																				
6. Mortgage Guaranty																				
8. Ocean Marine																				
9.1 Inland Marine																				
9.2 Pet Insurance Plans																				
10. Financial Guaranty																				
11.1 Med Prof Liab—Occurrence																				
11.2 Med Prof Liab—Claims-Made																				
12. Earthquake																				
13.1 Comprehensive Individual																				
13.2 Comprehensive Group																				
14. Credit A&H																				
15.1 Vision Only																				
15.2 Dental Only																				
15.3 Disability Income																				
15.4 Medicare Supplement																				
15.5 Medicaid Title XIX																				
15.6 Medicare Title XVIII																				
15.7 Long-Term Care																				
15.8 FEHBP																				
15.9 Other Health																				
16. Workers' Compensation																				
17.1 Other Liability—Occurrence																				
17.2 Other Liability—Claims-Made																				
17.3 Excess Workers' Compensation																				
18.1 Products Liab—Occurrence																				
18.2 Products Liab —Claims-Made																				
19.1 Priv Passenger Auto No-Fault																				
19.2. Other Priv Passenger Auto Liab																				
19.3 Commercial Auto No-Fault																				
19.4. Other Commercial Auto Liab																				
21.1 Priv Passenger Auto Phys Damage																				
21.2 Commercial Auto Phys Damage																				
22. Aircraft (all perils)																				
23. Fidelity																				
24. Surety																				
26. Burglary and Theft																				
27. Boiler and Machinery																				
28. Credit																				
29. International																				
30. Warranty																				
31. Reins-Nonproportional Assumed Property																				
32. Reins-Nonproportional Assumed Liab																				
33. Reins-Nonproportional Assumed Fin Lines																				
34. Aggr Write-Ins for Other Lines of Bus.																				
35. TOTAL (Lines 1 through 34)																				
DETAILS OF WRITE-INS																				
3401.																				
3402.																				
3403.																				
3498. Summary of remaining write-ins for Line 34 from overflow page																				
3499. TOTAL (Lines 3401 through 3403 plus 3498) (Line 34 above)																				

NOTE: THE ALLOCATION OF INVESTMENT INCOME FROM CAPITAL AND SURPLUS BY LINE OF BUSINESS MAY NOT ACCURATELY REFLECT THE PROFITABILITY OF A PARTICULAR LINE FOR USE IN THE RATE MAKING PROCESS.

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INSURANCE EXPENSE EXHIBIT
PART III – ALLOCATION TO LINES OF DIRECT BUSINESS WRITTEN
PREMIUMS, LOSSES, EXPENSES, RESERVES AND PROFITS AND PERCENTAGES TO PREMIUMS EARNED FOR DIRECT BUSINESS WRITTEN
($000 OMITTED)

	Premiums Written (Pg. 8, Pt. 1B, Col. 1)		Premiums Earned (Sch. T, Line 59, Col. 3)		Dividends to Policyholders		Incurred Loss (Sch. T, Line 59, Col. 6)		Loss Adjustment Expense: Defense and Cost Containment Expenses Incurred		Loss Adjustment Expense: Adjusting and Other Expenses Incurred		Unpaid Losses (Sch. T, Line 59, Col. 7)		Loss Adjustment Expense: Defense and Cost Containment Expenses Unpaid		Loss Adjustment Expense: Adjusting and Other Expenses Unpaid		Unearned Premium Reserves		Agents' Balances	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Fire	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
2.1 Allied Lines	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
2.2 Multiple Peril Crop	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
2.3 Federal Flood	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
2.4 Private Crop	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
2.5 Private Flood	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
3. Farmowners Multiple Peril	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
4. Homeowners Multiple Peril	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
5.1 Comm Mult Peril (Non-Liab)	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
5.2 Comm Mult Peril (Liab)	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
6. Mortgage Guaranty	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
8. Ocean Marine	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
9.1 Inland Marine	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
9.2 Pet Insurance Plans	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
10. Financial Guaranty	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
11.1 Med Prof Liab—Occurrence	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
11.2 Med Prof Liab—Claims-Made	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
12. Earthquake	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
13.1 Comprehensive Individual	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
13.2 Comprehensive Group	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
14. Credit A&H	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
15.1 Vision Only	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
15.2 Dental Only	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
15.3 Disability Income	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
15.4 Medicare Supplement	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
15.5 Medicaid Title XIX	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
15.6 Medicare Title XVIII	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
15.7 Long-Term Care	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
15.8 FEHBP	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
15.9 Other Health	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
16. Workers' Compensation	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
17.1 Other Liability—Occurrence	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
17.2 Other Liability—Claims-Made	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
17.3 Excess Workers' Compensation	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
18.1 Products Liab—Occurrence	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
18.2 Products Liab—Claims-Made	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
19.1 Priv Passenger Auto No-Fault	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
19.2. Other Priv Passenger Auto Liab	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
19.3 Commercial Auto No-Fault	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
19.4. Other Commercial Auto Liability	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
21.1 Priv Passenger Auto Phys Damage	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
21.2 Commercial Auto Phys Damage	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
22. Aircraft (all perils)	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
23. Fidelity	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
24. Surety	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
26. Burglary and Theft	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
27. Boiler and Machinery	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
28. Credit	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
29. International	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
30. Warranty	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
31. Reins-Nonproportional Assumed Property	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
32. Reins-Nonproportional Assumed Liab	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
33. Reins-Nonproportional Assumed Fin Lines	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
34. Aggr Write-Ins for Other Lines of Bus		XXX		100.0																		
35. TOTAL (Lines 1 through 34)		XXX		100.0																		
DETAILS OF WRITE-INS																						
3401. ...	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
3402. ...	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
3403. ...	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
3498. Summary of remaining write-ins for Line 34 from overflow page	...	XXX	...	100.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
3499. TOTAL (Lines 3401 through 3403 plus 3498) (Line 34 above)		XXX		100.0																		

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INSURANCE EXPENSE EXHIBIT
PART III – ALLOCATION TO LINES OF DIRECT BUSINESS WRITTEN (Continued)
PREMIUMS, LOSSES, EXPENSES, RESERVES AND PROFITS AND PERCENTAGES TO PREMIUMS EARNED FOR DIRECT BUSINESS WRITTEN
($000 OMITTED)

	Other Underwriting Expenses								Other Income Less Other Expenses		Pre-Tax Profit or Loss Excluding All Investment	
	Commission and Brokerage Expenses Incurred		Taxes, Licenses & Fees Incurred		Other Acquisitions, Field Supervision, and Collection Expenses Incurred		General Expenses Incurred					
	23 Amount	24 %	25 Amount	26 %	27 Amount	28 %	29 Amount	30 %	31 Amount	32 %	33 Amount	34 %
1. Fire												
2.1 Allied Lines												
2.2 Multiple Peril Crop												
2.3 Federal Flood												
2.4 Private Crop												
2.5 Private Flood												
3. Farmowners Multiple Peril												
4. Homeowners Multiple Peril												
5.1 Comm Mult Peril (Non-Liab)												
5.2 Comm Mult Peril (Liab)												
6. Mortgage Guaranty												
8. Ocean Marine												
9.1 Inland Marine												
9.2 Pet Insurance Plans												
10. Financial Guaranty												
11.1 Med Prof Liability—Occurrence												
11.2 Med Prof Liability—Claims-Made												
12. Earthquake												
13.1 Comprehensive Individual												
13.2 Comprehensive Group												
14. Credit A&H												
15.1 Vision Only												
15.2 Dental Only												
15.3 Disability Income												
15.4 Medicare Supplement												
15.5 Medicaid Title XIX												
15.6 Medicare Title XVIII												
15.7 Long-Term Care												
15.8 FEHBP												
15.9 Other Health												
16. Workers' Compensation												
17.1 Other Liability—Occurrence												
17.2 Other Liability—Claims-Made												
17.3 Excess Workers' Compensation												
18.1 Products Liab—Occurrence												
18.2 Products Liab—Claims-Made												
19.1 Priv Passenger Auto No-Fault												
19.2. Other Priv Passenger Auto Liab												
19.3 Commercial Auto No-Fault												
19.4. Other Commercial Auto Liability												
21.1 Priv Passenger Auto Phys Damage												
21.2 Commercial Auto Phys Damage												
22. Aircraft (all perils)												
23. Fidelity												
24. Surety												
26. Burglary and Theft												
27. Boiler and Machinery												
28. Credit												
29. International												
30. Warranty												
31. Reins-Nonproportional Assumed Property	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
32. Reins-Nonproportional Assumed Liab	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
33. Reins-Nonproportional Assumed Fin Lines	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
34. Aggr Write-Ins for Other Lines of Bus.												
35. TOTAL (Lines 1 through 34)												
DETAILS OF WRITE-INS												
3401.												
3402.												
3403.												
3498. Summary of remaining write-ins for Line 34 from overflow page												
3499. TOTAL (Lines 3401 through 3403 plus 3498) (Line 34 above)												

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SCHEDULE P – PART 1U – PET INSURANCE PLANS
($000 OMITTED)

	Premiums Earned			Loss and Loss Expense Payments								12
	1	2	3	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10	11	
Years in Which Premiums Were Earned and Losses Were Incurred	Direct and Assumed	Ceded	Net (Cols. 1 – 2)	4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded	Salvage and Subrogation Received	Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	Number of Claims Reported Direct and Assumed
1. Prior................	XXX	XXX	XXX	....	....	....	....	....	....	....	....	XXX
2. 2023................	....	....	....	....	....	....	....	....	....	....	....	XXX
3. 2024												XXX
4. Totals	XXX	XXX	XXX									XXX

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23	24	25
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR		21	22			
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded	Direct and Assumed	Ceded	Salvage and Subrogation Anticipated	Total Net Losses and Expenses Unpaid	Number of Claims Outstanding Direct and Assumed
1.	....	....	....	....	....	....	....	....	....	....	....	....	....
2.	....	....	....	....	....	....	....	....	....	....	....	....	....
3.													
4.													

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34	Net Balance Sheet Reserves After Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense	Inter-Company Pooling Participation Percentage	35 Losses Unpaid	36 Loss Expenses Unpaid
1.	XXX	XXX	XXX	XXX	XXX	XXX	....	....	XXX	....	....
2.	....	....	....	....	....	....	....	....	....	....	....
3.											
4.	XXX	XXX	XXX	XXX	XXX	XXX			XXX		

Detail Eliminated to Conserve Space

SCHEDULE P – PART 2U – PET INSURANCE PLANS

	INCURRED NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR-END ($000 OMITTED)										DEVELOPMENT	
Years in Which Losses Were Incurred	1 2015	2 2016	3 2017	4 2018	5 2019	6 2020	7 2021	8 2022	9 2023	10 2024	11 One Year	12 Two Year
1. Prior.................	XXX	XXX	XXX	XXX	XXX	XXX	XXX	....	....	....	....	....
2. 2023.................	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	....	....	....	XXX
3. 2024	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX		XXX	XXX
										4.Totals		

SCHEDULE P – PART 3U – PET INSURANCE PLANS

Years in Which Losses Were Incurred	CUMULATIVE PAID NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR-END ($000 OMITTED)										11	12
	1 2015	2 2016	3 2017	4 2018	5 2019	6 2020	7 2021	8 2022	9 2023	10 2024	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
1. Prior.................	XXX	XXX	XXX	XXX	XXX	XXX	XXX	000	....	....	XXX	XXX
2. 2023.................	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	....	....	XXX	XXX
3. 2024	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX		XXX	XXX

Detail Eliminated to Conserve Space

SCHEDULE P – PART 4U – PET INSURANCE PLANS

Years in Which Losses Were Incurred	BULK AND IBNR RESERVES ON NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR-END ($000 OMITTED)									
	1 2015	2 2016	3 2017	4 2018	5 2019	6 2020	7 2021	8 2022	9 2023	10 2024
1. Prior....................	XXX	XXX	XXX	XXX	XXX	XXX	XXX	....	....	....
2. 2023....................	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	....	....
3. 2024	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Pat Gosselin (NH), Chair of the Blanks (E) Working Group

FROM: Tom Botsko (OH), Chair of the Property and Casualty Risk-Based Capital (E) Working Group

DATE: April 24, 2023

RE: Request for Deferral of Adoption of Blanks Proposal 2023-01BWG

Thank you for the opportunity to provide feedback on the blanks proposal 2023-01BWG.

We suggest that this proposal be delayed for at least one year. This will allow us to collect industry information through other means. Collecting industry data through the Supplemental Data option is one alternative. This information is also provided on March 1 with the annual statement submittal, and it provides industry information for analysis.

Please keep in mind that cyber is also a significantly growing line of business and has not been added to the annual statement but is currently using the Supplemental Data option.

Another option would be to use an Interrogatory for this data. This data will be available on March 1, along with the other annual statement information. The data provided under the Interrogatory is accessible through the annual statement databases.

While pet insurance seems to have grown significantly in the past few years, no data has been shared to evaluate this specific line of business. The data will provide valuable insight and potential support for separating this product.

In addition, it appears there are only a few carriers that write this line of business. At this time, it is not clear if this supports adding an additional line of business, which may be costly to the industry.

If industry data is available, it would be helpful to share this information to better understand the significance of this line and determine if the data supports the separation of this line of business.

One additional recommendation is removing the word “insurance” from the added line. No other lines of business include the word “insurance” in their description.

Thank you for the opportunity to provide input to this exposure. We are happy to discuss this with you and the Working Group at your convenience.

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990
Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600
New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000
www.naic.org

If you have any questions regarding this request, please contact Eva K. Yeung at eyeung@naic.org.

cc: Mary K. Caswell, Kris DeFrain, Eva K. Yeung

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

		FOR NAIC USE ONLY
	DATE: **08/19/2022**	Agenda Item # 2022-15BWG
		Year 2023
CONTACT PERSON:		Changes to Existing Reporting [X]
TELEPHONE:		New Reporting Requirement [ ]
EMAIL ADDRESS:		**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
ON BEHALF OF:		No Impact [X] Modifies Required Disclosure [ ]
NAME:	**Debbie Doggett**	**DISPOSITION**
TITLE:		[ ] Rejected For Public Comment
AFFILIATION:	**Missouri Department of Insurance**	[ ] Referred To Another NAIC Group [X] Received For Public Comment
ADDRESS:	**301 W High St #630**	[ ] Adopted Date [ ] Rejected Date
	Jefferson City, MO 65101	[ ] Deferred Date [ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[X] **CROSSCHECKS**
[ ] **QUARTERLY STATEMENT**	[ ] **BLANK**	
[X] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[ ] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other ______
[ ] Health	[ ] Health (Life Supplement)	

Anticipated Effective Date: Annual 2023

IDENTIFICATION OF ITEM(S) TO CHANGE

Revise the language of the Schedule H, Part 5 to remove the 5% of premiums filing exemption (FE).

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of the proposal is to remove the 5% of premium filing exemption on the Schedule H, Part 5. Before Schedule H was updated for Annual 2022 to bring uniformity in the accident and health lines of business, the Property/Casualty instructions for Schedule H, Part 5 had the less than 5% filing exemption and the Life/Fraternal instructions did not have the 5% filing exemption. The removal of the 5% exemption would require both Property/Casualty and Life/Fraternal filers to file the Schedule H, Part 5.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: ______

Other Comments:

**** This section must be completed on all forms.** **Revised 7/18/2018**

ANNUAL STATEMENT INSTRUCTIONS – LIFE\FRATERNAL AND PROPERTY

SCHEDULE H

ACCIDENT AND HEALTH EXHIBIT

Detail Eliminated to Conserve Space

PART 5 – HEALTH CLAIMS

A. DIRECT

Line 1 – Incurred Claims

Should agree with Line 3 plus Line 4 minus Line 2.

Detail Eliminated to Conserve Space

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Draft: 8/10/23

Catastrophe Risk (E) Subgroup
Virtual Meeting
July 18, 2023

The Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met July 18, 2023. The following Subgroup members participated: Wanchin Chou, Chair, Jack Broccoli, and Amy Waldhauer (CT); Jane Nelson, Vice Chair (FL); Rolf Kaumann and Mitchell Bronson (CO); Kevin Clark (IA); Judy Mottar (IL); Sandra Darby (ME); Anna Krylova (NM); HauMichael Ying (NY); Tom Botsko (OH); and Miriam Fisk, Rebecca Armon, and Monica Avila (TX). Also participating were: Elizabeth Perri (AS); Mitra Sanandajifar, Lynne Wehmueller, and Giovanni Muzzarelli (CA); Julie Lederer and Danielle Smith (MO); Jesse Kolodin (NJ); Liz Ammerman and Elizabeth Kelleher Dwyer (RI); and Darcy Paskey and Jody Ullman (WI).

1. Adopted its Spring National Meeting Minutes

Darby made a motion, seconded by Botsko, to adopt the Subgroup's March 21 minutes (*see NAIC Proceedings – Spring 2023, Capital Adequacy (E) Task Force, Attachment Four-B*). The motion passed unanimously.

2. Discussed its Working Agenda

Chou summarized the changes to the Subgroup's 2023 working agenda, which included the following changes in item P1: 1) update the Sept. 26 comment from conducting the review on different convective storm models to conduct a review on severe convective storm models; and 2) add an additional comment of "the SG is finishing reviewing the following SCS vendor models: RMS, Verisk, KCC and CoreLogic" in the comment section. He said the working agenda will be forwarded to the Property and Casualty Risk-Based Capital (E) Working Group for consideration.

3. Received an Update from its Catastrophe Model Technical Review Ad Hoc Group

Chou said the Catastrophe Model Technical Review Ad Hoc Group had three separate meetings with three different modelers—Karen Clarke & Company (KCC), Risk Management Solutions (RMS), and Verisk—to discuss the technical questions after the Spring National Meeting. He also said the Ad Hoc Group will schedule one for CoreLogic shortly after the Summer National Meeting. Jason Butke (Travelers) said the Ad Hoc Group submitted a list of technical questions to the three modeling companies, which covered hazard, vulnerability, and financial model components. He also stated that the modeling companies have been engaged in discussions and helpful in understanding the models. Chou said the goal of this reviewing process is to gain a better understanding of each vendor model to determine whether each model's results are in a reasonable range.

4. Discussed Wildfire Peril Impact Analysis

Chou said as discussed at the Spring National Meeting, the Subgroup members are required to sign nondisclosure agreements (NDAs) with the vendor modeling companies to ease the catastrophe modelers' concerns regarding their proprietary information while evaluating the impacts and determining the appropriate risk-based capital (RBC) catastrophe risk charge for wildfire peril. He stated that five state members have submitted responses so far. He encouraged the rest of the state members to submit their responses to NAIC staff by the end of July so the Subgroup can start the discussion soon.

5. Heard a Presentation from Verisk on a Severe Convective Storms Model Update and Technical Review

Julia Borman (Verisk) said this presentation (Attachment Five-C1) provides a more in-depth technical presentation to the Subgroup, which includes the following items: 1) an introduction to Verisk extreme event solutions and catastrophe modeling; and 2) approaching severe conductive storm risk with the Verisk severe thunderstorm model for the U.S. Chou said he appreciates that Verisk presented twice to the Subgroup to provide a better understanding on its model. He encouraged all the interested parties to review the materials and provide feedback to the Subgroup during its next meeting.

6. Discussed the Flood Insurance Market

Shana Oppenheim (NAIC) provided a brief update on the National Flood Insurance Program (NFIP) (Attachment Five-C2), which includes the following topics: 1) a brief overview of the NFIP review; 2) inaccurate flood maps causing disparity in NFIP payments; and 3) what is floating around the U.S. Congress (Congress).

Nancy Watkins (Milliman) provided a presentation on the U.S. private flood market (Attachment Five-C3), which includes the following items: 1) the market is underserved; 2) a shift in the market; and 3) private flood market dynamics.

Chou expressed appreciation to the presenters for speaking to the Subgroup. He said he believes the presentation will provide some ideas to the Subgroup to determine the possibility of adding Flood into the catastrophe risk component.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/Summer 2023 National Meeting/Task Forces/CapAdequacy/Cat Risk SG/07-18propertycatsg.docx

Verisk

The Verisk Severe Thunderstorm Model for the United States

Dr. Julia Borman

July 18, 2023

Introduction to Verisk Extreme Event Solutions and Catastrophe Modeling

Verisk
Formerly known as AIR Worldwide

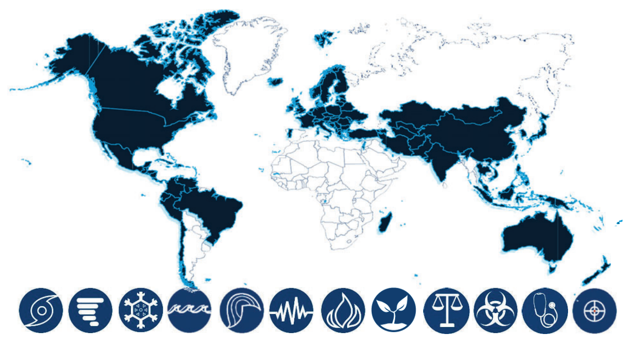
A Brief History

- Founded the catastrophe modeling industry in 1987
- Scientific leader of risk modeling software and consulting services
- Locations in Boston, Halifax, London, Munich, Beijing, Tokyo, Singapore, and Hyderabad
- Grown to serve more than 400 clients in a wide range of industries, including insurance, reinsurance, finance, corporate, and government

 3

Verisk

Extreme Event Models in 110+ Countries



 4

Verisk

Regulatory Client Services Team

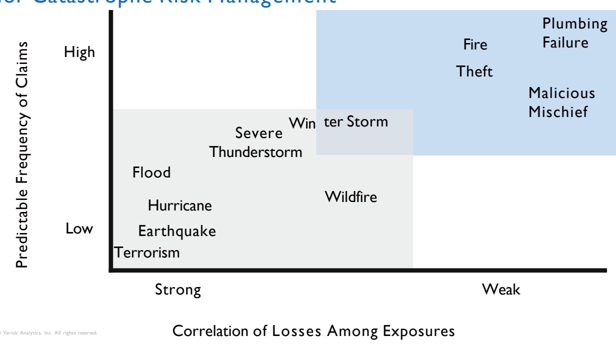
Evaluation
- Submissions
- Reviews

Education
- Presentations
- Webinars
- Blogs
- Whitepapers

Support
- Ratemaking
- Solvency surveys
- Data calls
- Regulation

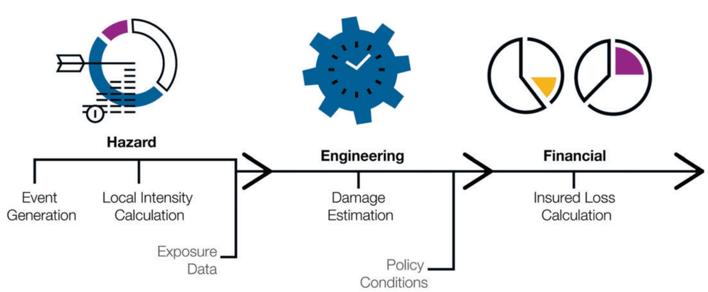
Verisk

Traditional Methods of Estimating Loss Ineffective for Catastrophe Risk Management



Verisk

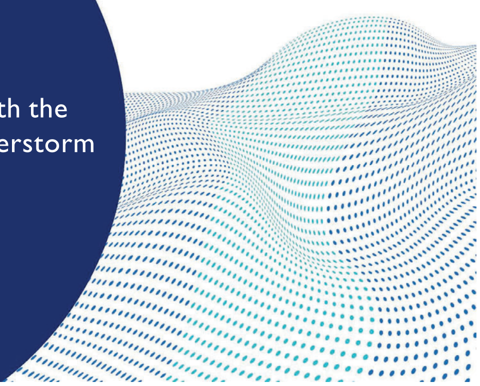
Extreme Event Modeling Framework

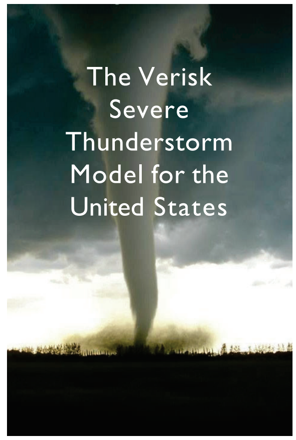


Verisk

Touchstone Software – Inputs, Models, Outputs

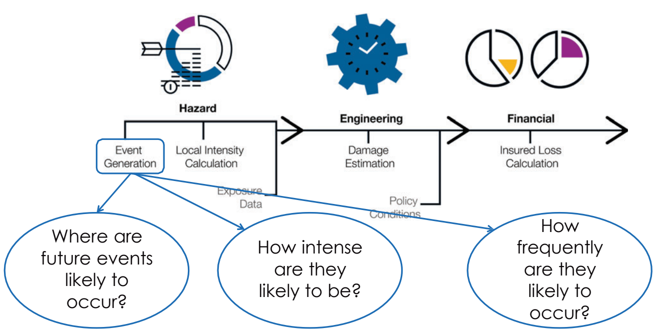
Approaching Risk with the Verisk Severe Thunderstorm Model for the U.S.



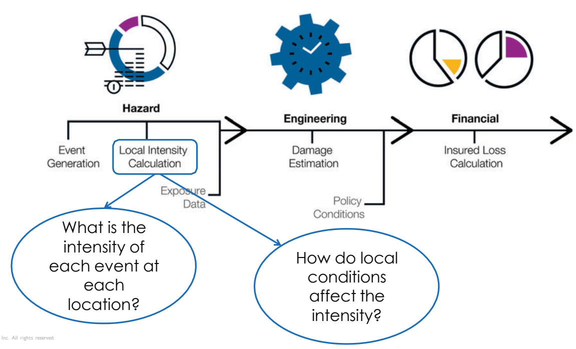


- Modeled Perils:
  - **Straight-line wind**
  - **Hail**
  - **Tornado**
- Model Domain:
  - **Contiguous United States**
- Model Resolution:
  - **90-meter**

Hazard Module: Event Generation



Hazard Module: Intensity Calculation



Data is a Key Component of the Model

Observation Data Sets

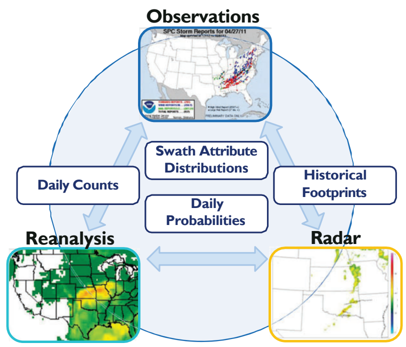
- Storm Prediction Center **(SPC) – 40 years**
- Community Collaborative Rain, Hail and Snow Network **(CoCoRaHs) – 21 years**
- Severe Hazards Analysis and Verification Experiment **(SHAVE) – 10 years**
- Insurance Institute for Business and Home Safety **(IBHS)**

Reanalysis Data Sets

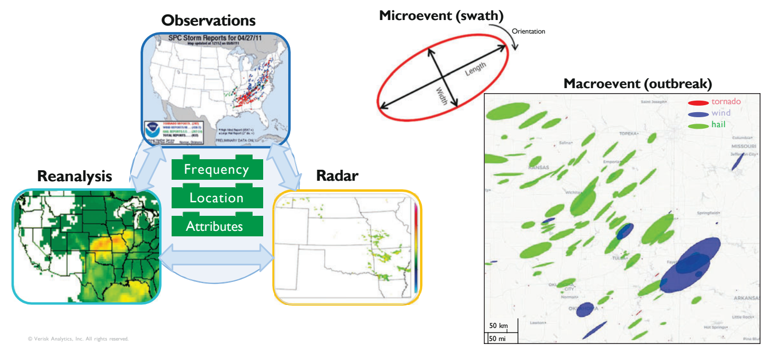
Climate Forecast System Reanalysis **(CFSR) – 40 years**

Radar Data Sets

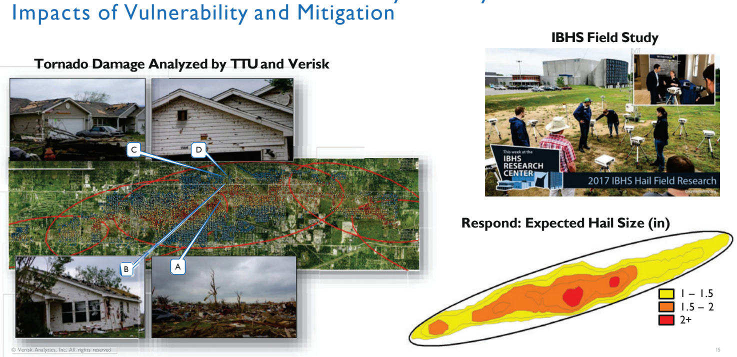
- 20 years of continuous data
- Verisk's Respond® data



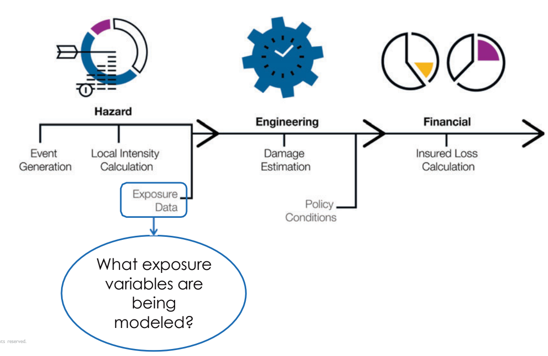
Complementary Data Sources Inform All Hazard Components



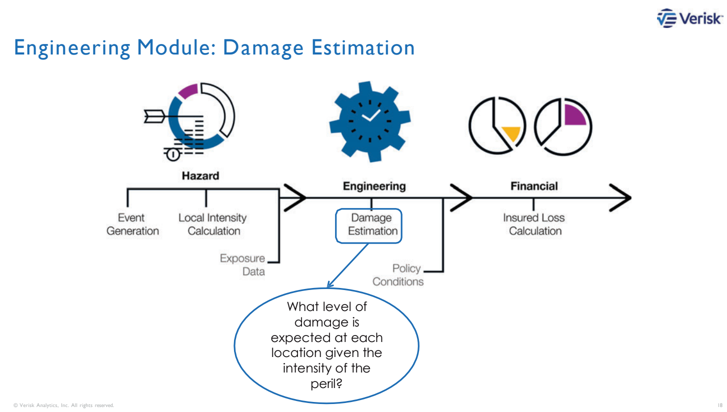
Realistic Hazard Models Are Necessary to Study Impacts of Vulnerability and Mitigation

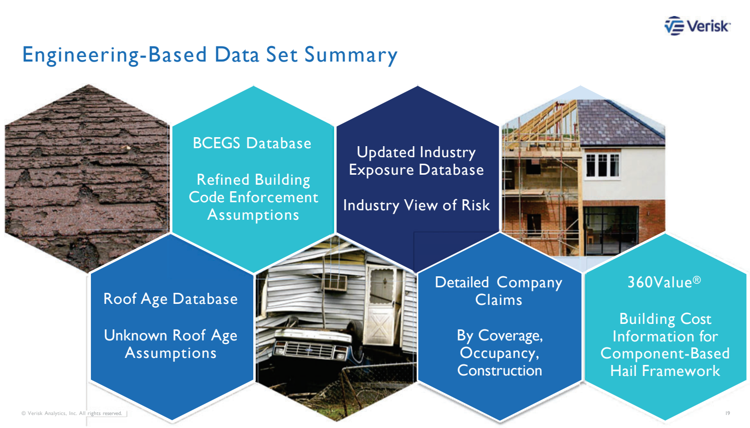


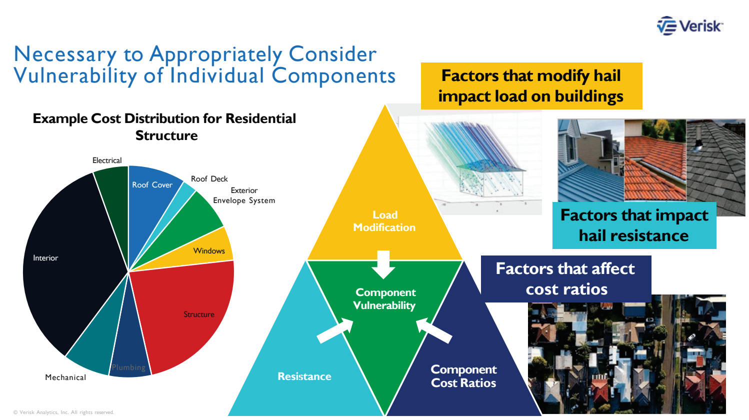
Hazard Module: Exposure Data Input



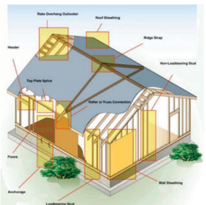

Verisk
How does the User Define their Exposure Data?
Primary Features: Construction, Occupancy, Height, Year Built, Gross Area
Location Information
• Where is the risk located?
Replacement Values
• How much would it cost to replace irrespective of insurance?
Risk Characteristics
• What is the risk built from?
What is it used for?
When was it built?
How tall is it?


Verisk
Engineering Module: Damage Estimation
Hazard
Engineering
Financial
Event Generation
Local Intensity Calculation
Damage Estimation
Insured Loss Calculation
Exposure Data
Policy Conditions
What level of damage is expected at each location given the intensity of the peril?

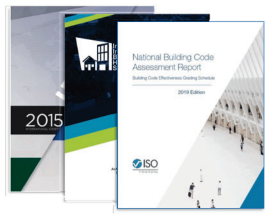

Verisk
Engineering-Based Data Set Summary
BCEGS Database
Refined Building Code Enforcement Assumptions
Updated Industry Exposure Database
Industry View of Risk
Roof Age Database
Unknown Roof Age Assumptions
Detailed Company Claims
By Coverage, Occupancy, Construction
360Value®
Building Cost Information for Component-Based Hail Framework


Verisk
Necessary to Appropriately Consider Vulnerability of Individual Components
Factors that modify hail impact load on buildings
Example Cost Distribution for Residential Structure
Electrical
Roof Cover
Roof Deck
Exterior Envelope System
Windows
Structure
Plumbing
Mechanical
Interior
Load Modification
Component Vulnerability
Resistance
Component Cost Ratios
Factors that impact hail resistance
Factors that affect cost ratios

Detailed Description of Primary and Secondary Risk Characteristics Give the Best Representation of Vulnerability

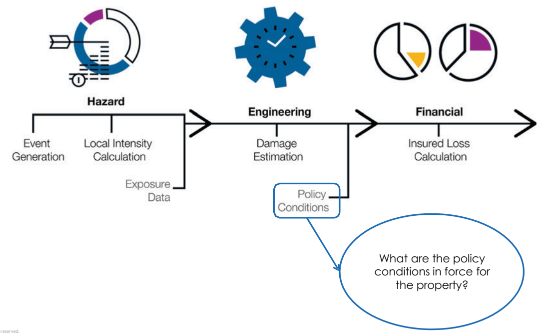


FEATURE	DESCRIPTION
Construction	Wood Frame
Occupancy	Single Family Home
Height	1 story
Year Built	2005
Location	Fort Collins, CO
Roof Geometry	Gable End w/o Bracing
Roof Covering	Hurricane Wind-Rated
Roof Deck	Plywood
Roof Anchorage	Nails/Screws
...	...



Wind Standards → Model Building Codes → State Building Codes → Local Code and Construction Practices → Individual Buildings

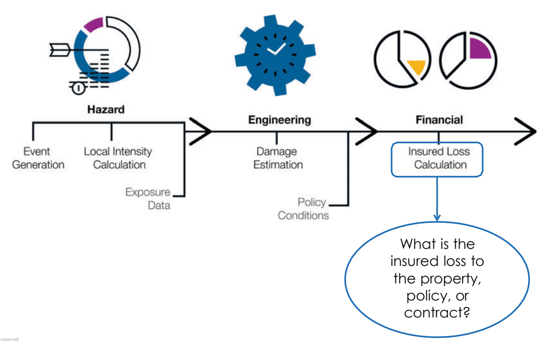
Engineering Module: Policy Conditions

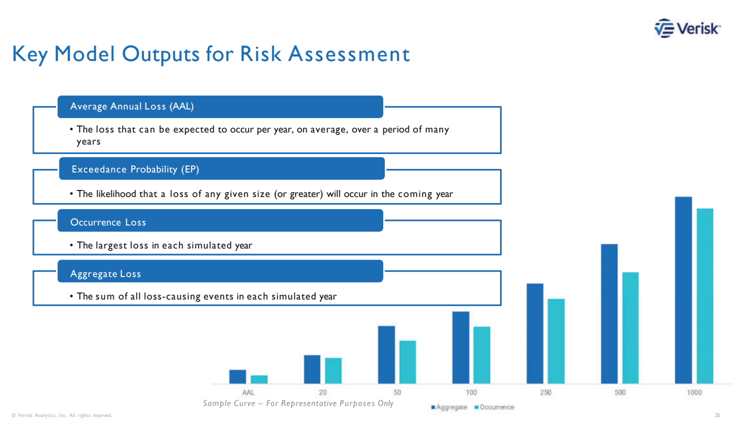


Policy Conditions Dictate Who Pays What

- In Touchstone, users can model the impact of conditions of primary insurer policies and some types of reinsurance contracts
- Common primary policy terms include:
  - Limits
  - Deductibles
  - Participation
  - Many variations on the above

Financial Module: Insured Loss Calculation




Verisk
Key Model Outputs for Risk Assessment
Average Annual Loss (AAL)
• The loss that can be expected to occur per year, on average, over a period of many years
Exceedance Probability (EP)
• The likelihood that a loss of any given size (or greater) will occur in the coming year
Occurrence Loss
• The largest loss in each simulated year
Aggregate Loss
• The sum of all loss-causing events in each simulated year
AAL
20
50
100
250
500
1000
Sample Curve – For Representative Purposes Only
Aggregate
Occurrence


Verisk
Thank you!
RegulatorySupport@air-worldwide.com
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National Flood Insurance Program Update

NAIC Property and Casualty Risk-Based Capital (E) Working Group Catastrophe Risk (E) Subgroup

Shana Oppenheim, Sr. Financial Services Policy and Legislative Advisor

August 23, 2023

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

NFIP Review

25 short-term reauthorizations since 2017

last five-year renewal expired

FEMA Risk Rating 2.0

Deadline September 30, 2023

Conflict between:

- Shoring up NFIP finances
- Ensuring rates better match risk
- Avoiding premium spikes that threaten the housing market

On the Ground: Inaccurate Flood Maps Causing Disparity in NFIP Payments?

- Florida and Kentucky Hurricanes 2022
- Average NFIP payment to Florida households from September 2022 Hurricane Ian - $91,000
- Average NFIP payment to Kentucky's July 2022 storm - $49,000

What's Floating Around Congress?

NAIC GOVERNMENT AFFAIRS

Bipartisan & Bicameral *National Flood Insurance Program Reauthorization (NFIP-RE) Act of 2023*

- Reauthorize NFIP for five-years and impose changes:
- Cap annual premium increase at 9% (down from 18%)
- Provide funding for mitigation
- Freeze interest payments on NFIP debt
- Offer means-tested vouchers to boost flood insurance affordability for low- and middle-income homeowners and renters
- Create oversight measures targeting "write-your-own" insurance companies that handle NFIP policies and revamp the claims process

NAIC GOVERNMENT AFFAIRS

Other Bills (1 of 2)

Senate:

- National Flood Insurance Program Consultant Accountability Act of 2023 (S. 1039)
- Risk Rating 2.0 Transparency Act (S. 602)
- Flood Insurance Affordability Act (S. 601)
- Repeatedly Flooded Communities Preparation Act (S. 1417)
- Homeowner Flood Insurance Transparency and Protection Act (S. 721)

NAIC GOVERNMENT AFFAIRS

Other Bills (2 of 2)

House:

- National Flood Insurance Program Affordability Act (H.R. 1540)
- FAIRNESS in Flood Insurance Act of 2023 (H.R. 634)
- National Flood Insurance Program Extension Act of 2023 (H.R. 1392)
- Amend the NFIP to Allow for Consideration of Flood Insurance for the Purposes of Applying Continuous Coverage Requirement (H.R. 900)
- Require Use of Replacement Cost Value in Determining Premium Rates for Flood Insurance Coverage Under the NFIP (H.R. 1309)
- Community Mapping Act (H.R. 1308)

NAIC GOVERNMENT AFFAIRS

Reading the Tea Leaves

House Financial Services <u>*might*</u> vote in July on a National Flood Insurance Program extension that would decouple the NFIP from its recent cycle of being attached to government funding legislation

NAIC GOVERNMENT AFFAIRS

Questions

Shana Oppenheim
soppenheim@naic.org

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 8/23/2023 9

U.S. private flood market

NAIC Property and Casualty Risk-Based Capital (E) Working Group Catastrophe Risk (E) Subgroup

July 18, 2023

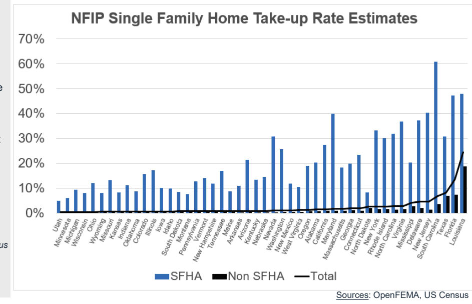
Nancy Watkins, FCAS, MAAA
Principal & Consulting Actuary, Milliman

The U.S. flood insurance market is underserved

- Estimated **4%** of SFHs have flood insurance in 2022 (Note 1)
- NFIP: **$3.5B** total premium on **4.7M** total policies as of March 2023 (Note 2)
- Private insurers reported **$1.29B** in total Private Flood DWP in 2022 vs. **$1.03B** in 2021 and **$715M** in 2020 (Note 3)
- Potential U.S. residential flood insurance market between **$41B** and **$52B** of DWP (Note 4)
- 2022 HO DWP was **$132B** (Note 3)

Sources

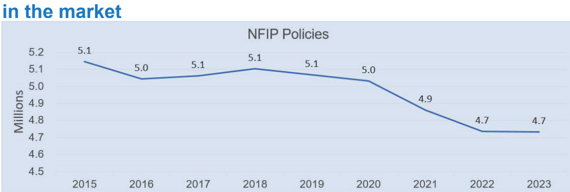
1. *Milliman analysis of data from OpenFEMA, SNL, US Census*
2. *FEMA Pivot Portal*
3. *NAIC Annual Statement data via SNL*
4. *Milliman analysis*



Sources: OpenFEMA, US Census

Milliman 2

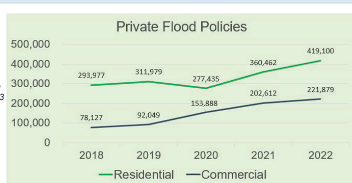
A shift in the market



Sources

NFIP:
Includes all policies (residential + non-residential)
From OpenFEMA (through 2020) and
https://nfipservices.floodsmart.gov/reports-flood-insurance-data
All evaluations at end of year (12/31/XX) except 2023 at 3/31/23

Private flood:
NAIC Annual Statement data via SNL



Milliman 3

Private flood market dynamics

- Reinsurance
- Florida developments
  - Hurricane Ian
  - Cat model approvals
  - Citizens mandatory purchase
- Impact of rising flood risk on mortgage and real estate markets
- Strengthening flood risk disclosures

Milliman 4


Questions?
nancy.watkins@milliman.com

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Newsletter Items for Adoption for 2023 for Property and Casualty RBC:

Date: July 2023
Volume: 27.1

Page 1: Intro Section:

What Risk-Based Capital Pages Should Be Submitted?
For year-end 2023 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 2023:

Underwriting Risk

Underwriting and Investment Exhibit – Premiums Written (PR035)

The Capital Adequacy (E) Task Force adopted proposal 2022-07-P to modify the lines of business categories in PR035 during its Dec. 14, 2022, meeting. The purpose of this proposal is to provide consistency in the granularity of the Property and Casualty Underwriting Investment Exhibit pages.

New Industry Average Risk Factors – Annual Update

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

www.naic.org

During its April 25 meeting, the Capital Adequacy (E) Task Force adopted the annual update of industry average development factors. However, the Property and Casualty Risk-Based Capital (E) Working Group noticed the incorrect calculation of the reserve factors of H/F, WC, and CMP lines of business after the Task Force's adoption. The Working Group re-exposed the following updated factors for seven days. No comments were received during the exposure period. The Task Force re-adopted the modified proposal during its June 30 meeting.

PR017 Underwriting Risk – Reserves			
Line (1), Industry Development Factors			
Col.	Line of Business	2023 Factor	2022 Factor
(1)	H/F	0.999	1.001
(2)	PPA	1.047	1.022
(3)	CA	1.106	1.082
(4)	WC	0.873	0.906
(5)	CMP	1.026	1.037
(6)	MPL Occurrence	0.906	0.887
(7)	MPL Claims Made	0.984	0.983
(8)	SL	0.994	0.990
(9)	OL	0.969	0.995
(10)	Fidelity/Surety	0.852	0.842
(11)	Special Property	0.983	0.993
(12)	Auto Physical Damage	1.016	1.011
(13)	Other (Credit A&H)	0.946	0.955
(14)	Financial/Mortgage Guaranty	0.674	0.694
(15)	INTL	2.414	3.041
(16)	REIN. P&F Lines	0.924	0.917
(17)	REIN. Liability	1.024	1.008
(18)	PL	0.874	0.867
(19)	Warranty	0.995	0.998

PR018 Underwriting Risk – Net Written Premiums			
Line (1), Industry Average Loss and Expense Ratios			
Col.	Line of Business	2021 Factor	2022 Factor
(1)*	H/F	0.679	0.665
(2)	PPA	0.791	0.793
(3)	CA	0.777	0.761
(4)	WC	0.651	0.664
(5)*	CMP	0.671	0.661
(6)	MPL Occurrence	0.767	0.750
(7)	MPL Claims Made	0.815	0.829
(8)*	SL	0.578	0.585
(9)	OL	0.641	0.637
(10)	Fidelity/Surety	0.363	0.366
(11)*	Special Property	0.550	0.547
(12)	Auto Physical Damage	0.727	0.718
(13)	Other (Credit A&H)	0.702	0.698
(14)	Financial/Mortgage Guaranty	0.209	0.203
(15)*	INTL	1.136	1.166
(16)*	REIN. P&F Lines	0.578	0.566
(17)*	REIN. Liability	0.743	0.725
(18)	PL	0.597	0.601
(19)	Warranty	0.652	0.665

* Cat Lines

Catastrophe Risk

Modification to the Instructions of Obtaining Permission to Use the Own Model

As a result of the adoption of proposal 2022-08-CR by the Capital Adequacy (E) Task Force during its Dec. 14, 2022, meeting, the revised instructions to: 1) capture the spirit of the own model permission review; and 2) clarify the requirements expected from the company who submits its own model for permission are included in the PR027 instructions.

Affiliated Investments

Modification to the Affiliated Investment Structure and Instructions

The Capital Adequacy (E) Task Force adopted proposal 2022-09-CA during its March 23 meeting to revise the instructions and structure of the Affiliated Investment pages (pages PR003–PR005) to provide consistent treatment of affiliated investments between the Health, Life, and Property/Casualty (P/C) RBC formulas. The Capital Adequacy (E) Task Force adopted proposal 2022-09-CA (MOD) during its June 30 call. The modified proposal clarified the examples provided for the Indirectly Owned Alien Insurance Affiliates/Subsidiaries section within the instructions and added a footnote for the "% Owned" column within the blank.

Accident and Health Business

Health Premiums (PR019) and Health Underwriting Risk (PR020) References

As a result of the adoption of proposal 2022-13-CA by the Capital Adequacy (E) Task Force during its March 23 meeting, the Health Premiums (PR19) and the Health Underwriting Risk (PR020) references in the instructions and structure will be updated to provide consistent categories used in the Annual Statement, Schedule H, Part 1.

Underwriting Risk Factors

The Capital Adequacy (E) Task Force adopted proposal 2022-16-CA during its June 30 meeting. This proposal updated the comprehensive medical, Medicare supplement, and dental and vision factors to include a 5% investment yield adjustment. The revised factors are:

	Comprehensive Medical	Medicare Supplement	Dental & Vision
$0–$3 Million	0.1434	0.0980	0.1148
$3–$25 Million	0.1434	0.0603	0.0711
Over $25 Million	0.0838	0.0603	0.0711

Stop Loss Premiums

The Capital Adequacy (E) Task Force adopted proposal 2023-01-CA to clarify the instructions to provide clarity on reporting stop loss premiums in the RBC formula during its June 30 meeting.

Last Page: RBC Forecasting & Warning:

Risk-Based Capital Forecasting and Instructions

The P/C RBC forecasting spreadsheet calculates RBC using the same formula presented in the *2023 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. 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:

2023 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Property and Casualty Risk-Based Capital Newsletter Volume 27.1. Published annually or whenever needed by the NAIC for state insurance regulators, professionals, and consumers.

Direct correspondence to: Eva Yeung, RBC Newsletters, NAIC, 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197. Phone: 816-783-8407. Email: eyeung@naic.org.

Address corrections requested. Please mail the old address label with the correction to: NAIC Publications Department, 1100 Walnut St., Suite 1500, Kansas City, MO 64106-2197. Phone: 816-783-8300. Email: prodserv@naic.org.

Property and Casualty Risk-Based Capital Committee—Release of Recent Report

Ronald Wilkins, MAAA, FCAS
Vice Chairperson
Property and Casualty Risk-Based Capital Committee

Discussion of Report on Investment Income Adjustment Factors and Catastrophe-Adjusted Risk Factors

July 27, 2023

AMERICAN ACADEMY of ACTUARIES

Topics Covered Today

- Background
- Summary of Results
- Adjustment for Catastrophe Risk

AMERICAN ACADEMY of ACTUARIES

Status of Final Report

- In the coming days, the American Academy of Actuaries will publish on its website a final report to this working group.
- The report is currently undergoing public policy review by the Academy.

Please refer to the final report for explanations of the methodology and implications of the analysis which produced the results presented here.

AMERICAN ACADEMY of ACTUARIES

Key Topics Covered in Report

1. Summary of Results
   - And impacts to industry ACL
2. Interest Rates
   - Use of recent and historical U.S. Treasury rates
3. Payment Patterns
   - 40-year runoff payment pattern
   - Risk development horizon/40-year truncated payment pattern
4. Present Value Method
   - Discount historical datapoints by then-prevailing U.S. Treasury interest rates, which have declined across the experience period
5. Safety Level Calculations
   - These calculations are included to support potential future discussions and should not be used as the basis for increasing the safety margin
6. Adjustment for Catastrophe Risk Captured in Rcat

AMERICAN ACADEMY of ACTUARIES

Indicated Changes in Risk Charges by Line

(1)	(2)	(3)	(4)= (3)/(2)-1	(5)	(6)	(7)= (6)/(5)-1
	Premium Risk			Reserve Risk		
LOB	Risk Charge		Change in	Risk Charge		in Risk
	Current	Indicated	Risk Chg	Current	Indicated	Chg
A-HO	0.182	0.188	3.0%	0.138	0.166	20.4%
B-PPA	0.125	0.137	10.1%	0.094	0.129	37.2%
C-CA	0.185	0.201	9.1%	0.162	0.259	59.7%
D-WC	0.138	0.126	-8.8%	0.116	0.082	-28.9%
E-CMP	0.148	0.160	8.7%	0.309	0.325	5.1%
F1-MPL-O	0.534	0.363	-32.0%	0.196	0.094	-51.9%
F2-MPL-C	0.189	0.244	28.8%	0.127	0.050	-60.5%
G-SL	0.166	0.164	-1.1%	0.161	0.238	48.5%
H-OL	0.130	0.135	3.5%	0.304	0.293	-3.9%
I-SP	0.120	0.062	-48.5%	0.204	0.213	4.8%
J-APD	0.044	0.050	13.0%	0.127	0.112	-12.0%
K-Fid/Sur	0.272	0.105	-61.2%	0.289	0.440	52.4%
L-Other	0.142	0.143	1.2%	0.180	0.147	-18.4%
M-Intl	0.556	0.804	44.7%	0.188	0.852	353.6%
N-Re-Prop	0.312	0.162	-48.3%	0.275	0.204	-25.7%
O-Re-Liab	0.295	0.227	-23.2%	0.388	0.266	-31.5%
R-PL	0.307	0.286	-6.9%	0.515	1.013	96.6%
S-FG/MG	0.754	1.534	103.5%	0.092	0.050	-45.8%
T-Wrnty	0.030	0.215	617.5%	0.289	0.302	4.6%
Total/Avg	0.135	0.133	-1.7%	0.195	0.202	3.5%

American Academy of Actuaries

Indicated Changes in ACL by Type of Company

(1)	(2)	(3)	(4)	(5)	(6)
Row	Type of Company	ACL Value with 2019 Risk Charges ($Billions)	% Change in: Reserve Risk Charge	Premium Risk Charge	ACL
1	**Commercial**	64.9	4.8%	-4.5%	2.1%
2	**Med Prof Liab**	2.4	-52.2%	4.8%	-14.3%
3	**NOC**	0.9	21.3%	-17.6%	1.4%
4	**Personal**	84.3	12.4%	4.2%	1.6%
5	**Reinsurance**	8.2	-18.6%	-23.5%	-2.2%
6	**Workers Comp**	10.1	-9.7%	-2.9%	-4.8%
7	**Total**	170.6	3.4%	-0.8%	1.0%

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Distribution of Number of Companies by Indicated Change in ACL Values

(1)	(2)	(3)
% Changes in ACL RBC	**# companies**	**% companies**
Less Than -50%	9	0%
-50% to -25%	96	5%
-25% to -15%	117	6%
-15% to -5%	194	11%
-5% to 5%	951	52%
5% to 15%	298	16%
15% to 25%	95	5%
25% to 50%	71	4%
Over 50%	6	0%
Total	1,837	100%

American Academy of Actuaries

Key Topics Covered in Report

1. ✓ Summary of Results
   - And impacts to industry ACL
2. Interest Rates
   - Use of recent and historical U.S. Treasury rates
3. Payment Patterns
   - 40-year runoff payment pattern
   - Risk development horizon/40-year truncated payment pattern
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5. Safety Level Calculations
   - These calculations are included to support potential future discussions and should not be used as the basis for increasing the safety margin
6. Adjustment for Catastrophe Risk Captured in Rcat

American Academy of Actuaries

Premium Risk—Catastrophe Adjustments

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
LOB	Current Cat Adjustment	Data	Data	(3)-(4)	Selected Cat Adjustment	(3)+exp-100%	(6)/(7)
		87.5th Total LR	87.5th Non Cat LR	Indicated Cat Adjustment		87.5th Total Risk Charge	Cat Adj As % of Risk Charge
A-HO	2.8%	91.5%	88.9%	2.6%	2.6%	20.4%	12.7%
E-CMP	1.8%	83.3%	81.7%	1.6%	1.6%	18.9%	8.6%
G-SL	1.6%	96.0%	91.7%	4.3%	4.3%	29.8%	14.4%
I-SP	1.6%	82.8%	79.4%	3.4%	3.4%	12.9%	26.3%
J-APD	0.0%	84.8%	84.2%	0.6%	0.6%	8.0%	7.5%
M-Intl	0.0%	192.1%	159.3%	32.8%	15.0%	136.0%	11.0%
N-Re-Prop	6.9%	122.1%	96.2%	25.9%	25.9%	48.8%	53.0%
O-Re-Liab	0.0%	100.5%	100.2%	0.4%	0.4%	27.2%	1.3%
R-PL	0.0%	100.8%	100.6%	0.3%	0.0%	33.8%	0.0%

Contact

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Draft: 8/22/23

Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group
Seattle, Washington
August 13, 2023

The RBC Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force met Aug. 13, 2023. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy (CA); Qing He (CT); Carolyn Morgan (FL); Carrie Mears and Kevin Clark (IA); Vincent Tsang (IL); Roy Eft (IN); Fred Andersen (MN); Debbie Doggett (MO); Lindsay Crawford (NE); Bob Kasinow (NY); Dale Bruggeman and Tom Botsko (OH); Jamie Walker (TX); David Smith and Greg Chew (VA); Steve Drutz (WA); and Amy Malm (WI). Also participating was: Mike Yanacheak (IA).

1. Adopted its June 14, May 17, April 20, and Spring National Meeting Minutes

Botsko made a motion, seconded by Drutz, to adopt the Working Group's June 14 (Attachment Six-A), May 17 (Attachment Six-B), April 20 (Attachment Six-C), and March 23 (*see NAIC Proceedings – Spring 2023, Capital Adequacy (E) Task Force, Attachment Five*) minutes. The motion passed unanimously.

2. Received Updates from the Valuation of Securities (E) Task Force and Statutory Accounting Principles (E) Working Group

Mears said the Valuation of Securities (E) Task Force was going to review progress on the work of a definition of a designation, and she talked about how the concept of how a designation works within the insurance regulatory process. In addition, it was going to discuss a proposal for the Securities Valuation Office (SVO) to have some discretion of individual ratings that come from credit rating providers (CRPs) and the ability to challenge those via a due process that has been laid out. The Task Force will also discuss the comment letters received and the next steps from there.

Bruggeman said the Statutory Accounting Principles (E) Working Group adopted the principle-based bond definition that would become effective Jan. 1, 2025. It also updated *Statement of Statutory Accounting Principles* (*SSAP*) *No. 26R—Bonds*, *SSAP No. 43R—Loan-Backed and Structured Securities*, and some of the references in other SSAPs for issuer credit obligations and asset-backed securities (ABS). The project included updating Schedule D1 for those that meet the bond definition, which was almost completed by the Blanks (E) Working Group. Along with exposing the project issue paper, the Statutory Accounting Principles (E) Working Group also exposed an update to *SSAP No. 21R—Other Admitted Assets* for debt-related securities that do not meet the definition. The exposure also included a new concept for the measurement method of residual tranches, in which they would initially be reported at cost, with all cashflows received reducing the reported value until the value reaches zero. Any additional cash flows received once the value is reduced to zero would be reported as income. The Statutory Accounting Principles (E) Working Group is going to sponsor the Blanks (E) Working Group's proposal to revise Schedule BA for ABS and debt-related securities that do not meet the definition. The Statutory Accounting Principles (E) Working Group plans to have separate reporting lines based on why it did not meet the definition under three categories. Part of the Schedule D1 break-up setup will make it easier for the RBC schedules to pull collateralized loan obligation (CLO) information directly from blanks.

3. Heard a Presentation from the Academy

Steve Smith (American Academy of Actuaries—Academy) presented principles for structured securities risk-based capital (RBC) (Attachment Six-D). There are two main sections of the presentation. The first section, which is on asset modeling, covers how granular C-1 should be in terms of asset classes. Smith walked through the C-1 modeling flow chart. Mears asked how state insurance regulators should assess the information available in the designation if the rating itself is informative enough. Smith said it is interconnected with the second section of the presentation. It depends on what C-1 is specifically measuring. Barlow said he is not clear on whether ratings for corporate bonds mean the same thing for CLOs. Smith said the Academy does not believe a given rating in terms of the tail risk on a corporate bond means the same thing for a CLO. Yanacheak asked whether it is right to say a risk measure of the same percentile could have different meanings between two completely different asset types. Smith said he agrees with him on this.

For the second section of the presentation, Smith started off with defining terminologies, one of which being definitions of RBC arbitrage. According to Smith, there is a narrow-scope and a broad definition for RBC arbitrage. Smith then talked about seven candidate principles that would govern structured securities for RBC. He explained what these candidate principles are and how they work. Barlow made a comment on the first principle. He said it is worthwhile for the Working Group to consider how easy it is to adjust the RBC when considering the extent of precision with a particular component. Mears asked a question on the fifth principle. She asked whether there is a need to have a separate set of factors for CLOs compared to other ABS due to the active management incorporated into the CLO rating. Smith said it depends on the situation. In a filing-exempt (FE) world, no additional work would be needed for CLOs to satisfy this candidate principle. However, an awareness of this principle should be kept in modeling assets for CLOs individually. Clark asked a question on the last candidate principle. He asked whether the Academy asked state insurance regulators to provide feedback on whether the conditional tail expectation (CTE) would be a better measure or an endorsement of the CTE (90) versus CTE (96). Smith said that feedback is requested regarding whether the Working Group supports using different risk measures for different assets.

The Academy asked the Working Group to provide its feedback on these principles, based on which the Academy would work to produce a general framework around the principles.

4. Discussed its Next Steps

Barlow said the next step for the Working Group would be to have a follow-up call to get questions and comments from the state insurance regulators and interested parties on the principles presented. Then, the questions and comments will be exposed for a public comment period.

Having no further business, the RBC Investment Risk and Evaluation (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2023-2-Summer/RBC Investment Risk 08-13-23 Minutes.docx

Draft: 8/9/23

Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Virtual Meeting
June 14, 2023

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force met June 14, 2023. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy (CA); Wanchin Chou (CT); Ray Spudeck (FL); Carrie Mears and Kevin Clark (IA); Vincent Tsang (IL); Roy Eft (IN); Fred Andersen (MN); Debbie Doggett (MO); Lindsay Crawford (NE); Bob Kasinow and Bill Carmello (NY); Dale Bruggeman and Tom Botsko (OH); Rachel Hemphill and Jamie Walker (TX); Doug Stolte (VA); Steve Drutz and Tim Hays (WA); and Amy Malm (WI).

1. Discussed Comment Letters Received on Residual Factor and Sensitivity Test Factor

Clark presented the comment letter submitted by Iowa and Connecticut (Attachment Six-A1 and Attachment Six-A2). He said there have been comments that there is more information supporting a 45% charge than a 30% charge. He said that, presumably, the support being referred to is the example of a broadly syndicated loan (BSL) collateralized loan obligation (CLO), which shows a two-thirds reduction in capital pre- and post-securitization. While it may be true that this serves as a data point supporting an increase in the charge for BSL CLOs, he said there is no evidence supporting this singular example being representative of all asset-backed securities (ABS) residuals. Clark said that based on the information available, it is believed that the population of ABS that are not BSL CLOs makes up a significant portion of the residual tranche population. It is not believed that they constitute outliers or merely 10% of the population. Clark said it is not believed that there is sufficient analysis to support an increase in RBC charge at this time. Iowa and Connecticut still believe that such an increase lacks sufficient supporting analysis. Therefore, unless the alternative proposal, which is to delay the implementation, includes a process or mechanism to consider further information that may be available prior to implementing an increase, they continue to not support an automatic increase.

Walker presented the comment that Texas submitted (Attachment Six-A3). She said she looked for a solution that would address the direction of the Financial Condition (E) Committee regarding an interim charge, something that acknowledges that the factor established for traditional equity investments did not anticipate residual tranche investments, which have a different risk profile, allows time for companies to address any investment changes needed in their asset mix and provides for the most efficient use of regulatory tools. She said changing the charge for year-end 2023 would be too disruptive to companies and may even result in companies divesting assets at suppressed prices because of the timing. She said they are trying to avoid that outcome in the deterioration of company surplus. However, leaving the charge at 30% until a final solution for all tranches is developed would not address the concerns raised by segments of the industry and some regulators. Therefore, she said a compromise is to align the residual tranche base charge with the current charge of 30% for 2023 and propose a 15% sensitivity rate for 2023 to get more information and understanding about the potential concentration on these types of investments for companies. Additionally, Walker proposed that the 2024 base charge be raised to 45% to get more certainty for future years. She said it would allow time for all parties to adjust and plan as if that charge will be in place. She said any action taken today needs to be qualified such that if the Working Group receives or develops information that indicates that a 45% charge is not appropriate for the segment of structured securities residual tranche investments, the Working Group commit to act on that information and set the appropriate charge as soon as practical.

Jeff Johnson (Global Atlantic Financial Group—Global Atlantic) presented Global Atlantic's comment letter (Attachment Six-A4). He said Global Atlantic supports the proposal made by Iowa and Connecticut for reasons presented in their comment letter from May 12. Global Atlantic stands by the principles described in its letter, which are fundamental to developing charges and reflect equal capital for equal risk. Johnson said Global Financial's June 9 comment letter is focused on explaining why the proposed 45% percent factor should not apply to all residual tranches, and two examples are included to illustrate this point.

John Golden (Athene) presented Athene's comment letter. He said Athene's main concern is regarding the need for an overarching, consistent, reliable system, ensuring fairness across all asset classes. It recommends that the Working Group and the NAIC take a holistic approach, meaning they take a step back and review this workstream in the context of the broader NAIC framework for consistency. He said Athene is supportive of any further efforts to study any asset class, including residuals, in this context.

2. Adopted the Residual Tranche Base Factor and Sensitivity Test Factor

Andersen said that while Minnesota prefers a 45% charge for the residual tranche being implemented for year-end 2023, he said the Texas alternative could be considered a strong and practical approach. He made a motion to adopt the Texas proposal, which contains the 30% charge and an additional 15% sensitivity test for year-end 2023, which is to be replaced by the 45% charge applied beginning year 2024 with a consideration of positive or negative adjustments based on the additional information as mentioned by Walker and her oral and written comments. This motion was seconded by Walker.

Clark suggested that NAIC staff summarize the sensitivity data when it becomes available, which could be provided to the Financial Analysis (E) Working Group on an informational basis for their possible use. Bruggeman said he is pleased with the Texas commentary, and Ohio would support the motion as it stands now. Stolte expressed concern that they are out of step with other financial service regulators regarding the capital charge for this asset class.

A roll call vote was taken, and the motion passed unanimously.

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

SharePoint/NAIC Support Staff Hub/Committees/E Committee/CADTF/2023-2-Summer/RBCIREWG/RBC Investment Risk 06-14-23 Minutes.docx

June 9, 2023

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation Working Group
c/o Dave Fleming
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2107

Re: Residual Tranche Exposures

Dear Mr. Barlow:

The Connecticut Insurance Department ("CID") and Iowa Insurance Division ("IID") are jointly submitting this letter to supplement those comments discussed in our previous letters dated May 12, 2023. Both letters are attached as appendices for ease of reference and should be read together with this letter in order to understand the basis for our position. As a brief summary of the points made in our previous letters:

- Absent a material and pressing solvency concern requiring immediate action, changes in RBC factors should be supported by fulsome, data-driven analysis.
- Changes that lack such analysis may not be warranted and therefore risk unforeseen and unintended consequences.
- The reported level of insurer investment in residual tranches does not reflect a material and pressing solvency concern, either in the aggregate, or for individual insurers.
- The basis for the proposed factor is based on a singular example of a subset of the asset-backed security ("ABS") population, though it is intended to apply broadly to the entire population. No analysis has been performed to assess whether this subset is representative of other types of ABS.
- There is an alternative option ("Alternative Interim Proposal") that would fully address the noted concerns without the risk of unintended consequences, as described again at the end of this letter.

In addition to expressing our joint support for the Alternative Interim Proposal, we would also provide the following comments in regards to remarks made on the May 17, 2023 Working Group call:

- In response to concerns raised by several Working Group members around the lack of analytical support for a change in factor, a comment was made that "we have better support for the 45% than the 30%". Presumably, the support being referred to is the example of a broadly-syndicated CLO ("BSL CLO") which shows a 2/3 reduction in capital pre- and post- securitization.
- We would like to reiterate, to the extent that this example serves as adequate support for an increase in factor, **it only provides support for BSL CLOs**. No analysis has been done to determine whether it is reasonable to extrapolate this singular observation to all types of ABS, which the 45% factor is proposed to apply to.
- Likewise, the sole comment letter received in support of the 45% factor continued to focus on the same example showing the reduction in RBC for BSL CLOs pre- and post-securitization, noting non-CLO holdings as "outliers".

- Another comment made was that RBC is always blunt and imperfect and that it should generally be assumed that factors are off by at least 10%.
- Based on the information we have, we believe that the population of ABS that are not BSL CLOs makes up a significant portion of the residual tranche population. We do not believe they constitute outliers or merely 10% of the population.

Alternative Interim Step

In order to address the regulatory concerns raised around residual tranches, without the risk of unintended consequences of a temporary increase in RBC charge, the CID and IID support the following alternative:

- Set the previously-adopted sensitivity disclosure factor for residual tranches to 15%. This added to the existing 30% charge will allow regulators the ability to easily observe companies' RBC position using a 45% factor.
- Request NAIC staff to generate a summary report that includes the RBC ratio pre- and post-sensitivity test, by company. This report can be provided to both the RBC IRE Working Group and Financial Analysis Working Group ("FAWG") for review in regulator-only session.
- Upon review of this report, FAWG can identify any individual companies that have higher concentration in residual tranches, and through coordination with the domiciliary state, request additional information from the insurer.
- This information could include, though is not limited to: 1) detail around the structure and underlying collateral, 2) summary of the insurer's risk management processes and how it determines its risk appetite for its asset allocation to residual tranches, and 3) detail around how the company models its residual tranches and the projected impact to the company's solvency in stress scenarios.
- Additionally, if upon review, the RBC IRE Working Group determines that the growth in holdings significantly alters the urgency of action, whether by organic growth or refinement to reporting guidance, it can revisit an interim step to increase the charge. The structure to accommodate such an increase has already been adopted.
- It is also possible that, at the time revisiting an interim charge may be warranted, work on the longer-term project will have provided better clarity around: 1) what the charge should be and 2) whether an increased charge should apply to all ABS residual tranches.
- To the extent that regulators desire more timely reporting of this data, semi-annual or quarterly supplemental filings could be requested to be confidentially submitted to FAWG for any companies where more frequent monitoring is desired.

The CID and IID believe the process described here would adequately address the regulatory concerns around investments in residual tranches while the longer-term, data-driven, analytical process plays out. It would avoid any potential for unforeseen and unintended consequences of adopting a change without the usual amount of supporting analysis.

Thank you for your consideration,

Wanchin W. Chou
Chief Insurance Actuary and Asst. Deputy Commissioner
Connecticut Insurance Department

Kevin Clark
Chief Accounting Specialist
Iowa Insurance Division

Carrie Mears
Chief Investment Specialist
Iowa Insurance Division

Cc: Andrew N. Mais, Insurance Commissioner, Connecticut Insurance Department
Doug Ommen, Insurance Commissioner, Iowa Insurance Division

Appendix

1) Letter dated May 12, 2023 – Connecticut Insurance Department
2) Letter dated May 12, 2023 – Iowa Insurance Division

May 12, 2023

Mr. Philip Barlow, Chair
RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Structured securities – Proposed 45% interim RBC factor for residual tranches

Dear Mr. Barlow,

I understand the concerns as a regulator that some companies are investing more in the residual tranches and the RBC factor has not reflected the risk charge properly yet for the residual tranches. However, on behalf of CID I would like to propose a delay in implementing the proposed 45% interim RBC factor for residual tranches for the following reasons:

1. Most of us actuaries agree that a more detailed analysis is needed to meet our professional standards in communication per ASOP 41.
2. We have not completed the cost and benefit analysis for the proposed 45% interim RBC factor for residual tranches to clearly define the impacts to some companies, and the benefits in regulation to avoid any unexpected capital risk if incurred.
3. With many uncertainties in the current high inflation high interest rate environment and with a small probability of potential recession in the market in 2023, we should avoid any potential disruptions to the market.
4. We have discussed with companies; some of them in favor of the 45% interim proposal but some against. Although they have different views, they mostly agreed that they could deliver a better study to support their arguments within a year.

CID appreciates your attention to the issues raised in this letter and looks forward to discussing with you further.

Best Regards,

Wanchin W. Chou, FCAS, MAAA, CPCU, CSPA, CCRMP
Chief Insurance Actuary and Asst. Deputy Commissioner
State of Connecticut Insurance Department
Office Phone: 860-297-3943
Cell: 860-488-4408

Cc: Commissioner Mais,
Deputy Commissioner Kosky,

Fields of Opportunities

STATE OF IOWA

KIM REYNOLDS
GOVERNOR

ADAM GREGG
LT. GOVERNOR

DOUG OMMEN
COMMISSIONER OF INSURANCE

May 12, 2023

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation Working Group
c/o Dave Fleming
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2107

Re: Residual Tranche Exposures

Dear Mr. Barlow:

The Iowa Insurance Division appreciates the opportunity to comment on the two items related to residual tranches in securitizations which are currently exposed for comment. The majority of our comments relate to the proposal for an interim increase in the risk-based capital ("RBC") factor that applies for residual tranches from 30% to 45%, followed by an alternative interim proposal utilizing the sensitivity disclosures adopted during the April 20 meeting.

Background

Upon establishment of the Risk-Based Capital Investment Risk and Evaluation ("RBC IRE") Working Group, the Financial Condition (E) Committee charged the working group with two initial mandates. The first was to proceed with Phase II of the bond factor project to develop new factors tailored specifically to structured securities / asset backed securities ("ABS"). The second was to review the factor for residual tranches in ABS structures specifically.

For the avoidance of doubt, **the Iowa Insurance Division continues to support both of these projects in the strongest of terms**. Without question, ABS now make up a significant portion of life insurers' investment portfolios. The bond factors that are currently applied for ABS were derived from historical corporate bond data. Due to the nature by which cash flows are distributed through the capital stack of a structured asset, it would be reasonably expected that loss experience, particularly during tail stress scenarios, would be different between equivalently rated corporate bonds and ABS. This was acknowledged at the time the bond factors were reassessed as a necessary Phase II of the bond factor project. Through data-driven modeling, these differences can be quantified and tailored factors can be developed. The Working Group has kicked off efforts for such a project, leveraging assistance from the American Academy of Actuaries.

While the current bond factors are likely not sufficiently well fit-to-purpose, they are at least risk-sensitive based on the assigned NAIC Designation. The same cannot be said for the residual tranche of securitized assets. The factor that currently applies is a flat default charge of 30%, which was developed to apply to equity investments. This factor is neither risk-sensitive, nor was it developed based on any data that could reasonably be expected to correlate to the risks of residual tranches. As a result, it is likely that the current

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factor for residual tranches is a particularly poor fit. Similar to the debt tranches, it is possible to develop more tailored factors through data-driven modeling, which is incorporated into the working plan of the project mentioned above.

Because of the particularly poor fit of the current capital framework as it applies to residual tranches, the Working Group has been considering an interim step to increase the RBC factor temporarily, while the longer-term analytical project plays out. This step is based on the strong intuition that the charge that applies should be higher based on review of two types of ABS: Collateralized Fund Obligations ("CFOs") and Broadly-Syndicated Collateralized Loan Obligations ("BSL CLOs"). In these examples, a clear reduction in RBC is observable pre- and post-securitization.

Several unknowns have existed throughout Working Group discussions. These include 1) what factor should apply based on the risk of the investment, 2) whether the observations from the two ABS examples referenced above are representative of all ABS, and 3) whether insurers hold material amounts of residual tranches. With the exception of #3, the answers to these questions remain unknown.

Beginning with the filing of the 2022 Annual statement, residual tranches became separately reported for the first time. Upon NAIC staff's review of the reported data as summarized in the public materials, Life insurers hold approximately \$4.7B of residual tranches as of 12/31/22, in aggregate. This makes up approximately 0.06% of the \$8.5T+ of life industry assets. Larger concentrations in individual insurers exist, with no single insurer investing greater than 3% of their total assets in residual tranches. From an RBC perspective, some high-level analysis of insurers with the largest holdings indicates no individual insurer would have an RBC ratio reduction of greater than 8% (e.g. 400% CAL RBC to 368% CAL RBC) using a 45% factor. Two insurers would have their RBC impacted by 4-8%, while four others would be impacted 1-3%. All others were under 1%.

The proposal to apply an interim charge applies to residual tranches of all types of ABS and is currently exposed using a 45% factor.

<u>45% Interim Factor</u>

The Iowa Insurance Division does not support an interim increase in the RBC charge at this time for the following reasons:

- It is our view that changes in capital requirements should be developed and supported through data-driven, analytical processes. This allows all stakeholders an opportunity to provide input into the methodology and assumptions used in developing capital requirements, and provides a process for surfacing the direct and indirect consequences of proposed changes.
- As this process is often long, it has the drawback of being slow to respond to pressing regulatory concerns. For this reason, rare circumstances may require temporary action without the usual amount of analytical support. While we believe that certain circumstances may warrant a temporary approach, we also believe such an approach should be limited to situations that present a material and pressing solvency concern. Absent these infrequent, urgent situations, we believe that changes in capital requirements should follow the usual analytical process.
- Based on our review of the current data as referenced above, we do not believe the level of investment in residual tranches constitutes a material and pressing solvency concern, currently or in the near-term future, in the aggregate or for individual insurers. No individual company would have

its RBC ratio in relation to Company Action Level meaningfully impacted by increasing the charge to 45%.

- Taking a temporary step in situations where there is no material and pressing solvency concern risks unforeseen consequences which have the potential to negatively impact financial markets, insurers, and policyholders.
- The proposal to apply an interim charge applies to residual tranches of all types of ABS. The view that a higher charge is warranted is primarily informed by a review of CFOs and BSL CLOs where a clear reduction in RBC is observable pre- and post-securitization. However, it remains unknown whether the same applies to all types of ABS, and many of the reported residual tranches appear to fall into this "other" category
- Various types of ABS have varying thicknesses or sizes of the residual tranche. A fixed charge will result in a higher RBC requirement for thicker tranches. Larger, thicker tranches are by definition less leveraged than smaller, thinner ones. While more analysis would be needed to understand the impact of this dynamic on the various types of ABS, it is possible that the RBC reduction observed for BSL CLOs would be not be observed to the same extent in other types of ABS. If this is the case, increasing the factor to 45% for any such investments may be not be warranted.
- We believe alternative regulatory tools exist that would be effective in mitigating the risks that are of concern, without the potential for unintended consequences, as detailed in the next section.

<u>Alternative Interim Step</u>

As an alternative interim step to increasing the RBC charge for residual tranches at this time, we would propose the following:

- Set the sensitivity factor for residual tranches to 15%. This added to the existing 30% charge will allow regulators the ability to easily observe companies' RBC position using a 45% factor.
- Request NAIC staff to generate a summary report that includes the RBC ratio pre- and post-sensitivity test.
- This report can be provided to both the RBC IRE Working Group and Financial Analysis Working Group ("FAWG") for review in regulator-only session.
- Upon review of this report, FAWG can identify any individual companies that have higher concentration in residual tranches, and through coordination with the domiciliary state, request additional information from the insurer.
- This information could include, though is not limited to: 1) detail around the structure and underlying collateral, 2) summary of the insurer's risk management processes and how it determines its risk appetite for its asset allocation to residual tranches, and 3) detail around how the company models its residual tranches and the projected impact to the company's solvency in stress scenarios.
- Additionally, if upon review, the RBC IRE Working Group determines that the growth in holdings significantly alters the urgency of action, whether by organic growth or refinement to reporting guidance, it can revisit an interim step to increase the charge. The structure to accommodate such an increase has already been adopted.
- It is also possible that, at the time revisiting an interim charge may be warranted, work on the longer-term project will have provided better clarity around the remaining unknowns mentioned earlier in

this letter: 1) what the charge should be and 2) whether an increased charge should apply to all ABS residual tranches.

- To the extent that regulators desire more timely reporting of this data, semi-annual or quarterly supplemental filings could be requested to be confidentially submitted to FAWG for any companies where more frequent monitoring is desired.

Iowa believes the process described here would adequately address the regulatory concerns around investments in residual tranches while the longer-term, data-driven, analytical process plays out. It would avoid any potential for unforeseen and unintended consequences of adopting a change without the usual amount of supporting analysis.

<u>Closing</u>

The ongoing work to address the capital treatment of ABS is among the most important initiatives currently in process at the NAIC. Iowa offers its full support of these ongoing efforts, including the potential outcome of higher RBC factors for certain assets, when supported by deliberative, data-driven analysis.

Thank you for your consideration,

Kevin Clark, Chief Accounting Specialist, Iowa Insurance Division

Carrie Mears, Chief Investment Specialist, Iowa Insurance Division

Cc: Doug Ommen, Insurance Commissioner, Iowa Insurance Division

TDI | Texas Department of Insurance

PO Box 12030 | Austin, TX 78711 | 800-578-4677 | tdi.texas.gov

June 9, 2023

Mr. Phillip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation Working Group
c/o Dave Fleming
1100 Walnut Street
Kansas City, MO 64106-2107

RE: Residual tranche base and sensitivity test factors

Dear Mr. Barlow,

The Texas Department of Insurance appreciates the opportunity to comment on the residual tranche factors currently exposed by the working group. Texas would like to offer a way forward regarding the residual tranche factors that we feel accomplishes the following:

- Addresses the direction from the Financial Condition (E) Committee to develop an RBC factor for residual tranches;
- Acknowledges that the factor established for traditional equity investments did not anticipate residual tranche investments, which have a different risk profile;
- Allows time for companies to address any investment changes needed in their asset mix; and
- Provides for the most efficient use of regulatory tools.

TDI supports a compromise that would set the residual tranche base factor at 30% and a sensitivity test factor at 15% for the 2023 risk-based capital formula. Then, in 2024 the base factor would move to 45% and the sensitivity test factor would drop to 0%.

This approach would give companies time to evaluate or divest assets in a manner that preserves surplus to meet future obligations. It would also provide additional information to the regulators in 2023 regarding the potential impact of each company's residual tranche holdings with the additional capital being required in 2024 so that there is a seamless consideration of this risk within the risk-focused solvency surveillance framework adopted for the U.S. state-based system of insurance regulation. This approach would also reduce any financial market disruption because the base rate is modified with more than a year's notice.

Most importantly, this approach will conclude the consideration of the interim solution for residual tranches so that the work on the charges for all tranches can start.

Thank you for consideration of our comments.

Sincerely,

Jamie Walker

Jamie Walker
Deputy Commissioner

June 9, 2023

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation (E) Working Group (RBCIRE)
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Global Atlantic Response to 2023-09-IRE Residual Factor

Dear Mr. Barlow:

Global Atlantic[1] appreciates another opportunity to comment on **2023-09-IRE Residual Factor ("Interim Solution")**, which proposes to set the Risk Based Capital ("RBC") charge at 45% for all residual tranches on an interim basis.

We stand by the principles from our prior letter, but the purpose of this letter is to explain why the proposed 45% factor is not appropriate for many residual tranches. The Interim Solution with the proposed increase in capital charges for residual tranches was originally designed to address the perceived regulatory capital "arbitrage" associated with Broadly Syndicated Collateralized Loan Obligations ("BSL CLOs"). The concern expressed with insurance company ownership of BSL CLO residuals is that the weighted average capital charge of the underlying collateral is much higher than the blended capital charge of the rated notes. Thus, a higher charge on the residual tranche was proposed to close the gap between the capital charge on the underlying assets and the notes.

To date, the proponents for adoption of the Interim Solution have sought to conflate concerns around the perceived "capital arbitrage" in BSL CLOs with residuals related to other asset classes without any credible justification or analysis. These other asset classes include those that are a meaningful portion of insurance company assets, potentially more so than BSL CLOs, and for which there is no evidence of "arbitrage."

We urge the RBCIRE to consider adoption of the Iowa proposal that would apply a sensitivity test to residual tranches, and targeted regulatory company review for 2023. This would allow regulators the time to determine, based on appropriate data and analysis, which asset classes should be in scope for an adjustment to capital charges, and what those new capital charges should be.

[1] Global Atlantic Financial Group is a leading insurance company meeting the retirement and life insurance needs of individuals and institutions. With a strong financial foundation and risk and investment management expertise, the company delivers tailored solutions to create more secure financial futures. The company's performance has been driven by its culture and core values focused on integrity, teamwork, and the importance of building long-term client relationships. Global Atlantic is a majority-owned subsidiary of KKR, a leading global investment firm. Through its relationship, the company leverages KKR's investment capabilities, scale, and access to capital markets to enhance the value it offers clients. KKR's parent company is KKR & Co. Inc. (NYSE: KKR).

Data and analysis were provided to the RBCIRE in an attempt to demonstrate that a 45% capital charge on all residuals is appropriate. We believe that analysis is flawed. However, even if this analysis were free of criticism, conflating BSL CLOs with the high-quality assets that we highlighted in our prior letter (e.g., student loans to prime consumers and financing for core US commercial and industrial infrastructure, such as railcar leases) is inappropriate.

To demonstrate that point, we have provided two examples of transactions completed in the securitization market where we attempted to provide a capital charge on the underlying assets of (1) a securitization of railcar leases[2] and (2) a securitization of student loans[3]. In contrast to BSL collateral of a CLO, neither of these assets have a native capital charge. Yet, we have attempted to lay out a simplistic framework to demonstrate that assets outside of BSL CLOs do not present the same "arbitrage" concern that has been used to justify the 45% charge.

In the first example, we show that an insurer would hold more capital under a securitization of railcar leases than holding underlying railcar leases directly, based on the imputed ratings of the lessee.

Example 1: Securitization of railcar leases

Underlying Lessee Rating

Lessee Rating (S&P)	Railcars	% of Total	c1
AAA	223	5.0%	0.2%
AA-	1,099	24.5%	0.5%
A+	124	2.8%	0.7%
A	128	2.9%	0.8%
A-	250	5.6%	1.0%
BBB+	538	12.0%	1.3%
BBB	861	19.2%	1.5%
BBB-	257	5.7%	2.2%
BB-	74	1.7%	6.0%
B	100	2.2%	9.5%
B-	10	0.2%	12.4%
C+	100	2.2%	30.0%
Not Rated	479	10.7%	30.0%
Off Lease	246	5.5%	30.0%
Blended C1			6.70%

Securitization Structure

30% Residual Charge

Class Rating	Rating	Balance	c1
Class A	A	302,560,000	0.8%
Class B	BBB	20,720,000	1.5%
Class C	NR	89,382,752	30.0%
Blended C1			7.17%

On the left of the chart, we show what the capital charge would be if each railcar in a sample securitization were capitalized based on the rating of the lessee. Note that the RBC framework does not permit an investor to use a lessee's rating for capital purposes and, as noted previously, railcars have no native capital charge (which is what makes securitization necessary). Of course, a lessee's rating is not the same as a rating on the underlying asset, but the ratings of relevant lessees do provide a measure for the level of risk inherent in a securitization of leased assets.

On the right of the chart, we show the resulting capital charges associated with a securitization of rail car leases, including the residual tranche. Both the ratings on the left and the ratings on the right were assigned by S&P. Note that the capital charge for the securitization structure (including the residual tranche) is already higher than the implied rating of the "underliers," in this case developed using the rating of each lessee (obligor). This example does not appear to present an "arbitrage" opportunity for insurance company investors. However, it seems to be inappropriately subject to the Interim Solution.

[2] Sources: GBX Leasing 2022-1, LLC Series 2022-1 KBRA New Issue Report, February 9, 2022; Intex; GBX Leasing 2022-1, LLC Final Offering Circular, February 1, 2022
[3] Sources: SMB Private Education Loan Trust 2023-A DBRS Morningstar Presale Report, March 2, 2023; Intex; SMB Private Education Loan Trust 2023-A Offering Memorandum, March 8, 2023

The second example to demonstrate this point is the private student loan market. While again there is no native capital charge for this asset, the closest proxy in the existing RBC framework for student loans issued to, or guaranteed by, prime (750+ FICO) borrowers could be the 0.68% charge for residential mortgage loans[4]. The below bullets attempt to calibrate the residential mortgage charge to student loans based on historical performance of worst performing crisis vintage collateral.

Example 2: Securitization of student loans

<table>
<tr><th>Asset Charge Proxy</th><th>Securitization Structure</th></tr>
<tr><td>

- Peak cumulative defaults of prime student loan collateral reached 18.5% for the 2008 vintage which is slightly higher than peak prime mortgage defaults of 14.5% for the 2007[5] vintage
- Comparing mortgage loans and student loans, one must acknowledge that mortgage loans are secured by real estate and will have lower loss once a default occurs than a student loan
- Cumulative loss for 2007 prime vintage mortgage loans was 7.9%[5]
- Assuming that there was no recovery on all defaulted student loans that would mean student loan losses were 18.5% - 2.3x higher than the losses of the worst performing mortgage vintage
- Based on the above a proxy capital charge for student loans would be **1.59%** which is 2.3x the mortgage loan charge of 0.68%

</td><td>

Rating	Tranche Size	Residual at 30%	Residual at 45%
AAA	82%	0.16%	0.16%
AA	7%	0.42%	0.42%
Residual	11%	30.00%	45.00%
Blended c1 Charge		**3.46%**	**5.11%**
Residential Mortgage Charge		**0.68%**	**0.68%**
Multiple of Mortgage		**5.1x**	**7.5x**

</td></tr>
</table>

The table on the right again demonstrates that the securitization charge is higher than the underlying asset charge assuming the residual capital charge stays at 30%. Adopting the Interim Solution would exacerbate this impact even further. Given the comparable peak cumulative defaults between student loans and mortgage loans, it is difficult to support the premise that capital "arbitrage" exists and represents a material risk that requires the Interim Solution.

We recognize that residual tranches are complex and would require detailed modeling and analysis to arrive at a new capital framework. This is exactly why we believe rushing to impose an arbitrary capital charge derived without the benefit of any credible data, analysis, or field testing is inappropriate and will result in unintended consequences.

We reiterate our strong support of the Iowa proposal which would allow the NAIC to spend the appropriate time defining these assets and evaluating their risks. The sooner that proposal is adopted,

[4] Under the RBC framework, a 0.68% charge applies to all residential mortgage loans, regardless of credit quality of the borrower.
[5] Bank of America Securities, Sectors-Historical loss rates, March 2023

the sooner regulators partnering with industry can begin gathering the necessary data and performing the required analysis to ensure appropriate capital charges and “equal capital for equal risk”.

Thank you very much for your consideration and we look forward to participating on the NAIC’s June 14th RBCIRE call and working on this important issue going forward.

Sincerely,

Lauren Scott

Lauren Scott
Global Atlantic Financial Group
SVP and Head of Regulatory & Government Affairs

ATHENE

June 9, 2023

Mr. Philip Barlow
Chair, RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: dfleming@naic.org

RE: IRE Residual Factor (the "Proposal")

Dear Mr. Barlow:

We write again to reiterate concerns regarding the Proposal and the need for an overarching system that leads to comprehensive and consistent capital calibration across all asset classes and investments.

We believe the NAIC should use the same careful and considered approach it has historically taken as it considers residuals for asset backed securities and the several parallel NAIC workstreams concerning structured securities. We are concerned that the NAIC has rapidly begun to make systemic changes to many aspects of the regulatory capital model without comprehensive empirical analyses to ensure statistical consistency across asset classes.

Consumers are facing a retirement income crisis with fewer available options. Honorably, the NAIC has been addressing this issue as a top priority. Inconsistent and punitive capital frameworks will necessarily impede insurers' offering of products that address this crisis, and may ultimately result in market disruptions similar to those that resulted from the European Union's adoption of Solvency II in 2016. To date, the NAIC has refrained from adopting similar measures to avoid these negative impacts.

We recommend that the Working Group and the NAIC more broadly step back and conduct a fair, data-driven, holistic review of the capital framework, including with respect to designations and capital charges, for all asset classes before making decisions that could influence competition and harm consumers, insurers, and investors.

Sincerely

Doug Niemann
Executive Vice President and Chief Risk Officer

Draft: 8/9/23

Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Virtual Meeting
May 17, 2023

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force met May 17, 2023. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy (CA); Wanchin Chou (CT); Ray Spudeck (FL); Carrie Mears and Kevin Clark (IA); Vincent Tsang (IL); Roy Eft (IN); Fred Andersen (MN); William Leung and Debbie Doggett (MO); Lindsay Crawford (NE); Bill Carmello (NY); Dale Bruggeman and Tom Botsko (OH); Rachel Hemphill (TX); Greg Chew and David Smith (VA); Steve Drutz and Tim Hays (WA); and Amy Malm (WI).

1. Discussed 2022 Data Reported for Residual Tranches

Julie Gann (NAIC) presented an NAIC staff review of the information reported for residuals by life companies on Schedule BA for year-end 2022 (Attachment Six-B1). This review included the size of residuals held, residuals involving related parties, residuals as a percentage of surplus and invested assets, and the impact of a 45% risk-based capital (RBC) factor.

Barlow said when a new type of asset is added to an insurer's portfolio, they decide where they think it goes in the annual statement, and, based on that reporting and rating, if it has one, it gets an RBC factor. At some point, regulators recognize the new asset and may move it someplace else in the annual statement, which will generate a new RBC charge. None of that involves any analysis of the appropriate RBC charge. While it is true that neither 30% nor 45% factors for residuals have had a full RBC review, there is a difference in the factor that was generated solely by where the asset landed in the annual statement and the review that has been done of residual tranches, which has included: 1) understanding how the structured assets and residual tranches work; 2) seeing how structuring assets could cause a loss of two-thirds of the RBC charge without a change to the underlying risk; 3) the capital charge that bank regulators use, which is effectively 100%; and 4) the data just presented that shows, among other things, the growth of residual tranches and that no insurers would fall into an action level as a result. Barlow said that the analysis has led him to conclude that the 30% charge is not sufficient. He also said the Working Group also does not have the option of deferring this decision because a factor has to be adopted for the new bucket of residual tranches created.

2. Discussed Comment Letters on the Residual Factor and Sensitivity Test

The Working Group discussed the comment letters received on the residual tranche factor and the sensitivity test (Attachments Six-B2).

Tsang said that if it takes a long time to come up with a more thorough analysis for collateralized loan obligation (CLO) residual tranches, an interim solution is needed. Barlow said that what is being addressed are residual tranches generally rather than CLO residual tranches. Carmello said New York supports 45% and asked whether there is another NAIC group that looks at whether a given asset should be admitted because he questions whether this is appropriate for an insurance company.

Eft said he agreed that something needs to be done to address the disparity in the factor currently charged and the 45% that is being proposed. However, he supports the sensitivity factor as an interim solution rather than changing the RBC factor for these residual tranches because there are so many variations in the residual tranches.

Andersen said there is some variation within an asset class, which happens to all asset classes. He said data shows holdings of these assets have increased by a multiple of 10 over the past three years. His concern is that the sensitivity test alone is not going to change the trajectory at all. He said having liabilities supported by an under-capital-charged asset class does not seem to be the way to go.

Barlow said there is an exposure for 45%, and a call for the middle of June will be scheduled to get additional feedback before a final decision is to be made on a factor to be set. He said any new comments will be taken through June 9.

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

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NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Members of the RBC Investment Risk and Evaluation (E) Working Group
FROM: NAIC Staff
DATE: May 10, 2023
RE: Residual Data – Life Companies

This memo has been developed to provide information on the reporting of residuals by life companies on Schedule BA for year-end 2022. Summaries of information are provided for the following aspects:

- Residual Acquisition Dates
- Residual Investments Involving Related Parties
- Size of Residuals Held by Reporting Entity
- Residuals as a Percentage of Surplus and Invested Assets
- Impact of 45% Residual Factor

Note: Investments identified as misreported as residuals have been removed from the data.

Residual Acquisition Dates

A vast majority in terms of count (67%) and BACV (80%) reported were acquired in the last three years.

Year Acquired	Count	Reported BACV	Percentage of Total BACV
2022	247	1,783,005,489	38%
2021	191	1,246,440,600	27%
2020	75	682,486,811	15%
2019	36	171,991,877	3.7%
2018	49	146,490,438	3.2%
2017	29	56,481,661	1.2%
2016	32	128,910,951	2.8%
2015	4	1,827,971	0.04%
2014	84	420,424,276	9.0%
2013	2	708,750	0.02%
2002 -2012	5	0	
No Date	11	10,675,518	0.23%
Total	**762**	**4,649,444,342**	

Notes:

- *Amount shown is book adjusted carrying value (BACV) as of year-end 2022.*
- *The count includes all reported investments, including those with zero BACV.*
- *76 of the 2014 residuals identified the same vendor.*
- *For the securities without a reported acquisition date, all had a zero BACV except 1.*

<u>Residual Investments Involving Related Parties:</u>

As shown below, 56% of residuals involve related parties in some form. Most of these are from securitizations (or similar structures) with a small percentage of the underlying collateral in direct credit exposure. The full description is as follows:

3. *Securitization or other similar investment vehicles, such as mutual funds, limited partnerships, and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in direct credit exposure to related parties.*

This description generally means that a related party was involved in originating the investments. This could be another company within the group or other affiliate that serves as an asset manager.

As detailed in SSAP No. 25, paragraph 1, related party transactions can be subject to abuse because reporting entities may be induced to enter transactions that may not reflect economic realities or may not be fair or reasonable to the reporting entity or its policyholders.

In addition to these concerns, specifically for investments that may be formed and held completely within a single group or by related parties, there may be no market validation on the investment in terms of price, fair value, fees, or overall structure. (*It is uncertain the extent these investments are 100% owned by related parties or have non-related party investors.)*

Related Party Code		Count	Reported BACV	Percentage of Total BACV
1	Direct credit exposure.	43	306,533,214	6.6%
2	Securitization with related party with 50% or more of the underlying collateral in direct credit exposure.	1	5,039,607	0.1%
3	Securitization with related party with less than 50% of the underlying collateral in direct credit exposure.	236	2,280,012,224	49%
4	Securitization where structure reflects an in-substance related party transaction, but does not involve a related party as sponsor, originator, manager, servicer, etc.	0		
5	Investment is identified as related party, but the role is a different arrangement from the prior options.	1	13,960,500	0.3%
6	Investment does not involve a related party.	478	2,035,403,345	44%
No Entry		3	8,495,452	0.2%
	Total	**762**	**4,649,444,342**	

Size of Residual Investments Held by Each Reporting Entity:

The individual BACV for each reported residual investment also varies significantly. As detailed below, over 50% of reported residuals reflect less than $2M BACV and over 80% are reported at less than $10M.

122 investments were reported with a BACV greater than $10M, and 9 investments were reported with a BACV of $50M or greater.

BACV	Count	Running Total	Percentage of Total
0	60	60	7.87%
0 - $500,000	161	221	29.00%
$500K - $1M	76	297	38.98%
$1M - $2M	115	412	54.07%
$2M – $3	61	473	62.07%
$3M - $5M	65	538	70.60%
$5M – $7M	48	586	76.90%
$7M - $10M	54	640	83.99%
$10M - $20M	51	691	90.68%
$20M - $30M	38	729	95.67%
$30M - $50M	24	753	98.82%
$50M - $70M	3	756	99.21%
$70M - $100M	4	760	99.74%
> $100M	2	762	100%
Total	**762**		

Residuals as a Percentage of Surplus and Total Invested Assets

The amount of residuals held as a percentage of surplus varies significant by company:

Count	% of Surplus
1	Over 50%
2	20-30%
7	10-20%
2	5-10%
32	1-5%
34	< 1%
78 Companies	

Count	% of Invested Assets
7	1-3%
4	0.5%-1%
67	< 0.5%
78 Companies	

For the 12 companies with residuals over 5% of surplus, $1.36 billion was noted to have underlying collateral of fixed income and $1.69 billion was noted with ‘other’ underlying collateral.

Impact of 45% RBC Factor

Although company specific information cannot be shared publicly, estimated individual company calculations of RBC, after removing the impacts of the 30% factor on the risk component totals going into the covariance adjustment and replacing them with the results of a 45% factor, was noted to have the following impact to RBC results:

Number of Companies	Percentage Change*
3	4.0% - 8.0%
5	1.0% - 3.0%
8	0.50% - 1.0%
6	0.20% - 0.50%
6	0.10% - 0.20%
6	Less than 0.10%

** These numbers have been calculated by determining the difference between current and estimated RBC and then calculating the percentage of the change. For example, if a company had an 860% RBC and the application of the 45% factor within the estimation decreased RBC to 859%, this would represent a change of 1, and a 0.12% percentage change in the calculated RBC ratio.*

This exercise was completed for 34 of the reporting entities with residuals. The companies represent those with the largest amounts of residuals and those whose residual balances are a greater percentage of surplus and/or total invested assets. The analysis also made certain simplifying assumptions such as excluding any change to the impact of concentration or reinsurance included in the actual RBC result.

Although significant discussion has occurred regarding the impact of the factor increase, this information illustrates that the underlying concern of the factor increase is likely not the actual impact to RBC for most companies.

May 12, 2023

Mr. Philip Barlow, Chair
RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Structured securities – Proposed 45% interim RBC factor for residual tranches

Dear Mr. Barlow,

I understand the concerns as a regulator that some companies are investing more in the residual tranches and the RBC factor has not reflected the risk charge properly yet for the residual tranches. However, on behalf of CID I would like to propose a delay in implementing the proposed 45% interim RBC factor for residual tranches for the following reasons:

1. Most of us actuaries agree that a more detailed analysis is needed to meet our professional standards in communication per ASOP 41.
2. We have not completed the cost and benefit analysis for the proposed 45% interim RBC factor for residual tranches to clearly define the impacts to some companies, and the benefits in regulation to avoid any unexpected capital risk if incurred.
3. With many uncertainties in the current high inflation high interest rate environment and with a small probability of potential recession in the market in 2023, we should avoid any potential disruptions to the market.
4. We have discussed with companies; some of them in favor of the 45% interim proposal but some against. Although they have different views, they mostly agreed that they could deliver a better study to support their arguments within a year.

CID appreciates your attention to the issues raised in this letter and looks forward to discussing with you further.

Best Regards,

Wanchin W. Chou, FCAS, MAAA, CPCU, CSPA, CCRMP
Chief Insurance Actuary and Asst. Deputy Commissioner
State of Connecticut Insurance Department
Office Phone: 860-297-3943
Cell: 860-488-4408

Cc: Commissioner Mais,
Deputy Commissioner Kosky,

Fields of Opportunities

STATE OF IOWA

KIM REYNOLDS
GOVERNOR

ADAM GREGG
LT. GOVERNOR

DOUG OMMEN
COMMISSIONER OF INSURANCE

May 12, 2023

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation Working Group
c/o Dave Fleming
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2107

Re: Residual Tranche Exposures

Dear Mr. Barlow:

The Iowa Insurance Division appreciates the opportunity to comment on the two items related to residual tranches in securitizations which are currently exposed for comment. The majority of our comments relate to the proposal for an interim increase in the risk-based capital ("RBC") factor that applies for residual tranches from 30% to 45%, followed by an alternative interim proposal utilizing the sensitivity disclosures adopted during the April 20 meeting.

Background

Upon establishment of the Risk-Based Capital Investment Risk and Evaluation ("RBC IRE") Working Group, the Financial Condition (E) Committee charged the working group with two initial mandates. The first was to proceed with Phase II of the bond factor project to develop new factors tailored specifically to structured securities / asset backed securities ("ABS"). The second was to review the factor for residual tranches in ABS structures specifically.

For the avoidance of doubt, **the Iowa Insurance Division continues to support both of these projects in the strongest of terms**. Without question, ABS now make up a significant portion of life insurers' investment portfolios. The bond factors that are currently applied for ABS were derived from historical corporate bond data. Due to the nature by which cash flows are distributed through the capital stack of a structured asset, it would be reasonably expected that loss experience, particularly during tail stress scenarios, would be different between equivalently rated corporate bonds and ABS. This was acknowledged at the time the bond factors were reassessed as a necessary Phase II of the bond factor project. Through data-driven modeling, these differences can be quantified and tailored factors can be developed. The Working Group has kicked off efforts for such a project, leveraging assistance from the American Academy of Actuaries.

While the current bond factors are likely not sufficiently well fit-to-purpose, they are at least risk-sensitive based on the assigned NAIC Designation. The same cannot be said for the residual tranche of securitized assets. The factor that currently applies is a flat default charge of 30%, which was developed to apply to equity investments. This factor is neither risk-sensitive, nor was it developed based on any data that could reasonably be expected to correlate to the risks of residual tranches. As a result, it is likely that the current factor for residual tranches is a particularly poor fit. Similar to the debt tranches, it is possible to develop more tailored factors through data-driven modeling, which is incorporated into the working plan of the project mentioned above.

Because of the particularly poor fit of the current capital framework as it applies to residual tranches, the Working Group has been considering an interim step to increase the RBC factor temporarily, while the longer-term analytical project plays out. This step is based on the strong intuition that the charge that applies should be higher based on review of two types of ABS: Collateralized Fund Obligations ("CFOs") and Broadly-Syndicated Collateralized Loan Obligations ("BSL CLOs"). In these examples, a clear reduction in RBC is observable pre- and post-securitization.

Several unknowns have existed throughout Working Group discussions. These include 1) what factor should apply based on the risk of the investment, 2) whether the observations from the two ABS examples referenced above are representative of all ABS, and 3) whether insurers hold material amounts of residual tranches. With the exception of #3, the answers to these questions remain unknown.

Beginning with the filing of the 2022 Annual statement, residual tranches became separately reported for the first time. Upon NAIC staff's review of the reported data as summarized in the public materials, Life insurers hold approximately $4.7B of residual tranches as of 12/31/22, in aggregate. This makes up approximately 0.06% of the $8.5T+ of life industry assets. Larger concentrations in individual insurers exist, with no single insurer investing greater than 3% of their total assets in residual tranches. From an RBC perspective, some high-level analysis of insurers with the largest holdings indicates no individual insurer would have an RBC ratio reduction of greater than 8% (e.g. 400% CAL RBC to 368% CAL RBC) using a 45% factor. Two insurers would have their RBC impacted by 4-8%, while four others would be impacted 1-3%. All others were under 1%.

The proposal to apply an interim charge applies to residual tranches of all types of ABS and is currently exposed using a 45% factor.

<u>45% Interim Factor</u>

The Iowa Insurance Division does not support an interim increase in the RBC charge at this time for the following reasons:

- It is our view that changes in capital requirements should be developed and supported through data-driven, analytical processes. This allows all stakeholders an opportunity to provide input into the methodology and assumptions used in developing capital requirements, and provides a process for surfacing the direct and indirect consequences of proposed changes.
- As this process is often long, it has the drawback of being slow to respond to pressing regulatory concerns. For this reason, rare circumstances may require temporary action without the usual amount of analytical support. While we believe that certain circumstances may warrant a temporary approach, we also believe such an approach should be limited to situations that present a material and pressing solvency concern. Absent these infrequent, urgent situations, we believe that changes in capital requirements should follow the usual analytical process.
- Based on our review of the current data as referenced above, we do not believe the level of investment in residual tranches constitutes a material and pressing solvency concern, currently or in the near-term future, in the aggregate or for individual insurers. No individual company would have

its RBC ratio in relation to Company Action Level meaningfully impacted by increasing the charge to 45%.

- Taking a temporary step in situations where there is no material and pressing solvency concern risks unforeseen consequences which have the potential to negatively impact financial markets, insurers, and policyholders.
- The proposal to apply an interim charge applies to residual tranches of all types of ABS. The view that a higher charge is warranted is primarily informed by a review of CFOs and BSL CLOs where a clear reduction in RBC is observable pre- and post-securitization. However, it remains unknown whether the same applies to all types of ABS, and many of the reported residual tranches appear to fall into this "other" category
- Various types of ABS have varying thicknesses or sizes of the residual tranche. A fixed charge will result in a higher RBC requirement for thicker tranches. Larger, thicker tranches are by definition less leveraged than smaller, thinner ones. While more analysis would be needed to understand the impact of this dynamic on the various types of ABS, it is possible that the RBC reduction observed for BSL CLOs would be not be observed to the same extent in other types of ABS. If this is the case, increasing the factor to 45% for any such investments may be not be warranted.
- We believe alternative regulatory tools exist that would be effective in mitigating the risks that are of concern, without the potential for unintended consequences, as detailed in the next section.

<u>Alternative Interim Step</u>

As an alternative interim step to increasing the RBC charge for residual tranches at this time, we would propose the following:

- Set the sensitivity factor for residual tranches to 15%. This added to the existing 30% charge will allow regulators the ability to easily observe companies' RBC position using a 45% factor.
- Request NAIC staff to generate a summary report that includes the RBC ratio pre- and post-sensitivity test.
- This report can be provided to both the RBC IRE Working Group and Financial Analysis Working Group ("FAWG") for review in regulator-only session.
- Upon review of this report, FAWG can identify any individual companies that have higher concentration in residual tranches, and through coordination with the domiciliary state, request additional information from the insurer.
- This information could include, though is not limited to: 1) detail around the structure and underlying collateral, 2) summary of the insurer's risk management processes and how it determines its risk appetite for its asset allocation to residual tranches, and 3) detail around how the company models its residual tranches and the projected impact to the company's solvency in stress scenarios.
- Additionally, if upon review, the RBC IRE Working Group determines that the growth in holdings significantly alters the urgency of action, whether by organic growth or refinement to reporting guidance, it can revisit an interim step to increase the charge. The structure to accommodate such an increase has already been adopted.
- It is also possible that, at the time revisiting an interim charge may be warranted, work on the longer-term project will have provided better clarity around the remaining unknowns mentioned earlier in

this letter: 1) what the charge should be and 2) whether an increased charge should apply to all ABS residual tranches.

- To the extent that regulators desire more timely reporting of this data, semi-annual or quarterly supplemental filings could be requested to be confidentially submitted to FAWG for any companies where more frequent monitoring is desired.

Iowa believes the process described here would adequately address the regulatory concerns around investments in residual tranches while the longer-term, data-driven, analytical process plays out. It would avoid any potential for unforeseen and unintended consequences of adopting a change without the usual amount of supporting analysis.

Closing

The ongoing work to address the capital treatment of ABS is among the most important initiatives currently in process at the NAIC. Iowa offers its full support of these ongoing efforts, including the potential outcome of higher RBC factors for certain assets, when supported by deliberative, data-driven analysis.

Thank you for your consideration,

Kevin Clark, Chief Accounting Specialist, Iowa Insurance Division

Carrie Mears, Chief Investment Specialist, Iowa Insurance Division

Cc: Doug Ommen, Insurance Commissioner, Iowa Insurance Division

American Academy of Actuaries

May 8, 2023

Philip Barlow
Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group (RBCIRE WG)
National Association of Insurance Commissioners (NAIC)

Re: Exposure 2023-09-IRE—Interim Residual Tranche C1 Factor

Dear Chair Barlow,

On behalf of the American Academy of Actuaries[1] C1 Work Group (C1WG), thank you for the opportunity to comment on the interim residual tranche C1 factor of 45% that was exposed at the April 20 meeting of RBCIRE WG.

We are continuing our work toward a rigorous approach for setting collateralized loan obligation (CLO) C1 factors, including for CLO residual tranches.

As outlined in our December CLO report to the RBCIRE WG, the 30% C1 factor that currently applies to residual tranches is based on an analysis of the S&P 500, which is unrelated to residual tranches of structured securities. The same is true for the exposed 45% C1 factor proposal.[2] This is the case not only for CLOs, but for effectively all residual tranches.

We understand that regulators have a concern regarding residual tranche C1 and have exposed a new residual factor to be applied on an interim basis.

We agree with interested parties[2] that equities and residual tranches have materially different risk profiles. For this reason, we believe equities and residual tranches should not automatically share the same C1 factor.

Any factor that is adopted on an interim basis will be the product of regulator judgment, which we respect is at the discretion of regulators. We encourage a directed effort to substitute appropriate analytical basis for regulator discretion to establish statistically justified capital requirements for structured securities.

We look forward to supporting regulators in the broader objective of developing an appropriate basis for structured security C1 factors.

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[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

[2] A 45% factor was first introduced in a Feb. 3 interested party letter by a coalition of life insurers. An April 12 letter by the same group of interested parties elaborated further on their support for a factor equal to at least 45%. The Feb. 3 letter justifies the level of 45% by applying a 1.5-beta adjustment to the current equity factor of 30%. The April 12 letter supplements this with historical loss data on the collateral of structured securities compared against typical sizes for residual tranches.

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Sincerely,

Stephen Smith
Chairperson, C1 Work Group
American Academy of Actuaries

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ACLI
Financial Security for Life

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May 12, 2023

Mr. Phil Barlow, Chair
Life RBC Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: dfleming@naic.org

Re: 2023-09 IRE Residual Factor Exposure

Dear Mr. Barlow:

Thank you for the opportunity to provide these initial comments on the proposed residual factor (the "factor") that was exposed on April 20, 2023.

ACLI continues to support regulators' efforts to assess the potential need for determining capital charges associated with securitized investments that better reflect the actual risk of the various tranches. ACLI appreciates the Working Group's recent adoption of a structure for a single interim factor approach, rather than a three-bucket approach.

While we understand some regulators' desire to develop an interim solution with some level of expediency, we do have concerns that 45% was recommended without the typical level of rigor provided when making RBC changes.

ACLI members have a variety of views on the proposed factor of 45%. Some ACLI members suggest that the factor chosen should not be more conservative than complete non-admittance of the asset for the average industry participant, and likely less so, given the risk premium already contained in policy reserves. For example, using 2021 aggregated life RBC data, ACLI calculated that on average, due to covariance, approximately 57% of a C1cs factor ends up impacting the RBC requirement. Thus, a 45% factor would result in an ultimate after-tax RBC charge of 20.26%. This seems to suggest that for a company with a CAL RBC of 486%, a 45% factor is the rough equivalent of non-admittance. Of course, the impact for any individual company will vary from this average. ACLI is not privy to the data necessary to determine other metrics, such as a distribution of the impact.

While RBC is often described as a “blunt instrument”, ACLI believes that thoughtful analysis of proposed factors ultimately benefits the strength of the RBC framework - and we look forward to reviewing the Working Group’s impact assessment of the 45% factor as described in the Capital Adequacy Task Force procedures.[1]

Thank you for the opportunity to share these views with you. Please feel free to contact us if you have any questions or concerns about our comments.

Sincerely,

Steve Clayburn

Mariana Gomez-Vock

cc: Brian Bayerle, ACLI

[1] The Capital Adequacy Task Force procedures for proposed amendments to RBC blanks and instructions requires an impact analysis for any factor change. *See* Procedures of the Financial Condition (E) Committee Capital Adequacy Task Force in Connection with Proposed Amendments to Risk Based Capital Blanks and Instructions, *available at* https://content.naic.org/sites/default/files/inline-files/committees_e_capad_related_rbc_procedures.pdf (last retrieved on May 3, 2023).

ACLI
Financial Security for Life

Steve Clayburn, FSA, MAAA
Senior Actuary, Health Insurance & Reinsurance
steveclayburn@acli.com

May 12, 2023

Mr. Philip Barlow, Chair
RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: dfleming@naic.org

Re: 2023-10-IRE Sensitivity Test Factor

Dear Mr. Barlow:

The American Council of Life Insurers ("ACLI") appreciates the opportunity to provide comments on the NAIC's exposure of the sensitivity test factor. ACLI continues to think that sensitivity testing for residual tranches could be an important tool for regulators. The importance varies depending on the decision for the interim solution for residual tranches.

Originally, ACLI suggested a 10% factor as it will provide regulators with a 10% increase as well as a 10% reduction for an insurer's sensitivity testing with the current 30% residual tranche factor. (We note that the factor on the RBC sensitivity testing is additive, e.g., a 30% residual tranche factor would have the .1 (10%) "added" for sensitivity testing.)

Knowing that there is current exposure and discussion to potentially change the interim factor for residual tranches, if the residual tranche factor is increased, ACLI does not see the need for a sensitivity factor at this time; however, the exhibit could include a factor in the future as the work on asset-backed securities continues and this sensitivity testing can be used for future calculations and future impact assessments for the permanent solution (i.e., the results of decisions made once modeling is complete). If regulators decide to continue with the current year-end 2022 factor, we suggest the 10% factor, such that sensitivity testing could occur.

Thank you for the opportunity to outline the ACLI's thoughts the sensitivity testing.

Sincerely,

Steve M Clayburn

Steve Clayburn

cc: Mariana Gomez-Vock, ACLI
Brian Bayerle, ACLI

May 12, 2023

Mr. Philip Barlow, Chair
RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: dfleming@naic.org

RE: Structured securities – Proposed 45% interim RBC factor for residual tranches

Dear Mr. Barlow,

On behalf of the undersigned life insurance companies ("the companies"), we are writing to express our continued support for an interim RBC factor for the residual tranches of structured securities. The process for consideration of interim RBC charges has been transparent, thorough, and provided adequate time for interested parties to review and respond to these issues over the last year.[1] Accordingly, we strongly feel that the RBC Investment Risk & Evaluation (E) Working Group ("RBC IRE") should adopt the proposed single, interim RBC factor of 45% without delay.

Adoption of a higher interim RBC factor for securitized residuals represents an important first step in reducing capital arbitrage—as identified and discussed in the May 25, 2022 IAO Issue Paper (the "IAO Issue Paper") on the "Risk Assessment of Structured Securities – CLOs"—between securitized tranches of structured securities and the underlying collateral. To that end, based on the results of the last several years of SVO-led CLO stress testing, the IAO Issue Paper suggested the adoption of new NAIC Designation Categories (i.e., 6.A, 6.B and 6.C) with recommended RBC factors of 30%, 75% and 100% respectively, to address tail risk in structured finance tranches and any unintended arbitrage opportunities. The August 20, 2022 referral from the Valuation of Securities Task Force ("VoSTF") to the Capital Adequacy Task Force ("CATF") and RBC IRE endorsed these recommendations as an appropriate interim step while the SVO began modeling CLOs to help determine potential loss risk under stressed scenarios.

In our previous letters to the Working Group on February 3, 2023 and April 12, 2023 (attached), the companies provided support for a single 45% interim RBC charge for the residual tranches of structured securities as a data driven compromise in lieu of the SVO's proposal, which we believe achieves the same goals of better addressing underlying risk and appropriately narrowing the capital arbitrage gap. The companies' February 3 letter also noted that sensitivity testing can provide regulators with valuable information, but sensitivity testing alone will not provide data on what appropriate RBC factors should be nor will it meet the regulators' goals of reducing RBC arbitrage while

[1] The Securities Valuation Office (SVO) recommendation surrounding three suggested interim RBC charges for the NAIC 6 designation (30%, 75%, and 100%) was initially included in the IAO "Issue Paper on the Risk Assessment of Structured Securities – CLOs," which was released on May 25, 2022 and exposed as part of the VoSTF's June 9, 2022 meeting activities. The RBC IRE exposed the SVO interim RBC proposal on December 14, 2022, the proposed single interim RBC charge framework on March 23, 2023, and the companies' suggested 45% interim RBC charge on April 20, 2023. The companies' suggested 45% interim RBC charge was initially proposed in the February 27, 2023 Working Group materials.

more refined charges are developed. As such, immediate adoption of the interim 45% RBC factor is warranted regardless of whether regulators decide to employ sensitivity testing.

The companies further note that without a measurable increase in the RBC factor for residual tranches there is mathematically no logical way to narrow the capital arbitrage gap. That is, in order to have the RBC of the assets supporting a CLO ("Collateral RBC") be comparable to the RBC of the combined CLO bonds ("Blended RBC"), mathematically we need to have a greater than 30% RBC assigned to the residual tranche of the CLO in order to reasonably match the risk of each CLO tranche and its RBC. If the RBC factor for residual tranches were to remain at the current 30% level, then in order to eliminate the opportunities for capital arbitrage the BB, BBB and A-rated tranches would also need to receive a 30% RBC factor (NAIC 6 designation) and the AA-rated tranche would need a 16.9% factor (NAIC 5A designation):

Current CLO RBC Arbitrage			
Tranche	**% of CLO**	**Designation**	**RBC**
AAA	63%	1A	0.158%
AA	12%	1C	0.419%
A	6%	1F	0.816%
BBB	6%	2B	1.523%
BB	5%	3B	4.537%
Residual	8%	6	30%
Blended RBC [A]			2.917%
Collateral RBC [B]			9.535%
Arbitrage [B-A]			6.618%

Solving Arbitrage without Interim Factor			
Tranche	**% of CLO**	**Designation**	**RBC**
AAA	63%	1A	0.158%
AA	12%	5A	16.942%
A	6%	6	30%
BBB	6%	6	30%
BB	5%	6	30%
Residual	8%	6	30%
Blended RBC [A]			9.633%
Collateral RBC [B]			9.535%
Arbitrage [B-A]			-0.098%

Sources, Barclays, MIM.

As demonstrated above, attempting to solve the capital arbitrage issue without changing the RBC factor for the residual tranche is not logical: the tranches are sequentially subordinated and RBC factors should be proportional to the varying degrees of risk. In the table above the RBC factor for multiple tranches senior to the residual tranche would need to share the same flat 30% level instead of a declining level of RBC as would be expected given their declining levels of risk. The only logical, mathematically feasible way to reduce the capital arbitrage problem is to significantly increase the RBC factor for the residual tranche. Furthermore, this change aligns with an RBC framework that was derived in a ***data-driven fashion*** by the NAIC in developing of factors for corporate credits – which serve as the collateral and sole source of repayment in CLOs.

The interim factor solution addresses a present and *growing* risk. In this current environment of economic uncertainty, it is critical for regulators to enact an interim RBC factor that better protects insurers (and by extension policyholders) from potential losses associated with the riskiest tranches of structured securities as soon as possible. As discussed in our February 17, 2023 letter to VoSTF, we note that, in particular, U.S. life insurer CLO investments have grown 20% per year over the last decade, whereas General Account assets have only grown 5% per year. We expect to see additional growth in CLOs as a percentage of general account assets this year. The companies also believe the application of an interim factor will provide regulators with additional information for facilitating the long-term solution to address the remaining tranches (which will remain at the C-1 bond factor levels in the interim) and provide more granular capital considerations for the residual and mezzanine tranches.

The companies agree with regulators that the process of determining an interim RBC charge should be both transparent and data driven. To that end, we provided analysis to support an interim RBC charge of at least 45% for the residual tranches in our April 12, 2023 letter to the Working Group. In that letter, we noted that when historical collateral losses are compared to typical residual tranche thickness, it demonstrates a likely potential residual tranche loss in excess of 45% in stress events. In 2020, some CLO residuals saw losses exceeding 60%, far greater than the losses experienced by public equities. We would also note the SVO is currently running the first “proof of concept” tests of the CLO modeling methodology with six different types of actual CLOs based on the stress levels it uses for its own stress tests. We would encourage the Working Group to review the results of those findings to help its final decisions on the appropriate level of the interim RBC charge.

Additionally, ACLI’s May 12 letter identifies CATF procedures for proposed amendments to RBC blanks and instructions as requiring an impact analysis for any factor change. We believe that our data can help to inform that impact analysis; further, it is the companies’ understanding that such analysis does not need to be completed before approval of any factor and therefore does not present a hurdle to continued expedient action on this issue.

The companies are aware of concerns that an interim 45% RBC factor may be inappropriate for the residual tranches of some structured securities due to differing underlying risks and/or thicknesses. We believe concerns about any such outliers are best addressed through increased transparency as we work toward a permanent solution. For this to be a data driven process, those who believe there are “low-risk” residual tranches should identify the securities in question and provide clear justification for different treatment.

Some parties have also raised concerns that a 45% RBC charge held at 300%+ redundancy will result in a capital holding of over 100% or an incentive to non-admit the asset. However, this is an overly simplistic conclusion, as RBC charges are pre-diversification with other risks (C-2 through C-3) and it also ignores other negative effects of non-admitting an asset.[2] More importantly, regulatory capital requirements are intended to identify weakly capitalized companies, not to incentivize investment choices under “normal” circumstances.

Finally, the current 30% RBC factor does not meet regulators’ commitment to a transparent and data driven interim charge. The existing RBC treatment of the residual tranche is based arbitrarily on public equity experience. However, public equities and the residual tranche of structured securities have materially different risk profiles. We have not seen **any** data that justifies maintaining a 30% RBC factor for the residual tranche.

The companies strongly believe the proposed single interim RBC factor of 45% should be adopted as exposed. As discussed in our April 12 letter, such a charge is consistent with the existing high-beta equity RBC charge and a directionally appropriate outcome demonstrated by the data.

[2] Regulators should consider if it is appropriate to assume diversification benefit with credit for a residual tranche when its underlying collateral is comprised of credit assets.

Respectfully Submitted,

Equitable
MetLife
New York Life
Northwestern Mutual
Pacific Life
Prudential Financial, Inc.
Western & Southern

Mr. Philip Barlow
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
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RE: Exposure 2023-09-IRE Residual Factor

Dear Mr. Barlow:

Thank you for the opportunity to comment on the April 20, 2023, proposal by the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (the "Working Group") to establish an interim 45% Risk-Based Capital ("RBC") charge for "residual tranches or interests" of all asset-backed securities (the "RBC Proposal").

<u>Overview</u>

We have listed below several concerns in this letter followed by a detailed discussion of each concern and concluding remarks.

1. There is no evidence of an urgent need for the NAIC to depart from its required diligent, fact-based, and thoughtful process that it uses to establish C1 risk-based factors. Overall RBC levels among life insurers have been very robust and relatively stable in recent years. In the one specific type of asset-backed security (ABS) that the NAIC has been closely examining for years, namely collateralized loan obligations (CLOs), the NAIC has consistently concluded that there is no material risk to the life insurance industry at large.
2. The proposed level of the charge has been chosen arbitrarily based on scant, misleading, and superficial analysis that contradicts recent studies by the NAIC, the American Academy of Actuaries ("AAA"), academics and market analysts.
3. The proposal reflects a lack of understanding of the inherent risk-mitigation structure of ABS investments and instead focuses on one aspect of them without any analysis of its potential impact on the industry as a whole.
4. ABS risk must be comprehensively studied as CLOs have been able to outperform and experience lower losses than comparable corporate bonds with the same risk rating.
5. Regulators must undertake their own neutral study of risks associated with ABS residuals before unintentionally creating artificial barriers and unintentionally choosing sides in a competitive battle.
6. Regulators have significant supervisory tools today to address concerns regarding specific ABS investments without adopting a punitive RBC charge and causing significant disruption to the larger ABS market.
7. The proposed 45% RBC charge Is not within the Financial Condition (E) Committee's charge to the Working Group.

8. The charge would likely be more than "Interim" and would bias the longer-term analysis that should properly be completed before establishing the appropriate charge for ABS.

Before the NAIC imposes the highest capital charge on any asset in its entire history, we urge the NAIC to follow its typical thorough and rigorous analytical process.

As a standard setting body, the NAIC should be cautious about advancing a proposal supported by one segment of the industry in an April 12, 2023, letter that may cause competitive distortions not reflective of risk. The RBC Proposal may tilt competition in favor of insurers that have direct equity exposure versus ABS residuals exposure and does not reflect a thoughtful analysis of whether ABS residuals are safer or not than direct equity exposure.

Finally, as an alternative to an interim charge, we urge the NAIC to form a working group and retain neutral experts to study the structural and risk mitigation features of ABS and report back to the Working Group. We commit to efficiently and effectively working with the NAIC to analyze the various types of ABS, their loss experience, and risk mitigation features to determine appropriate capital charges.

Detailed Discussion

1. **There is no evidence of a need for urgent action as RBC levels are robust and all analysis to date indicates no material risks to the life insurance industry.**

A recent analysis of YE2022 life insurer's regulatory filings found the industry to be very well capitalized, with the average RBC level for mutual insurance companies at 514%, PE-owned insurers at 465%, publicly owned insurers at 415%, and reinsurers at 298%.[1]

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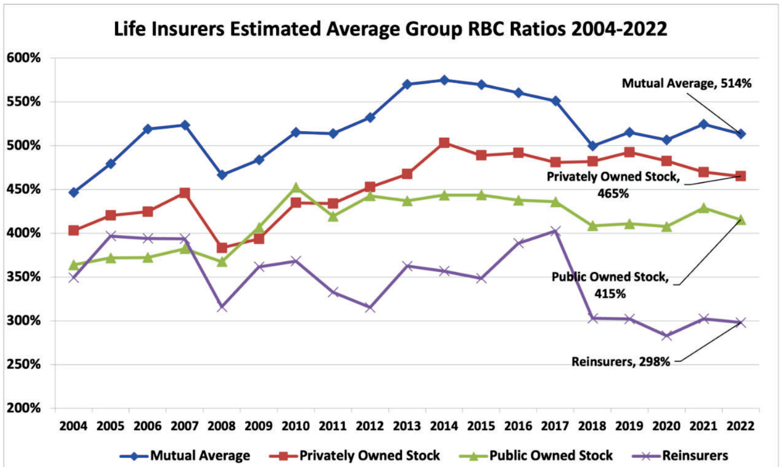
[1] Colin Devine, "U.S. Life Insurer RBC Trends Confirm Industry Capital Levels Remain Strong," the Alliance for Lifetime Income's Retirement Income Institute, April 16, 2023, https://www.linkedin.com/pulse/us-life-insurer-rbc-trends-suggest-industry-capital-levels-devine/



This annual study confirmed that life insurance RBC levels have remained relatively stable over the last few years. Also, a recent Fitch analysis found that the insurance sector has only "modest exposure" to the recent bank failures and that its "liability profiles support stability."[2]

Further, ABS do not present a material risk to life insurers. Indeed, the RBC Proposal is completely contrary to data and risk analysis by the NAIC which is made available to regulators through the NAIC. Over the past five years, regulators have received the following studies by or through the NAIC with specific findings regarding the limited risk in ABS investments.

- The NAIC has been stress testing CLOs since 2019 and has repeatedly found that they do **not** pose a material risk. In the most recent January 5, 2023, NAIC Capital Markets Bureau Special Report, it was determined that, "Based on the NAIC's stress test results, U.S. insurer investments in CLOs remain an insignificant risk."[3]

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[2] Fitch, U.S. Insurers' Direct Exposures to Bank Failures Modest; Liability Profiles Support Stability, March 15, 2023 https://www.fitchratings.com/research/insurance/us-insurers-direct-exposures-to-bank-failures-modest-liability-profiles-support-stability-15-03-2023

[3] NAIC Capital Markets Special Report, Collateralized Loan Obligation – Stress Testing U.S. Insurers' Year-End 2021 Exposure, January 5, 2023. *See also,* Collateralized Loan Obligation (CLO) – Stress Testing U.S. Insurers' Year-End 2020 Exposure, October 7, 2021; Collateralized Loan Obligations – Stress Testing U.S. Insurers' Year-End 2019 Exposure, June 18, 2020; and Collateralized Loan Obligations – Stress Testing U.S. Insurers' Year-End 2018 Exposure, December 6, 2019

- A December 2022 American Academy of Actuaries ("AAA") C1 Working Group presentation to the NAIC said that CLOs do not present a material risk to the industry: "In the C1WG's view, CLOs do not present a material risk to the aggregate solvency of the life insurance industry currently."[4]
- In 2019, the NAIC's Capital Markets Bureau published reports on Consumer ABS[5] and Auto ABS[6], which again did not identify any urgent need for regulatory action.

The AAA presentation to the Working Group in December 2022 indicated that a limited number of life insurance companies held CLO interests, and even fewer held CLO residuals. The study recommended the AAA's C-1 Working Group should review CLO and ABS interests further, especially since ABS instruments are being identified in more detail starting in the 2022 Annual Financial Statement Blanks. We see no reason the NAIC should not wait for the results of the AAA's additional analytical work and instead accelerate for adoption the single largest capital charge in the history of the RBC system based on anecdotal background.

2. The proposed charge level of 45% was established arbitrarily and without analytical support

The RBC Proposal's 45% factor appears to have been developed through a short, less than two-page letter from a limited number of insurers rather than the objective study, modeling and analysis that is the usual and customary practice for the Working Group and other Capital Adequacy (E) Task Force ("CATF") working groups. Prior to exposing the RBC Proposals, the NAIC and the Working Group were not presented with any data, studies, or other evidence that demonstrated that 45% percent is the appropriate charge on ABS residual investments.

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[4] American Academy of Actuaries, Presentation to the Risk-Based Capital Investment Risk and Evaluation Working Group (RBCIRE WG) on Collateralized Loan Obligations (CLOs), December 14, 2022. https://www.actuary.org/sites/default/files/2022-12/C1_Presentation_CLOs.pdf

[5] NAIC Capital Markets Bureau, Consumer ABS Primer, April 2, 2019

[6] NAIC Capital Markets Bureau, Auto ABS, December 20, 2019

A much more thorough analysis of CLOs and their equity performance was conducted by Larry Cordell, an economist at the Federal Reserve Bank of Philadelphia, Professor Michael Roberts of the Wharton School at the University of Pennsylvania, and Michael Schwert.[7] That study compared the risk-adjusted performance of CLO equity to the S&P 500 from 1997 to 2016 and found that CLO equity outperformed common stock.[8] Importantly, one of the key findings of this study was the relative stability of CLO equity during two periods of significant market instability, including the 2008 financial crisis, which led the authors to note that CLOs' "equity performance highlights the resilience of CLOs to market volatility." [9]

Exhibit 2

Panel B: Public Market Equivalent versus S&P 500

Vintage	Mean	StDev	p10	p25	p50	p75	p90	Obs.
1997-2002	1.50	0.69	0.74	0.88	1.40	1.84	2.37	19
2003	0.91	0.31	0.61	0.75	0.85	1.06	1.28	25
2004	1.11	0.38	0.61	0.90	1.03	1.26	1.58	49
2005	1.48	0.45	1.04	1.22	1.47	1.77	2.04	79
2006	1.76	0.55	1.21	1.44	1.76	2.04	2.27	151
2007	2.03	0.60	1.32	1.79	2.06	2.35	2.69	148
2008	1.11	0.55	0.34	0.70	1.15	1.53	1.75	27
2009-2010	0.75	0.28	0.36	0.57	0.79	1.00	1.02	12
2011	0.95	0.24	0.72	0.79	1.00	1.11	1.25	27
2012	0.83	0.16	0.65	0.75	0.82	0.93	1.03	93
2013	0.84	0.22	0.62	0.74	0.83	0.96	1.13	63
2014	0.81	0.18	0.59	0.67	0.82	0.94	1.00	74
2015	0.81	0.21	0.48	0.66	0.86	0.94	1.10	26
2016	0.79	0.19	0.47	0.71	0.84	0.92	0.99	13
CLO 1.0	1.64***	0.64	0.83	1.20	1.66	2.05	2.37	500
CLO 2.0	0.83***	0.20	0.59	0.72	0.84	0.96	1.07	308
Full Sample	1.33***	0.65	0.66	0.84	1.15	1.81	2.18	808

Exhibit 2 shows the average level of CLO equity performance compared to the S&P 500 for each year during that period of time. The chart includes CLO equity results over the entire sample period and separately for each year both on an aggregate basis and on a percentile basis--including the 90^{th}, 75^{Th}, 50^{th}, 25^{th}, and 10^{th} percentiles. In that chart, any performance greater than 1.0 means that CLO equity outperformed the S&P index. The overall score was 1.33, which the authors describe as meaning "that CLO equity earned higher returns than an index of public equities."[10]

Of note, the authors also found that CLO equity particularly outperformed during the two periods of economic stress during the sample period and noted that the "temporal variation in equity performance highlights the resilience of CLOs to market volatility due to their closed-end structure, long-term funding,

Source: CLO data from Intex Solutions and S&P

[7] CORDELL, L., ROBERTS, M.R. and SCHWERT, M, CLO Performance, Journal of Finance, 2023. https://doi.org/10.1111/jofi.13224

[8] *Id.* at 2. "Our central finding is that CLO equity tranches provide statistically and economically significant abnormal returns, or "alpha," against a variety of public benchmarks" during the sample period of 1997 to 2016.

[9] *Id.* at 20.

[10] *Id.* at 20.

and embedded options to reinvest principal proceeds."[11] This analysis directly addresses the question of whether CLO equity is more or less risky than common stock, whereas the April 12 letter only has data on total CLO losses without any precise information about actual CLO equity performance. An article about CLOs issued by Western Asset found similar results for both the 2008 and 2020 economic downturns, finding that, based on median CLO equity cash flow returns, "CLOs that were originated before the last two recessions produced better returns for shareholders than in other years."[12]

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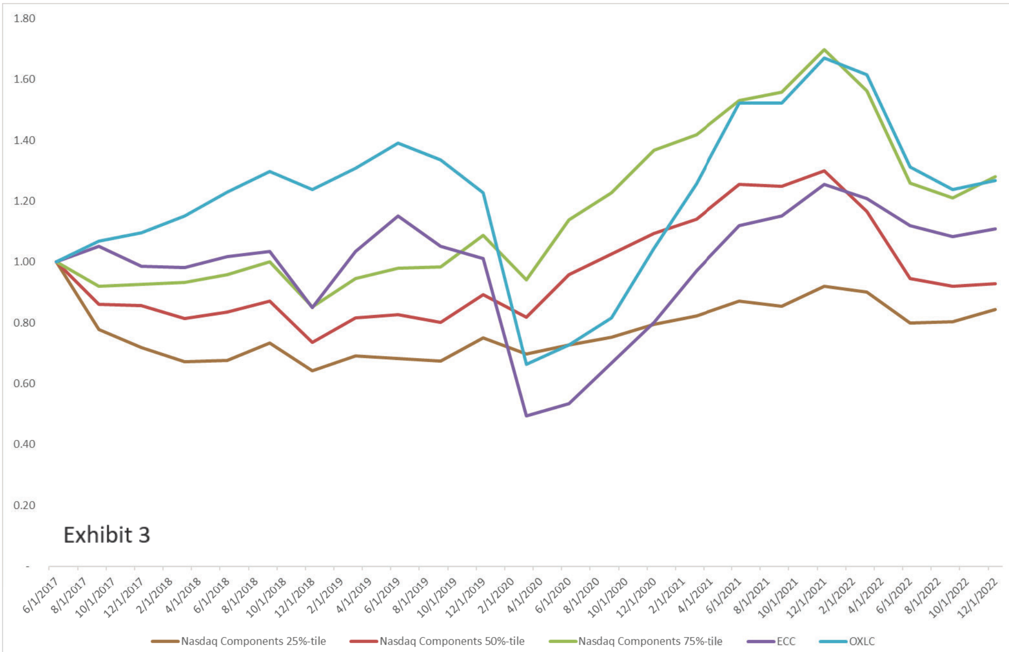
[11] *Id.* at 1.

[12] Jeff Helsing, Can CLO Equity Outperform if the Economy Tips into Recession?, September 26, 2022, Can CLO Equity Outperform If the Economy Tips Into Recession? | Western Asset (See Appendix for a full copy of this article.)

The additional analysis of CLO equity in Exhibit 3 below looks at data from 2016 to 2023 to corroborate the Journal of Finance study's conclusion about the overall outperformance of CLO equity compared to the 50th-tile of Nasdaq stock.



Source: Bloomberg

The chart in Exhibit 3 provides a better perspective on the two CLO equity ETFs, (ECC and OXLC), than the April 12 letter as it only provides data from the year 2020, which is very unique given that was the year of the government-mandated shutdowns due to COVID-19. This longer time frame provides a better sense of how CLO equity outperforms the 25th and 50th %-tile of the NASDAQ index components as of YE 2016 and tracks the performance of such stocks from YE 2016 to YE 2022, showing that CLO equity is less volatile than single-name stocks.

Note that the ECC and OXLC performance here is shown net of fees. Actual performance of the underlying CLOs would have been even higher.

Use of anecdotal evidence supplied by a segment of the industry, rather than credible data, study, or evaluation to support the RBC Proposal is contrary to the foundational principles established by regulators regarding RBC charges. The *NAIC Life & Fraternal RBC Instructions* (the "Instructions") state that:

> "the [Capital Adequacy Task Force (CATF)] and its RBC working groups are charged with evaluating refinements to the existing NAIC RBC formula. . . .The CADTF will consider different methods of determining whether a particular risk should be added as a new risk to be studied and selected for a change to the applicable RBC formula, but due consideration will be given to the materiality of the

risk to the industry, as well as the very specific purpose of the RBC formula to develop regulatory threshold capital levels.[13]

3. The proposed 45% charge does not take into account the risk mitigation features of ABS or the variety of ABS collateral types

ABS investments were originally designed with risk mitigation features in mind without any consideration of insurance capital charges. Because of their risk mitigation features and structural protections, insurers have invested in various types of ABS for decades without material issue. As noted above, the NAIC has been monitoring and studying the insurance industry's exposure to ABS investments for several years, and particularly closely since 2019. Not once in all these many years did the NAIC find a material risk to the insurance industry related to ABS residual tranches.

Two recent publications—Guggenheim's most recent annual report on the ABCs of ABS[14] and the Western Asset Management article on CLO equity[15]—identify the following risk mitigation and structural features of ABS:

1. Over-collateralization
2. Bankruptcy remoteness
3. Diversification of underlying borrowers/payers
4. Amortization ahead of expected maturity
5. Duration matching between the investment assets and financing liabilities
6. Covenants not based on the market price
7. Active management, which in some cases can include buying in or out of the underlying, or in other cases where the investment manager can reinvest or refinance depending on market conditions and individual component performance.

The Western Asset article notes that CLO equity originated prior to the 2008 financial crisis and the 2020 Covid recession outperformed both credit and stocks, which it attributes to several of the structural features of CLOs.[16] Given these findings, we think the NAIC needs to closely study these structural features of ABS before imposing an interim charge.

We also think the NAIC should consider the types of underlying collateral for the primary types of ABS, such as auto and student loans, before imposing such a high interim charge. For instance, in the NAIC's capital charges for bonds, the portfolio adjustment factor recognizes that diversification of a bond portfolio can reduce risk. In a similar manner, some ABS have thousands of underlying loans. In addition, over-collateralization, duration matching, and especially active management can significantly reduce risk for the entire security at issue and should be fully analyzed before determining an

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[13] *NAIC Life & Fraternal RBC Instructions at iii, ¶¶16-17.*

[14] Guggenheim, The ABC's of Asset-Backed Securities (ABS), April 3, 2023, The ABCs of Asset-Backed Securities (ABS) | Guggenheim Investments

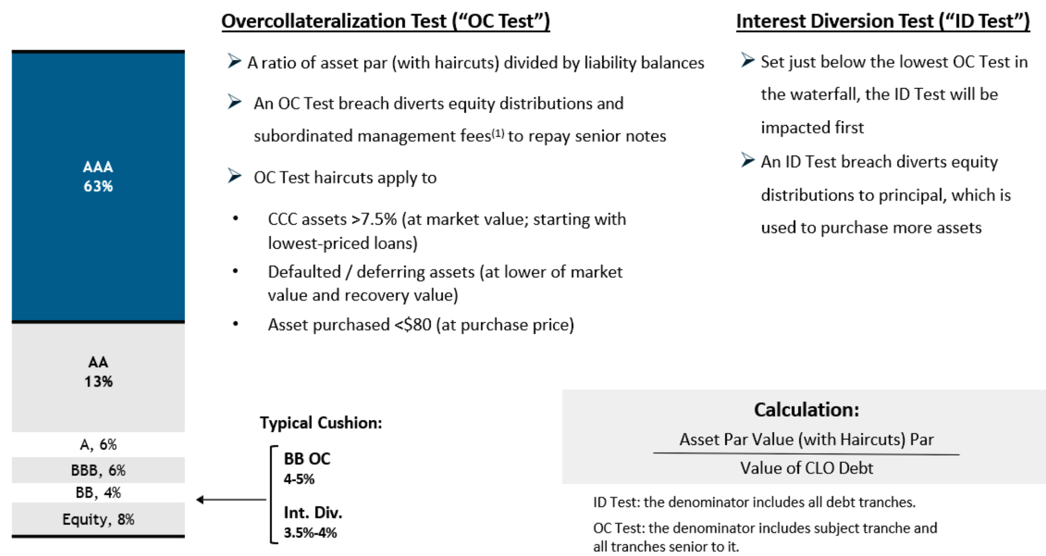
[15] Jeff Helsing, Can CLO Equity Outperform if the Economy Tips into Recession?, September 26, 2022, Can CLO Equity Outperform If the Economy Tips Into Recession? | Western Asset

[16] *Id*

appropriate charge.   Taken as a whole, these ABS features if sufficient analysis concludes higher charges are appropriate for residual tranches, it may also conclude that lower charges are appropriate for higher tranches given they have a much better track record of fewer losses than stand-alone bonds.

As illustrated in the exhibit below, ABS are specifically designed to include risk mitigation features such as over-collateralization, excess spread protection, and refinancing optionality. These features combine to create a risk profile significantly different from any one of the individual components—including the residual tranche. Isolating the residual tranche ignores the inherent economics of this ABS structure as a whole.

CLO Structure / Structural Protection



All numbers **are illustrative** and subject to market level changes. **OC Test haircuts are simplified examples and may differ between CLOs.** CLO structure source: Citi, CLO Primer, April 2021. CLO structure is for illustrative purposes and not to scale

(1) Management fees are split between senior fees and subordinated fees, which are approximately 30% and 70% of the total, respectively. If fees are diverted due to a breach, they will continue to accrue and will be paid when cured, as cash is available.

4. **ABS risk must be comprehensively studied as CLOs have been able to outperform and experience lower losses than comparable corporate bonds with the same risk rating.**

As demonstrated in the chart below, the improved performance covers all rating categories.

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CLO OVERVIEW - STRUCTURE AND RISK PROFILE

- CLO tranches benefit from (i) overcollateralization, (ii) excess spread protection and (iii) refinancing optionality, which again, differentiates CLO structures from holding individual loans
- CLO fixed income tranches have experienced fewer losses historically than corporate bonds of comparable ratings, an asset class for which the SVO accepts NRSRO ratings
- Over the long term, CLO debt has experienced lower losses than corporate bonds while the residual equity has delivered consistent cash on cash returns and return on capital, even during the GFC

Historical CLO Losses vs Corporate Credit		
Rating / Tranche	**Historical Corp Credit Losses(1)**	**Historical CLO Losses(2)**
AAA	0.00%	0.00%
AA	0.03%	0.00%
A	0.04%	0.01%
BBB	0.11%	0.09%
BB	0.42%	0.35%

Sources: S&P Global Default, Transition, and Recovery: 2020 Annual Global Leveraged Loan CLO Default and Rating Transition Study. Moody's Investor Service
(1) S&P Default and Rating Transition Study. Corp credit losses assume average default rate from 1998 to 2020, and 35% recovery rate based on historical market performance
(2) Moody's US CLO impairment rates since 1998 through 2020

Developing appropriate structured security RBC factors must be carefully developed to avoid unintended consequences. The debt and the residual risk analysis must be studied comprehensively and together. The appropriate solution is for the NAIC to take the requisite time to understand the types of ABS, their relevant risk mitigation features, and the overall resulting risk before deciding what charge to impose on all tranches, including the residual tranches—this would better reflect the actual economic risks and historical loss experience, and avoid creating market and competitive distortions.

5. **Regulators must undertake their own neutral study of risks associated with ABS residuals before unintentionally creating artificial barriers and unintentionally choosing sides in a competitive battle.**

Members of our coalition have talked with several regulators regarding the performance and risk history of ABS residuals. In many of these conversations, we have heard that concerns regarding arbitrage in ABS structures are primarily based on concerns from certain market participants unrelated to quantifiable investment risks. We believe that this observation may be correct.

Over the past decade, insurance company ownership and investments have witnessed new market entrants who bring new business models and competition to the market. In its September 27, 2022, Special Report, AM Best states "PE insurers tend to offer more attractive rates on their products than other insurers, in the belief that through their investment expertise, they can earn a higher yield on investments and still make an adequate spread. This competitive pricing puts more pressure on traditional insurer that lack the same scale and find growing the business more difficult because of their more conservative crediting rates."[17] These new entrants are required to operate their businesses in the same regulatory environment (*e.g. AG 53 regarding Higher Yielding Assets in Asset Adequacy Testing*) as existing businesses. Everyone is operating under the same rules in a changing business environment and innovation that benefits consumers should be supported by NAIC rulemaking.

In a recent comment letter, one group of companies has suggested that the NAIC disregard well-accepted and tested historical data to support a 50% increase in the capital charge based on a misleading analysis. The letter makes the incongruous suggestion that CLO data from the Great Financial Crisis of 2008 is insufficient to support stress testing of data. Data from the Great Financial Crisis is widely accepted to represent an atypical and extreme stress scenario for the industry, and the studies cited above provide concrete evidence of the resilience of ABS equity even during periods of financial stress.

The NAIC must avoid unintended consequences and undertake its own neutral study of risks associated with ABS residuals. For instance, direct investments in bank loans are explicitly authorized in SSAP 26R and thus qualify for a C1 bond charge. However, in most cases the underlying collateral for CLOs are bank loans. Should the NAIC move forward with a 45% charge on CLO residuals, the effect would be a higher charge based on the form rather than the substance and would ignore the ABS structural mechanisms that make them safer than direct ownership. Additionally, a 45% charge would effectively be worse than making ABS residuals a non-admitted asset.

6. **Regulators have significant supervisory tools today to address concerns regarding specific ABS investments without adopting a punitive RBC charge and causing significant disruption to the larger ABS market.**

State Insurance regulators have significant authority to address any concerns they may have regarding a company's solvency, as well as any individual investments that may be of concern to them. They utilize a variety of solvency testing and analysis tools to monitor insurer solvency and can demand a company take corrective action to address any anomaly or concern associated with the company's financial condition. Sensitivity testing can be used to review equity tranche holdings and take supervisory action if needed, without punitively and arbitrarily assessing increase charges on all ABS and all insurers, which is unjustified.

Per NAIC accreditation standards, domiciliary regulators can call a targeted examination of an insurance company at any time, as can foreign state regulators working through the Financial Analysis (E) Working Group ("FAWG").[18] If regulators have concerns regarding the solvency of any insurance company holding

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[17] "Best's Special Report, Private Equity Continues to Make Inroads in the Life/Annuity Segment," AM Best, September 27, 2022

[18] *See* NAIC Model Law 380, "On Examinations," https://content.naic.org/sites/default/files/MO390.pdf and Model Law 385, "Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition," https://content.naic.org/sites/default/files/MO385.pdf

ABS residuals or the ratings on individual investments held by insurers, regulators can demand additional information regarding the investment.

Considering the significant regulatory authority and the historic risk analysis on ABS investments described above, the suggested basis for the proposed RBC charge as being necessary to limit “arbitrage” occurring with ABS instruments is specious. During the debate leading up to the RBC Proposal, concerns regarding “arbitrage” were raised by NAIC staff in the Securities Valuation Office (“SVO”) which is not responsible for addressing capital charges. Even as regulators responded to these concerns raised by the SVO, no specific examples have been provided to the industry or the NAIC or exposed publicly to demonstrate how existing regulatory tools are insufficient to address these arbitrage concerns. Even if isolated examples regarding “arbitrage” do exist, a punitive and excessive RBC charge is a blunt instrument to address the concern. Instead, state insurance regulators should apply their existing and substantial regulatory authority to address and correct isolated examples of questionable or inappropriately classified assets.

7. **The proposed 45% is not within the Financial Condition (E) Committee’s charge to the Working Group**

In prior meetings, the RBC Proposal has been labeled as being directed by the Financial Condition (E) Committee (the “E Committee”). The RBC Proposal, however, does not align with the standing E Committee instructions. The E Committee established the Working Group with the authority to establish a proposed RBC charge with suggested assistance from an outside advisor. The specific proposal of adopting an increased factor for the residual tranches has been developed within the Working Group, whose charge to the Working Group was more general. The 2023 RBCIRE Working Agenda, disclosed as part of the Fall 2022 meeting materials for the RBCIRE lists item 12 as

> “Evaluate the appropriate RBC treatment of Asset-Backed Securities (ABS), including Collateralized Loan Obligations (CLO), collateralized fund obligations (CFOs), or other similar securities carrying similar types of tail risk (Complex Assets)”

as a request from E Committee, SAPWG, and VOSTF added 1/12/2022. The comment states

> “Per the request of E committee comments were solicited asking if these types of assets should be considered a part of the RBC framework.”

A change in the factor was never suggested or adopted formally by the E Committee.[19] At no time did the E Committee approve of the Working Group developing a proposed RBC charge based on anecdotal evidence rather than on professionally developed data or a professional study. There was no direction from the E Committee exposed to public comment to impose an interim charge

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[19] Minutes of Financial (E) Committee Meeting, April 5, 2022, https://content.naic.org/sites/default/files/national_meeting/Financial%20Condition%20%28E%29%20Committee%20Agenda%204-5-22_2.pdf

8. **The charge would likely be more than "Interim" and would bias the longer-term analysis that should properly be completed before establishing the appropriate charge for ABS.**

The Working Group has suggested that the RBC Proposals would be implemented on an interim basis. However, the RBC Proposal makes no reference to whether the Proposed Charge is being recommended on an interim or permanent basis. In Working Group discussions, the "interim" nature of the charge seems to be the justification for adopting the Proposed Charge without any supporting data. The RBC Proposal does not include a workplan or reference how or when the proposed 45% charge would be studied, modeled, or evaluated in the future to finalize the recommendation. Based on historical precedent, this so-called "interim" charge could last years or decades. For example, the NAIC established a 15% and 23% charge, respectively, on real estate equity charges for wholly owned and joint venture equity charges. Only after over a decade of industry discourse, roughly from 2012 to 2021, did the NAIC update those charges.

Concluding Remarks

Market participants operate under the understanding that the regulatory environment will reflect true risk and historical experience. Imposing a 45% charge on ABS residuals with no evidence of significant investment or solvency risk runs counter to the integrity of the RBC system and fair competition. We respectfully request that regulators withdraw the RBC Proposal until a thorough analysis by a respected third party can be conducted to better inform sound regulatory decision-making and avoid significant unintended consequences and competitive distortions. In the meantime, we encourage regulators to use the robust tools at their disposal to address any concerns with specific insurance company investments.

We appreciate the opportunity to provide these comments. We stand ready to engage with regulators and neutral experts in continued study and evaluation of ABS residuals, and we request that the Working Group table the RBC Proposals pending the completion of a thorough study and evaluation.

Kind Regards,

Everlake Life Insurance Company	Clear Spring Life and Annuity Company
Delaware Life Insurance Company	Security Benefit Life Insurance Company

cc: Superintendent Elizabeth Dwyer, Chair, Financial Condition (E) Committee
Dave Fleming, NAIC Staff for the RBCIREWG, DFleming@naic.org.

Appendix

WESTERN ASSET

Can CLO Equity Outperform If the Economy Tips Into Recession?

September 26, 2022

By Jeff Helsing

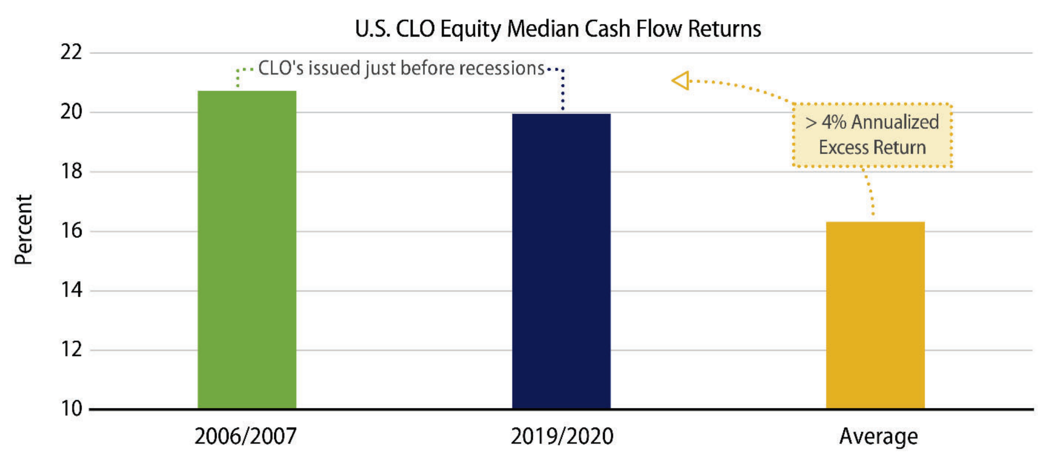
Our base case is not for a US recession in 2022, but the risks of a mild recession are increasing as higher borrowing costs and tighter credit conditions will likely weigh on investment and consumption.

If the recession is mild, where unemployment doesn't rise substantially and defaults don't pick up materially, then credit spreads may not rise to levels seen in previous recessions as in 2009 or 2020. If the recession is worse, then equity multiples will likely decline further and defaults will likely rise above historical averages—both will negatively impact the returns in equity and credit markets.

With yields around 9% in below-investment-grade-credit markets, credit is looking attractive compared to equity in a slower-growth or mild-recession scenario. However, the equity of collateralized loan obligations (CLOs) may perform even better than both of those sectors if market pricing resembles those of a recession similar to the last two.

What may be counterintuitive when reviewing business cycles and the impact they have on market returns is that the equity of an actively managed CLO—which invests in bank loans—may outperform both credit and stocks should the US tip into recession. With history providing some guidance, it's worth noting that CLOs that were originated before the last two recessions produced better returns for shareholders than in other years.

Exhibit 1: CLOs—Pre Global Financial Crisis and 2020 Covid Recession Vintages Outperformed



Source: JPMorgan. Cash flow returns are annualized for the median actively managed CLO equity invested in syndicated bank loans. “Average” represents 2002 through 2021. As of 30 Jun 22. Select the image to expand the view.

Heads I Win, Tails You Lose

Why would the equity of a CLO perform better if we head into a recession? For background, a CLO issues debt and equity securities, then the proceeds are invested in a diversified portfolio of syndicated bank loans. The bank loans provide income to pay interest and other expenses, then the remainder is distributed to equity holders. CLOs feature structural advantages that other investment vehicles don’t. They include two main sources of optionality for a CLO manager that typically enhance returns for the CLO equity holder: the option to refinance in bull markets and to reinvest in bear markets. This is akin to flipping a coin to guess the business cycle, but where both investment outcomes are positive.

When bank loan prices are falling (i.e., credit spreads are widening)—as they did during the global financial crisis and Covid-induced lockdown—a conservatively positioned CLO manager will reinvest their portfolio into higher-yielding securities. Reinvesting as spreads widen is why some CLO managers structure their portfolios conservatively at origination, as they will have several years to wait for an opportunity to swap into higher-yielding securities. On the other hand, when bank loan prices are rising (i.e., credit spreads are tightening), a CLO manager can often reduce their borrowing costs by refinancing their debt securities.

Capitalizing on the option to reinvest in bearish markets or refinance in bullish markets are two ways to increase the returns to CLO equity holders. The median manager that issued CLOs in 2006/2007 as well as in 2019/2020 locked in financing before volatility rose, then swapped into higher-yielding securities as prices declined in the respective recessions—subsequently increasing the returns to equity holders.

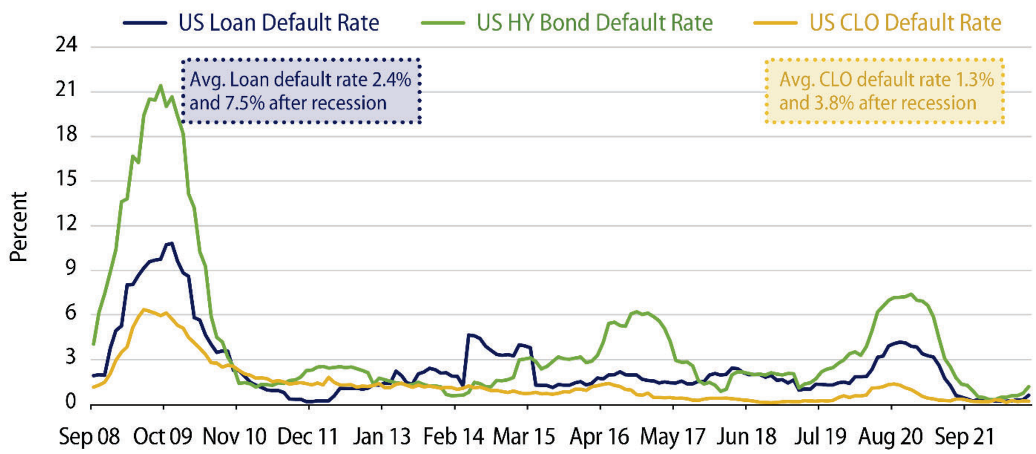
What Reduces CLO Equity Returns?

There are several other advantages to investing in CLOs that have historically supported attractive equity returns relative to other asset classes. These include covenants that aim to reduce default risk and, importantly, the covenants aren’t based on market prices.

One of the most relevant risks to CLO equity returns are defaults in the underlying bank loans. As the bank loan cash flow (i.e., the CLO’s assets) are reduced when defaults happen, there is typically less available cash to distribute to equity holders, so avoiding defaults through active selection and credit research is the goal for managers.

Also, it is worth noting that covenants in CLOs typically limit the concentration in CCC and lower-rated issues. The lower-rated and riskier company limits are typically capped at 7.5% of a CLO’s holdings. For comparison, CCCs and lower-rated issues exceeded 15% in broad loan indices in 2009 (according to the Morningstar LSTA US Leveraged Loan Index). The covenants that limit CCC and lower-rated issues’ risk may help explain why defaults in CLOs were about 50% lower than defaults in the overall bank loan market for the last two recessions.

Exhibit 2: CLO Defaults Historically Are About Half as Frequent as in the Bank Loan Market



Source: BAML, Intex, LCD. As 31 Aug 22. Select the image to expand the view.

Benefits of the CLO Structure

"The investor's chief problem—and even his worst enemy—is likely to be himself." ~Benjamin Graham

While CLO equity may outperform other asset classes, the outsized returns accrued to investors that commit to holding the securities until the CLO matures or is called may be even greater than the historical average if the market tilts into recession.

As mentioned earlier, there are several benefits to the CLO structure that have historically led to outperformance versus other asset classes. The three main structural factors that support CLO equity outperformance are: optionality to reinvest or refinance in bear and bull markets, robust match between investment assets and financing liabilities, and covenants that aren't based on market prices.

Based on the analysis of Cordell, Roberts and Schwert in 2021, the option to reinvest alone may explain about a third of CLO equity's historical outperformance versus other sectors, especially for vintages before recessions. The next two structural advantages are also meaningful to CLO equity returns as they reduce the behavior risk of both the investor and the manager. In other words, these advantages help reduce the risk of the investor or manager becoming their own enemy. For example, liability financing is essentially to the term of the investment so the CLO doesn't subject itself to the possibility of the lender changing terms when volatility rises. Also, as the capital is committed for the life of the investment, and covenants in the CLO aren't based on market prices, the CLO manager can then focus on investment fundamentals rather than being influenced or coerced into selling assets in the portfolio due to market-price fluctuations.

All of these factors may help explain why CLO equity has historically performed better than other sectors, and even more so following the last two recessions.

May 12, 2023

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Global Atlantic Response to 2023-09-IRE Residual Factor

Dear Mr. Barlow:

Global Atlantic[1] appreciates the opportunity to comment on **2023-09-IRE Residual Factor ("Interim Solution")** which proposes to set the Risk Based Capital ("RBC") charge at 45% for all residual tranches on an interim basis. Our comments reflect the following three principles:

I. The RBC factors for all assets should be based on a rigorous, data-driven analysis that incorporates both historical performances, where applicable, and the relevant substantive structural features of any investment.

II. The RBC framework should be derived using consistent criteria across assets and risk profiles - a concept we refer to as "equal capital for equal risk."

III. The process employed to reach important decisions, such as the Interim Solution, should follow the traditional, transparent, and deliberative process that has been a hallmark of insurance regulation under the NAIC.

We would like to highlight that the principles above do not appear to have been followed regarding the evaluation of the Interim Solution for Residual Tranches. In conclusion, we offer an alternative to the current proposal.

I. Rigorous Work, Grounded in Data and Analytics, Not Undertaken:

The timeline to implement new RBC charges effective for all residual tranches for year-end 2023 did not allow for the quantitative rigor normally deployed prior to making changes to

[1] Global Atlantic Financial Group is a leading insurance company meeting the retirement and life insurance needs of individuals and institutions. With a strong financial foundation and risk and investment management expertise, the company delivers tailored solutions to create more secure financial futures. The company's performance has been driven by its culture and core values focused on integrity, teamwork, and the importance of building long-term client relationships. Global Atlantic is a majority-owned subsidiary of KKR, a leading global investment firm. Through its relationship, the company leverages KKR's investment capabilities, scale, and access to capital markets to enhance the value it offers clients. KKR's parent company is KKR & Co. Inc. (NYSE: KKR).

RBC. The precedential nature of setting capital charges without any analysis and data should be of concern to both the industry and regulators alike.

This approach deviates sharply from previous changes to RBC factors, such as the C-1 corporate bond factors, C-1 factor for Real Estate, C-2 Longevity factor, and C-3 factor for interest rate risk, all of which involved field testing and were supported by strong data and analytics. We are not aware of any analysis, field testing or data used to develop the "45%" factor proposed in the Interim Solution. It would be the 1) highest capital charge applied to any eligible asset; 2) would apply to a wide range of assets given the lack of clarity provided as to the intended scope of the Interim Solution, and; 3) does not appear to be linked either to an analysis of historical losses in respect of the relevant assets or to the specific risk-mitigating features that may apply to certain of the potentially in-scope investments.

The most comparable capital charge currently available is the capital charge applicable to public equities. While it was developed using a seemingly sensible approach for evaluating historical data with respect to the asset class, industry participants have also raised the possibility that given the data backing this analysis is largely out of date, it could be revisited for all equity-type investments. *See Exhibit 1* for more detail. The more recent development of updated C-1 bond factors also followed a data-gathering exercise and an analysis of the impact on insurance companies. This approach lent transparency, credibility, and predictability to the process.

As a result of the decision to forego any of the usual analysis associated with potential capital charge changes, the impact on the industry is very unclear. In 2023, for the first time, regulators received enhanced transparency related to investments in residual tranches. Insurance companies were required to report these tranches in a separate category of Schedule BA as of December 31, 2022. Unfortunately, it appears that industry participants applied these instructions with a wide range of interpretations. The total amount of residual tranches disclosed was ~$5bn. This is less than 1.5% of the assets on Schedule BA and 0.10% of the assets on life insurance company balance sheets. Some carriers chose to disclose any tranche that could be considered a "first loss" tranche across asset classes. Some, it appears, interpreted the guidance much more narrowly, and scoped far fewer assets into the disclosure. If, indeed, only those assets disclosed in early 2023 are those that concern regulators, one would conclude that these assets do not present a pressing solvency issue for the industry.

This discrepancy in disclosure is just one of the many issues that a rigorous, data-driven field-testing approach would resolve. The stated practice of the Capital Adequacy Task Force is that "an impact analysis will be required for any factor change". To date, to our knowledge, no studies or analysis have been performed.

II. "Equal Capital for Equal Risk" Not Upheld:

The goal of "equal capital for equal risk" is fundamental to regulating the solvency of insurance companies and protecting policy holders against risk of loss in stress scenarios. Consequently, the capital required for a given investment, or other activity, should be proportional to the risk posed by that activity.

Given the broad scope and lack of specificity as to what constitutes a "residual tranche," this goal is unlikely to be achieved even among investments that could plausibly be considered "residual tranches." It is even less likely to be achieved across the other categories of Schedule BA assets.

"Residual tranches" could be backed by cashflows from a wide variety of investments in everything from broadly syndicated non-investment grade rated loans to seemingly non-controversial investments in student loans, prime consumer loans, and investments backed by aircraft, railcars, infrastructure, and other "hard assets."

Also, investments that would generally be perceived as posing far greater risk of loss, including venture capital funds, private equity funds, and hedge funds, would all now receive a lower capital charge than these "residuals." Note that even CLO "residuals" are, by definition, structurally senior to the equity-type investments referenced in this paragraph. *See Exhibit* 2 for an illustration. In the private equity example, the loans held in the CLOs are often to the very same companies as are held in the private equity fund, creating the paradoxical outcome that the first dollar of loss will appear, by necessity, in the investment receiving the lower capital charge.

If the appropriate field testing and data analysis is undertaken, the return profile of the investment would need to be considered. Given the features of structured products transactions as well as the ability to underwrite the pool of assets, residual tranches can provide cashflow day one de-risking an investment in its earliest years. *Exhibit* 3 illustrates that CLO equity/residuals provide return on investment much earlier than other Schedule BA investments that are subject to a 30% charge. In fact, CLO residuals, on average, have returned 50% of their initial investments in ~3 years while, historically, other equity-like BA investments have taken ~4-6 years to return the same 50%.

At the very least, applying a 45% factor only to a portion of the assets on Schedule BA simply favors certain types of investments – and thus certain insurance companies for reasons not based on differences in the relative risk of the assets in question. This has implications for competition, asset selection, and risk management, with the potential for unintended consequences.

III. <u>Transparent Process Not Followed:</u>

The process to impose an interim capital charge has been a departure from the normal methodical NAIC process. A recent public call of the RBC IRE Working Group was held on April 20 and a discussion of the capital charge for residual tranches was not on the agenda. Nevertheless, this group voted to expose the 45% factor for a short 21-day comment period.

There could be significant unintended consequences arising from a capital charge factor that has not been well vetted. The increased charge might deter insurance companies from holding certain lower-risk residuals associated with stable fixed income assets, and instead steering them toward other investments with equity-like properties that could pose greater risk. This is one implication of failing to adhere to "equal capital for equal risk."

Another implication may be a push to invest in similar risk, but under different structures. Consider that certain assets that have been presented to the NAIC as representative of residual performance, such as the CLO ETF cited, as underperforming relative to the S&P during a 1-year period of the COVID lockdown, would still require only a 30% charge as it is structured as an equity investment not as a direct investment in residual tranches.

We are also concerned that assets that have exhibited very strong performance over many cycles, including student loans, prime consumer loans, and investments backed by aircraft, railcars, infrastructure, and other “hard assets,” will become more difficult for insurance companies to hold, even though they do not pose the risk of “RBC arbitrage.” The investment structures associated with these assets are not intended to reduce capital requirements. The underlying individual assets are too small and too numerous to be rated individually, and there is no “prescribed RBC treatment for the assets (as there may be for commercial mortgage or residential mortgage loans). Instead, the aggregation of many underlying student loans, for example, into a large pool that can be rated pursuant to a securitization is the conventional way for an insurance company to participate in a valuable asset class.

Because no field testing has been done, it is also not clear what effect these changes will have on the industry. They may be applied inconsistently across jurisdictions, and even across companies within jurisdictions.

Proposed Alternative Interim Solution:
We recognize and understand that the types of investments that insurance companies make evolve over time, as an inevitable consequence of participating in dynamic financial markets. In serving our policyholders, it is incumbent upon us to identify and capitalize investments in a manner that enables us to offer security to our customers. We support the mission of regulators to ensure a stable industry that can reliably fulfill its promises through cycles.

We continue to recommend sensitivity testing as a first step in providing regulators with more clarity into the residual tranches that companies hold and those assets’ performance in stress situations. We do not believe the ownership of residual tranches poses an imminent solvency threat to the industry, and we are not aware of any information that suggests otherwise.

We support the development of a clear definition of a “residual tranche” such that a complete population can be analyzed. Once a population is defined, the appropriate framework and modeling can be identified. This should include both a historical analysis of realized losses and consideration of any structural features present in particular investments that may influence risk. The industry-wide impact of any proposed change should be evaluated, along with the risk of unintended consequences.

We believe it is critical for any proposal to be developed in a manner that supports the principle of “equal capital for equal risk.” Only once the analysis above has been completed will it be possible to determine whether the proposed capital charges are commensurate with the risk of the in-scope investments.

Conducting an appropriately transparent and deliberative process is critical. However, we acknowledge that some regulators desire to move quickly before sufficient analysis is completed. While we would argue that the low prevalence of residual tranches across the industry permits an appropriately rigorous and data-driven analysis, we expect that with clear goals, the benefit of experience gained from the recent C-1 bond project, and a group of incentivized participants, the process for developing a robust proposal can be expedited.

Thank you for the opportunity to comment on 2023-09-IRE Residual Factor and we look forward to working with you to study residual tranche risk and provide data which promotes a thoughtful development of appropriate capital charges. For all the reasons stated in this letter, we respectfully request that the current charge of 30% remains in effect until further analysis is completed.

Sincerely,

Lauren Scott

Lauren Scott
Global Atlantic Financial Group
SVP and Head of Regulatory & Government Affairs

Exhibits

Exhibit 1 – S&P Historical Performance

S&P Historical Performance

Criteria	1960 - 1991	1991-Present
Maximum	-46.78%	-54.70%
95th Percentile	-24.65%	-36.06%
90th Percentile	-21.05%	-24.39%

Exhibit 2 – Corporate Capital Structure Relative to CLO Capital Structure

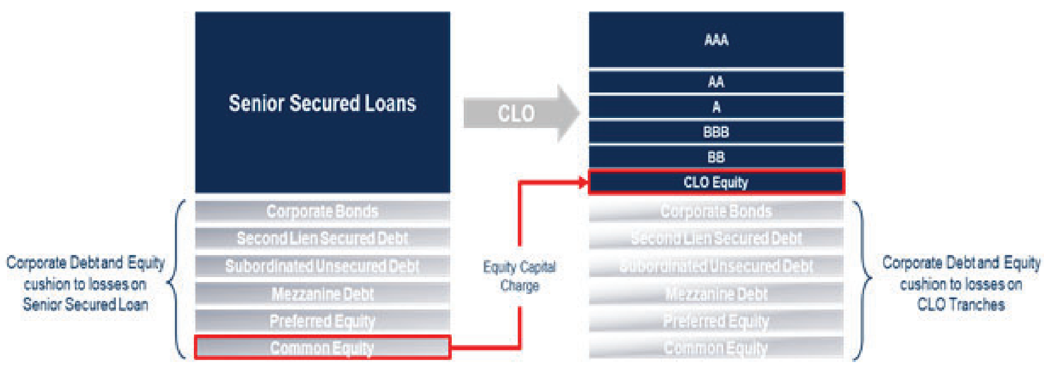
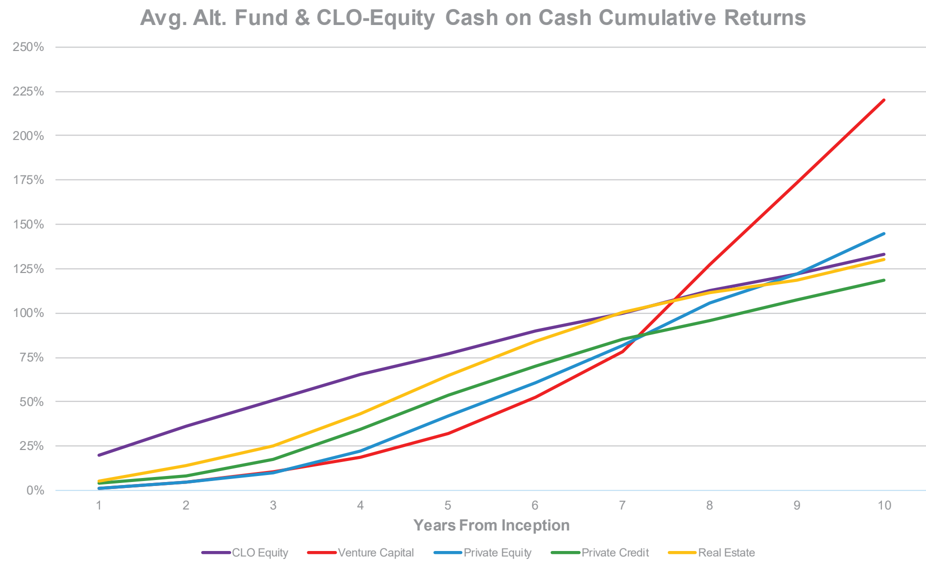


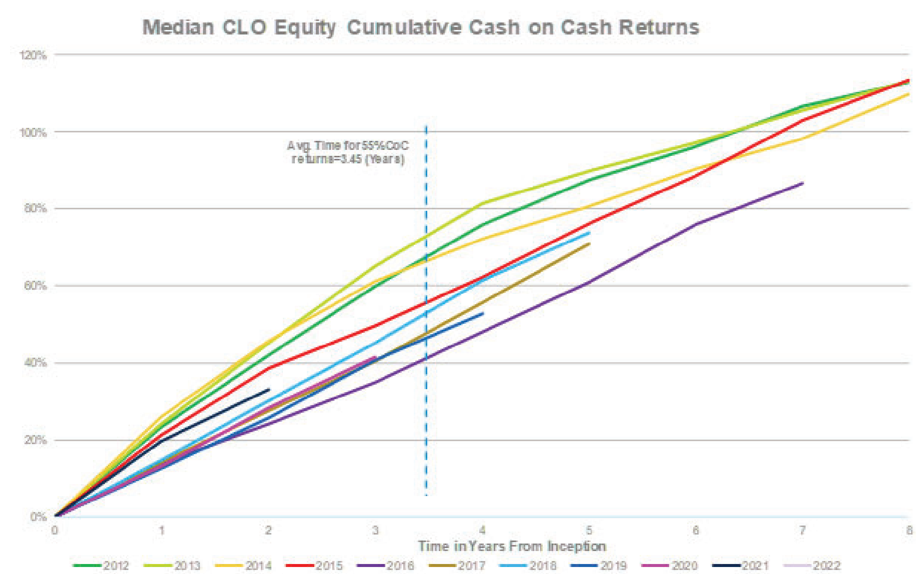
Exhibit 3 – Cashflow Profile of Residual Tranches

Comparison of CLO Equity to Various Alternatives 2012-2018 Vintage



Source: *BofA Research, CLO Equity Research, March 2023*

Source: *Cambridge Associates, Manager_Private_Equity_Benchmark_Book_2022, September 2022; Cambridge Associates, Manager_Real_Estate_Benchmark_Book_2022, September 2022; Cambridge Associates, Manager_Venture_Capital_Benchmark_Book_2022, September 2022; Cambridge Associates, Manager_Private_Credit_Benchmark_Book_2022, September 2022;*



Source: Bank of America Research, CLO Equity Research, March 2023

May 12, 2023

Mr. Philip Barlow
Chair, RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: dfleming@naic.org

RE: Working Group Exposure – IRE Residual Interim Factor

Dear Mr. Barlow:

The RBC Investment Risk & Evaluation (E) Working Group has exposed a proposed interim 0.45 base RBC factor in the life RBC formula for residual tranches of CLOs and other ABS. The proposal did not include a quantitative analysis.

As you know, this process is undertaken at a time when retirement needs in our country are tremendous, while retirees are experiencing declining guaranteed income choices. With these structural demographics, our industry should be rapidly expanding and attracting capital from other parts of the financial system. However, over the past decade, U.S. life and annuity insurers have returned capital equal to 89% of today's market capitalization through share buybacks and dividends, a trend directly contrary to consumer needs. Fundamentally, this trend is due to the complex and often inconsistent frameworks that govern insurers, effectively constituting prohibitive obstacles for many investors. Capital framework inconsistencies are a key underpinning to equity capital frustrations. While RBC has performed well in ensuring life companies' solvency since the 1990s, an acknowledgement of its limitations is a first step in improving outcomes for policyholders. Under that principle, we write to express our concern with the process and express no opinion on the ultimate level of the factor. We are not active residual investors.

As we and others have written in the past, the data demonstrates that investment grade structured securities present safer credit risk than investment grade corporate bonds.[1] After more than two decades of data—decades that included major economic disruptions including the dotcom bubble, the financial crisis, and COVID—that conclusion is robust. It is no mark against the reliability of this data that it does not stretch back as long as the data concerning corporate bonds. Nonetheless, on the basis of stated concerns regarding arbitrage in residual tranches, we are observing a rapid structural shift in a significant but incomplete portion of the regulatory framework for insurer investments through concurrent changes to NAIC designations, RBC capital factors, regulatory processes and the role and oversight of NRSROs.

[1] E.g., Athene "Understanding Structured Credit: Perspectives for Insurance Capital Requirement", December 2, 2022; Professor Robert Jarrow and Donald R. van Deventer, "A Bottom-up, Reduced Form Credit Risk Model Approach for the Determination of Collateralized Loan Obligation Capital", January 2023.

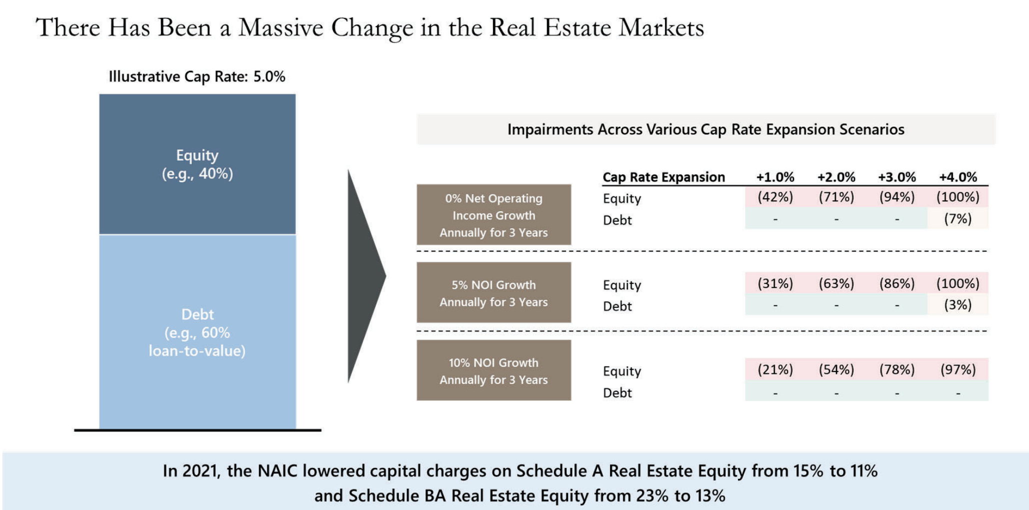
We believe these processes, including any on an expedited basis, should be data-driven and result in asset capital factors that align with risk across all asset classes in a comprehensive 'equal capital for equal risk' framework. The fact that RBC is a "blunt instrument" does not mitigate the management incentives created by the RBC model, which of course involves broad regulatory intervention rights upon control-level triggers. Our comments below identify our concerns with the increasingly inconsistent regulatory framework, as well as third party information that influenced the proposed factor.

Equal Capital for Equal Risk

We highlight two examples below that illustrate our concerns across asset classes.

Real Estate Equity

As you probably are aware, heightened risks have developed in commercial real estate markets. We believe that equity investments in certain subsectors of commercial real estate represent significant capital risks to insurers. Real estate valuations are often measured through 'capitalization rates' (or "cap rates"), which represent a net operating income-to-value ratio for a given property.[2] As illustrated below, in the current market, where cap rates are rising and there is little or negative net operating income growth, a significant quantum of commercial real estate equity holdings may be impaired when debt on these properties matures.



In light of these metrics, it is difficult to discern why, in 2021 the NAIC lowered capital factors on Schedule A Real Estate Equity from 15% to 11% and Schedule BA Real Estate Equity from 23% to 13%. We are unaware of any consistent, data-driven approach that would lower capital

[2] Cap rate is a measure of yield earned on a commercial real estate property (calculated by dividing NOI by property value). See Athene Perspectives on Real Estate; Cap Rates, Explained | JPMorgan Chase.

requirements for real estate equity in 2021, and raise capital requirements for residual tranches of CLOs today.

Moreover, the charges for commercial real estate are inherently procyclical, reaching a minimum at the market peak. The capital requirements for commercial real estate vary based on prescribed metrics, including debt service coverage ratio (“DSCR”).[3] The DSCR is measured using three-year trailing income on the properties, resulting in capital requirements that are lowest at the peak of the market. This feature is, in general, avoided by other rulemaking bodies in the United States and globally.[4]

Corporate Equity

Since the time of the initial “no-arbitrage” dialogue in 2022, some have considered why the principle has not been applied to corporate securities. Like structured credit, corporations issue different tranches of securities to investors with different risk tolerances – senior secured debt, senior unsecured debt, junior debt, preferreds, and equity. The insurance capital framework for corporate bonds uses ratings to determine the appropriate capital charges for the debt and preferred tranches, and then assigns a flat “equity’ charge for all corporate equity. But, similar to the different types of collateral pools for structured credit (with auto loans, airplane leases, and consumer loans as collateral), there are many different types of companies with different underlying risk profiles (for example, car manufacturers and technology companies with negative free cashflow).

The chart below illustrates how the equity risk in five different companies held by U.S. insurers can differ materially despite carrying the same capital charge. A true application of the “no-arbitrage” principle would also apply differentiated equity capital charges on corporate securities based on the underlying business model, financial profile, and risks of the corporations that issued those securities. This principle should also be examined and applied across every class of equity and debt within the RBC framework.

[3] DSCR measures the amount of income generated in excess of interest payment obligations.
[4] See for example, Federal Reserve Board votes to affirm the Countercyclical Capital Buffer (CCyB), or The capital buffers in Basel III - Executive Summary.

A Comparison of Similarly Rated Companies[5]

	Johnson & Johnson	Coca-Cola	Chevron	KraftHeinz	affirm
Market Cap ($bn)	$457.7	$260.1	$327.8	$47.2	$7.4
Price Change Since 52 Wk High	(7)%	(11)%	(5)%	(14)%	(85)%
Ratings (S&P/Moody's/Fitch)	AAA/Aaa/NA	A+/A1/A	AA-/Aa2/NA	BBB-/Baa3/BBB-	NR
2021 EBITDA ($bn)	$32.6	$12.8	$33.4	$6.4	($0.3)
Net Debt / EBITDA	0.6x	2.7x	0.9x	3.0x	NM
Implied LTV[1]	7%	15%	10%	32%	21%
Commentary	Better credit rating than the U.S. government	Strong post-pandemic recovery, with revenue up 4% from pre-pandemic levels	S&P downgraded in 2021. Idiosyncratic exposure to climate change and oil prices	Downgraded to high yield in 2020	Affirm is down ~85% from its 52-week high and has negative EBITDA

We highlight these examples to illustrate our concerns with consistency across asset classes. We are not advocating for increasing or decreasing capital requirements, only that the NAIC and stakeholders should take the time to develop overarching principles that are designed to achieve appropriate, data-driven charges and "equal capital for equal risk". Without such a comprehensive framework, distortions will endure, and there will continue to be industry risk-taking incentives divorced from true economic risk.

Third Party Data

We also write regarding certain data that has been cited in support of the interim factor from one group of companies ("Equitable Letter", dated April 12, 2023).

A 25 Year Time Period Is More Conservative

The Equitable Letter suggested that securitization markets have a history that is "less robust than the 40-year history used to develop the corporate bond factors." Using a 25-year estimation period to determine capital charges may actually be more conservative than using longer periods given that substantial market disruptions (e.g., dot com downturn, the great financial crisis, COVID and the recent banking crisis). In the spirit of equal capital for equal risk, we utilized the C-1 framework to analyze the 95% two-year capital factor on the S&P 500 over different windows ranging from 20 to 70 years. Perhaps not surprisingly, the highest implied capital factor resulted when the most recent 25-year window was used rather than a longer 40- or 70-year window.

Changes in the Financial Markets Since 2008

The Equitable Letter included structured credit issued before and after the financial crisis. As discussed in our whitepaper on structured credit (available here), terms in the structured credit market have changed materially since the financial crisis. The letter does not account for these

[5] Market Data as of May 19th, 2022. 'Implied LTV' represents an illustrative concept for comparison to securitization calculated as Debt / (Debt plus Market Capitalization). Source: company filings, Bloomberg.

changes, and included losses for a securitization market that is non-existent today (Pre-GFC Non-Agency RMBS). Diagram 1 set forth in the Appendix, using CMBS as an example, illustrates that structured products issued post-crisis (2.0) experienced significantly lower cumulative losses from structural protections[6] than pre-crisis (1.0).

Residual Tranches Earn Income, Which Can Offset Losses

The letter's graph "Historical Collateral Losses vs. Residual Tranche Size" fails to acknowledge a fundamental aspect of the investment proposition of residual tranches by overlooking income in the form of excess spread. The income or excess spread received operates to shield losses and is highly relevant to an accurate presentation of the concept in that graph.

If Calibrated Within the C-1 Framework, the Analysis Would Imply a Different Factor Than 45%

The Equitable Letter points to Oxford Lane Capital Corp. (OXLC) and Eagle Point Credit Company (ECC) as proxies for the underlying residuals and the 60% price loss over the first few months of 2020 as evidence of the need for a higher capital charge. However, this is divorced from the C-1 Framework, capturing risks not intended to be covered by C-1 – in particular, liquidity. In addition, the chart uses a maximum loss over a 1-year calculation window, rather than the 95% worst 2-year return that was used to calibrate the 30% equity factor, and excludes other items (e.g., income offsets) that are contemplated within the framework.[7]

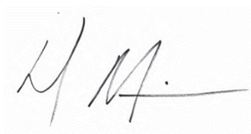
In the interest of highlighting the materiality of different features within the C-1 framework, we performed a simple exercise of comparing the 60% loss with the 95% 2-year loss and then considered the impact of dividend income resulting in a 35% factor, which would need to be further adjusted for other aspects of the C-1 framework, such as taxes.[8] The results of this analysis appear in the Appendix, Diagram 2. We are not proposing such a factor; rather we are highlighting the need for a thoughtful process when estimating the charges.

* * * * *

[6] See Athene "Understanding Structured Credit: Perspectives for Insurance Capital Requirement", p. 17.
[7] These companies are incrementally leveraged with preferred shares, and shareholders bear significant fees. Therefore, performance of the common stock is not equal to the performance of underlying residuals. It would be expected that the stock would perform adversely relative to the underlying residuals given the presence of these additional factors in declining conditions.
[8] These numbers represent the weighted average across ECC and OXLC with the ECC time series starting on 10/9/2014 and OXLC on 1/202011.

As noted, we express no view on the proposed 0.45 interim factor other than our significant concerns with the process and the absence of a comprehensive framework. We believe any review, even an expedited one, should be data-driven and result in asset capital factors that align to an 'equal capital for equal risk' framework across asset classes. We appreciate the opportunity to comment.

Sincerely



____
Doug Niemann
Executive Vice President and Chief Risk Officer

Appendix

Diagram 1

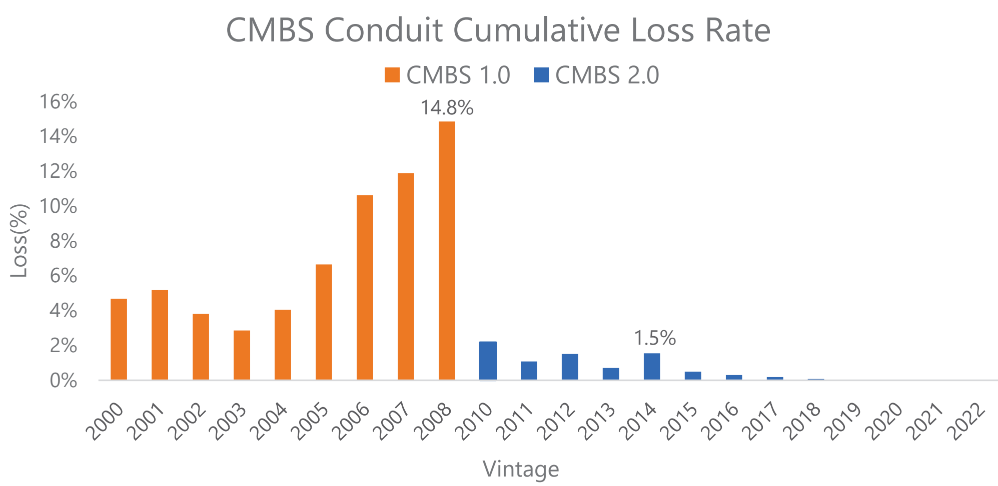
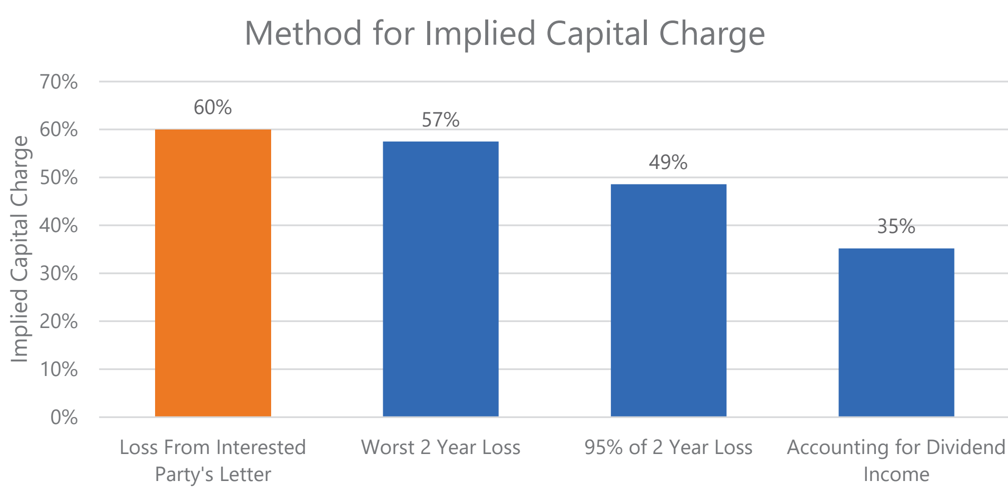


Diagram 2



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Risk-Based Capital Investment Risk and Evaluation Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Exposure 2023-09-IRE Residual Factor

Dear Mr. Barlow:

Thank you for the opportunity to comment on the April 20, 2023, proposal by the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (the "Working Group") to establish an interim 45% Risk-Based Capital ("RBC") charge for "residual tranches or interests" of all asset-backed securities. We very much appreciate the hard work that the members of the Working Group, NAIC staff and others have dedicated to studying this issue. However, we believe that implementing the proposed interim charge for 2023 would amount to a "rush to judgment" given that there is still much work and analysis that needs to be done to meet the NAIC's high standards of scrutiny that characterizes its prior work on issues like this one.

For the reasons described below we respectfully submit that the performance data for CLOs does not support a higher risk charge.

- The performance of CLOs demonstrates that they **do not** present the same investment risk as the underlying investments comprising CLOs.
    - CLO performance since 1999 demonstrates that they have had lower default rates than other loans or high yield investments, including during the financial crisis of 2008-2009.
    - CLOs' historically low default rates compare favorably overall to corporate debt.
    - The break-even underlying default rate for CLO equity is equivalent to BB corporate rating.
    - CLO equity investments have held up well in adverse stress scenarios; median equity IRRs for redeemed deals issued 2005-2007 were higher than 20% and for 2020 deals, higher than 40%.
- CLO performance data does not support higher capital charges, including on the equity tranche of CLOs. Yet, the proposed 45% interim charge would cause insurers to carry a disproportionate amount of capital (i.e., a 50% increase) relative to the risk of these investments.

For the foregoing reasons, we urge the Working Group to reject the proposed 45% interim charge. There is no data supporting that specific charge. On the other hand, the performance data for CLOs indicate that the current risk charge is appropriate. We would be happy to provide you and the Working Group with the data referenced in our letter. Given the volume of comments we expect you to receive, we wanted this letter to be as concise as possible.

Sincerely,

Nassau Financial Group

PineBridge® INVESTMENTS

May 12, 2023

Dear Chair Barlow, Mr. Fleming, and members of Risked-Based Capital Investment Risk and Evaluation (E) Working Group (the "Working Group"):

We appreciate the opportunity to comment on the proposed interim Risk-Based Capital ("RBC") solution for residual interests exposed by the Working Group in April 2023.[1] [2] We believe a more thorough process is needed before adopting the proposed 45% RBC for CLO equity,[3] even on an interim basis. Additionally, robust analysis is desirable to provide a sound basis to revise the RBC treatment broadly for other asset classes.

We recommend allowing the NAIC CLO Ad Hoc working group to complete its detailed analysis and modeling process for CLOs prior to implementing an interim change to CLO equity RBC. A comprehensive analysis would provide a sound basis. We support the analytical work undertaken by the NAIC. In fact, PineBridge has been actively participating in the modeling efforts led by the NAIC CLO Ad Hoc working group. We expect CLO equity loss rates to be driven by a variety of factors such as collateral composition, leverage, and manager profile. We believe active collateral management, portfolio diversification, and structural protections have all contributed to the strong track record of CLOs as stated in our July 15, 2022 response letter to the NAIC.[4]

Given that the analytical work to date has been largely focused on CLOs, we are concerned that assigning the CLO equity risk charge (to be determined), or the proposed interim RBC of 45%, to the residual interests of other types of structured assets is unsupported. CLOs are not necessarily comparable to other securitizations. As seen in other comment letters and prior modeling work for other securitized products (e.g., CMBS and RMBS), there are significant differences in deal structure and performance across structured assets. CMBS, RMBS, and sub-prime autos experienced more severe losses during times of extreme stress such as the 2008 global financial crisis as compared to CLOs.[5] A logical sequencing for determining appropriate RBC treatment for other asset classes is to continue the NAIC's analytical efforts on CLOs (including the modeling work led by the NAIC CLO Ad Hoc working group). After the CLO results have been thoroughly analyzed, we would recommend applying a consistent framework regarding cashflow analysis and stress testing to determine an appropriate solution for other structured asset classes.

We support having a sound basis for any RBC revision and do not believe that it is prudent to increase RBC for residual interests broadly due to the NAIC's concern around capital arbitrage, which was cited as one of the primary reasons for the proposed RBC increase. While it is possible certain residual interests could warrant RBC factors greater than 45% due to capital arbitrage or other reasons, not all structures create capital arbitrage. In our February 2023 comment letter to the Valuation of Securities Task Force ("VOSTF"),[6] we shared a framework to help fret out adverse cases. Below is an example of a structure held by various insurers demonstrating that some structures are not aimed at achieving RBC arbitrage, and in fact, they may have higher RBC than that for the underlying assets, i.e., the sum can be greater than the parts.

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[1] 2023-09-IRE residual factor.pdf (naic.org).
[2] Materials - Risk-Based Capital Investment Risk and Evaluation (E) Working Group (naic.org), April 20, 2023.
[3] For purposes of this letter, we only refer to broadly syndicated loan ("BSL") CLOs.
[4] Agenda - VOSTF (naic.org). 2022 Summer National Meeting. Valuation Of Securities (E) Task Force, August 11, 2022.
[5] Agenda - VOSTF (naic.org). 2022 Summer National Meeting. Valuation Of Securities (E) Task Force, August 11, 2022.
[6] Materials for 2023 NAIC Spring National Meeting, Valuation of Securities (E) Task Force Thursday, March 23, 2023.

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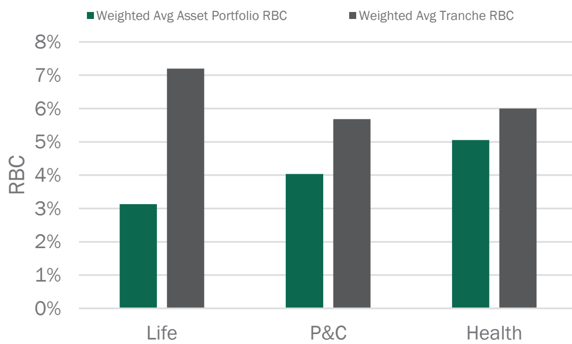

In conclusion, we strongly recommend allowing the working groups to collaborate with industry and properly model CLO residuals first, and then apply a consistent modeling framework to other structured assets, before implementing any changes to residual interest RBC broadly.

Sincerely yours,
PineBridge Insurance Solutions and Strategies, CLO team, Leveraged Finance team

PineBridge Investments
65 E 55th St, New York, NY 10022

AMERICAN INVESTMENT COUNCIL
Growth Through Long-Term Investment

May 12, 2023

VIA ELECTRONIC SUBMISSION

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Comments regarding Risk-Based Capital Investment Risk and Evaluation (E) Working Group *2023-09-IRE Residual Factor* Proposal

Dear Mr. Barlow,

The American Investment Council ("AIC")[1] welcomes the opportunity to comment on the National Association of Insurance Commissioners ("NAIC") Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("RBCIRE WG" or "Working Group") exposure of *RBC Proposal Form 2023-09-IRE Residual Factor* regarding the proposed 45% risk-based capital ("RBC") factor for Residual Tranches or Interests reported on Schedule BA of the Annual Statement for life insurance companies and fraternal benefit societies.

The AIC appreciates the NAIC's objective of promoting insurer solvency and policyholder protection by ensuring that the various tranches of asset-backed securities ("ABS") are assigned appropriate RBC capital charges. We also understand that certain external stakeholders are advocating for state insurance regulators to take action on perceived issues regarding insurer ABS investments, which, as you know, have historically performed quite well.

[1] The American Investment Council, based in Washington, D.C., is an advocacy, communications, and research organization established to advance access to capital, job creation, retirement security, innovation, and economic growth by promoting responsible long-term investment. In this effort, the AIC develops, analyzes, and distributes information about private equity and private credit industries and their contributions to the US and global economy. Established in 2007 and formerly known as the Private Equity Growth Capital Council, the AIC's members include the world's leading private equity and private credit firms which have experience with the investment needs of insurance companies. As such, our members are committed to growing and strengthening the companies in which, or on whose behalf, they invest, to helping secure the retirement of millions of pension holders and to helping ensure the protection of insurance policyholders by investing insurance company general accounts in appropriate, risk-adjusted investment strategies. For further information about the AIC and its members, please visit our website at http://www.investmentcouncil.org.

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AMERICAN INVESTMENT COUNCIL

For example, collateralized loan obligations ("CLOs") have historically performed – and continue to perform – better than equivalently rated corporate debt instruments. Along with the performance of CLOs, it is significant to note that studies conclude that CLO default rates are substantially lower than default rates for corporates with equivalent ratings. In fact, studies indicate that the number of cumulative losses that would have had to occur with respect to the loans underlying CLOs for CLOs to have suffered significant defaults during the 2008-2012 financial crisis is significantly higher than what actually occurred during such time (assuming a reasonable recovery rate).[2] These consistent returns, including the performance of ABS residuals, have been important in supporting insurers' core mission of meeting policyholder obligations.

For those reasons, we support a thoughtful, methodological approach to assessing residual tranche capital charges (and ABS considerations more broadly), characteristics which, as a standard setting organization, have long been hallmarks of the NAIC and its consensus-driven process. Furthermore, while we can see the utility of the proposed sensitivity analysis as an additional regulatory tool, we do not believe changing capital charges prior to completion of data driven analysis will improve policyholder protection, but rather will unduly increase costs for both insurers and policyholders.

Life insurers also face risks when they are discouraged from accessing appropriate investments that support policyholder obligations. The consequence of this is typically to increase costs for policyholders, reduce availability of products, and/or place downward pressure on insurance company capital. Consequently, we strongly recommend against taking hasty action that could constrain insurer liquidity, or otherwise disrupt the capital markets, during an uncertain economic environment.

To date, the NAIC has not conducted a rigorous, data-focused assessment of what might constitute a proper residual tranche capital charge.[3] The lack of a supporting quantitative analysis was observed by the American Academy of Actuaries ("Academy") during the RBCIRE WG's December 2022 meeting, which, in the same context, stated that it had "zero confidence" in the accuracy of the RBCIRE WG's December 2022 capital charge proposal. The issue of what constitutes a "residual tranche or interest" also seems to be unresolved.[4]

The Working Group appears to be considering an untested capital charge on an ill-defined asset class. What we do know at this stage is that the "interim" RBC solution for residual tranches is expected to last in perpetuity for any asset class for which a dedicated modeling methodology is not developed (a process that, for CLOs, is proving to be more complex than may have been initially anticipated). We also know that, to the extent that ABS investment risk has been assessed more broadly, the NAIC has routinely concluded that insurer aggregate ABS

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[2] *See e.g.,* Moody's *Impairment and Loss Rates of Global CLOs* (June 2021) at pp. 14-19 (Appendix I: List of CLO material impairments worldwide).

[3] Subsequent to the December 14, 2022 RBCIRE WG meeting, the Working Group agreed to reduce the number of RBC factors for ABS residual tranches from three to one – again, seemingly without quantitative analysis or support.

[4] *See e.g.*, RBCIRE WG February 27, 2023 *Meeting Minutes* at page 4 (page 3 of Attachment A), *available at*: https://content.naic.org/sites/default/files/national_meeting/RBCIREWG_2023SpringNM_Materials.pdf.

exposure is small and does not currently present a solvency risk to the industry.[5] State regulators have tools available to them to address concerns about individual company investments. These facts alone support a more methodological approach to the "interim solution" work stream.

Importantly, the RBCIRE WG recently gained access to new ABS investment data that was included for the first time in insurers' 2022 year-end reports. That data should facilitate a proper analysis of, or otherwise serve as a starting point for, a number of the considerations referenced above, including how to appropriately define a "residual tranche or interest" for purposes of Schedule BA. Careful analysis of that data is also essential for the consideration of other issues, such as: the impact that a single RBC capital charge could have on insurer RBC; whether such a charge might disproportionately or unintentionally impact certain investments or asset classes; and, at the most fundamental level, whether the baseline assumptions underpinning the Financial Condition (E) Committee's mandate to the RBCIRE WG to develop an "interim solution" continues to be fit for purpose.

In light of the foregoing considerations, we encourage the RBCIRE WG to leave the RBC factor at 30%, while undertaking a more quantitative and methodological approach to any potential "interim" solution with the benefit of stakeholder engagement. We welcome the opportunity to serve as a resource to the RBCIRE WG as it considers both "interim" and "long-term" regulatory frameworks for ABS and would be pleased to present or otherwise provide insight into our members' perspective on these issues.

Thank you for the opportunity to comment. We look forward to continuing to work with you on these important issues.

Sincerely,

/s/ Rebekah Goshorn Jurata
General Counsel
American Investment Council

cc: Mr. Dave Fleming
Senior Life Risk-Based Capital Analyst
National Association of Insurance Commissioners (via email)

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[5] *See e.g.,* NAIC Capital Markets, Special Report, *Collateralized Loan Obligation Stress Testing U.S. Insurers' Year End 2021 Exposure*, January 5, 2023, *available at*: https://content.naic.org/sites/default/files/capital-markets-special-reports-clo-stressed-analysis-ye2021.pdf (regarding collateralized loan obligations); NAIC Capital Markets, Special Report, *U.S. Insurers' Exposure to Consumer Asset-Backed Securities as of Year-End 2018*, August 7, 2019, *available at*:https://content.naic.org/sites/default/files/capital-markets-special-report-consumer-asset-backed-securities.pdf. Here, too, the Academy has reached a similar conclusion in the context of CLOs.

Draft: 8/9/23

Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Virtual Meeting
April 20, 2023

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force met April 20, 2023. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy (CA); Wanchin Chou (CT); Ray Spudeck (FL); Kevin Clark (IA); Roy Eft (IN); Fred Andersen (MN); Debbie Doggett (MO); Lindsay Crawford (NE); Bob Kasinow and Bill Carmello (NY); Dale Bruggeman and Tom Botsko (OH); Rachel Hemphill (TX); Steve Drutz and Tim Hays (WA); and Amy Malm (WI).

1. Discussed Comment Letters Received on Residual Tranches

Connie Jasper Woodroof (CJW Associates) said her only comment was that the proposal was strictly for the life risk-based capital (RBC) formula, but property and health companies could also have residual tranches, and those would only be subject to a 20% charge for the RBC. She said this may need to be addressed in the other formulas. Barlow said they did not intend to ignore the health and property/casualty (P/C) formulas, but the issue is most pronounced for life companies, and the current proposal is only for the life formula. He believes the initial referral received from the Financial Condition (E) Committee indicated a focus on life first.

Christopher Halldorson (Prudential Financial—Prudential) said there is currently no theoretical foundation for the current capital treatment of residual tranches, and the 30% capital charge was developed based on Standard &Poor's 500 index (S&P 500) experience between 1960 and 1991. He said there were not any residual collateralized loan obligation (CLO) tranches included in that analysis. He said there has been some analysis since that indicates 30% seems quite low, given the volatility of the underlying collateral of these types of transactions.

Kim Welsh (Athene) said Athene is not opposed to the proposal to employ one factor instead of three, but it continues to have concerns about the interim solution. She said Athene believes everything should be viewed through the principle of equal capital for equal risk, and structured products need to be reviewed holistically with respect to the risk in other asset classes.

Hemphill said she appreciated the comments from and dialogue with all the interested parties on both sides, which really helped her understand the issues. She said she understands there is a lot of sensitivity on this topic, and it is important to have an inclusive and transparent delivery process so that decisions that best represent the relevant facts will be made.

2. Adopted the Residual Tranche Structure Change

Barlow said the proposal is revised from the recommendation from the Valuation of Securities (E) Task Force, which included three buckets for residuals and only one bucket for the interim proposal. He said this is for all residual tranches that are reported in the annual statement and are not limited to CLOs or any other particular type of structure.

Chou made a motion, seconded by Botsko, to adopt the residual tranche structure change. The motion passed unanimously.

3. Adopted the Sensitivity Test

Steve Clayburn (American Council of Life Insurers—ACLI) said the proposal adds a line to incorporate the residual tranches into the sensitivity test. Barlow said the Working Group was not able to expose this structural change for the sensitivity test by the normal timeline but asked for and did not get any comments from vendors on their ability to handle this.

Clark made a motion, seconded by Crawford, to adopt the sensitivity test structure change. The motion passed.

4. Exposed a Residual Tranche Factor for Comment

Andersen made a motion, seconded by Stolte, to expose a 45% interim RBC charge for the residual tranches. The motion passed unanimously.

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

SharePoint/NAIC Support Staff Hub/E Committee/CADTF/2023-2-Summer/RBCIREWG/RBC Investment Risk 04-20-23 Minutes.docx

Principles for Structured Securities RBC

Presentation to NAIC's RBCIRE
August 13, 2023
Steve Smith, MAAA, FSA, CFA
Academy C-1 Subcommittee, Chairperson

Executive Summary— C-1 Asset Modeling

- The American Academy of Actuaries proposes a flowchart to determine whether (a) an asset class needs to be modeled and (b) whether securities within an asset class need to be modeled individually to determine C-1 factors.
- Preference is given toward simpler solutions—if an existing factor can be used, it should be used. Individual security modeling for C-1 determination is a last resort.

Executive Summary— Principles-Based Approach for Structured Securities

- If the result of the flowchart is that an asset class requires modeling, the Academy would support a principles-based approach to the derivation of C-1 factors
- A principles-based approach to RBC for structured securities will allow regulators flexibility in adapting to new structures as they emerge in the marketplace
- This presentation proposes several candidate-principles
  - The Academy supports each of these candidate-principles, but we believe reasonable and informed people may disagree and are seeking guidance from regulators
  - We request that regulators identify which candidate-principles accurately reflect their views—these can then be incorporated into a principles-based approach to structured securities RBC

Discussion Topics

I. C-1 Modeling Flowchart

II. Structured Securities C-1 Principles

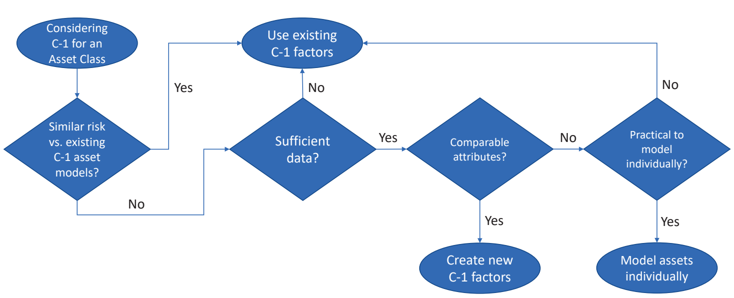
III. Appendices
  a) Appendix A—RBC Arbitrage
  b) Appendix B—Definitions of Terms

C-1 Modeling Flowchart

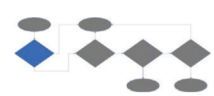
Threshold Questions

- For an asset class to be considered using this flowchart, it should first be verified as having all of the following attributes:
  1. Materiality or likely materiality in the future across the industry. Allocations from a small handful of companies would not justify changes to the RBC formula.
  2. The risk that would be modeled needs to be incorporated in C-1. For example, illiquidity alone would not be a sufficient justification because C-1 does not measure illiquidity risk.
  3. The expected benefits of a more precise calculation should outweigh the expected costs of building and using a new model. Costs include both time and energy spent to build the model as well as the negative effect of added complexity within the RBC formula.
- The burden to verify these attributes falls on the party asking for a more exact determination of RBC

C-1 Modeling Flowchart

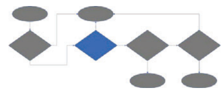


Decision: similar risk vs. existing C-1 asset models



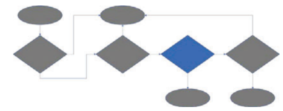
- Answer "yes" if the relative risk differences between risk categories (usually ratings or designations for fixed income) is similar to that of an existing set of C-1 factors.
- For example, municipal bonds and bank loans would each likely have an answer of "yes," because relative increase in risk as ratings decrease is similar to that of corporate bonds.
- CLOs and some other structured securities would likely have an answer of "no," because tail risk increases more quickly as the rating decreases compared to corporate bonds.

Decision: sufficient data



- Answer “yes” if data exist to enable risk modeling, and in particular tail risk modeling.
- For example, CLOs would likely have an answer of “yes,” because their bank loan collateral has ample historical loss data and the waterfall structure is well documented.
- Some esoteric ABS, especially residual tranches, may have an answer of “no” if insufficient data are available.

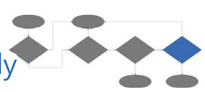
Decision: comparable attributes



- Answer “yes” if most individual assets within this asset class have an easily identifiable attribute that can be used to sort the assets into risk buckets.
- For example, CLOs would likely have an answer of “yes,” because most CLOs are rated by CRPs and those ratings can reasonably sort each individual CLO security into a risk bucket.
- Asset classes that are typically not rated by CRPs may have an answer of “no” here, but don’t automatically. For example, commercial mortgage loans are also a likely “yes” because DSCR and LTV substitute for CRP ratings as comparable attributes.

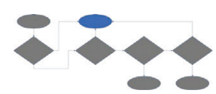
Initialism guide: CLO = collateralized loan obligation. CRP = credit rating provider. DSCR = debt service coverage ratio. LTV = loan-to-value

Decision: practical to model individually



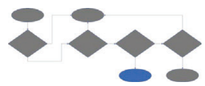
- Answer “yes” if individual assets within the asset class have several attributes that differentiate individual assets and can be used for risk modeling or if existing modeling software can be used.
- For example, CLOs would likely have an answer of “yes.” because off-the-shelf software exists that can model individual CLOs (however, CLOs may never have arrived at this decision point if they were deemed to have comparable attributes).
- If modeling cannot reasonably be done in a timely and cost-effective manner for RBC filing, then the answer here must be “no.”
- Some esoteric ABS may have an answer of “no” if the relevant risk is so specific to each deal that a common modeling framework does not apply across a reasonably large share of securities.

Outcome: use existing C-1 factors



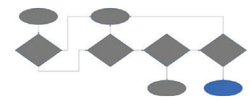
- This outcome can either mean to use existing C-1 factors directly, without adjustment, or it can mean to make slight adjustments to existing C-1 factors.
- For example, municipal bonds and bank loans currently use corporate bond C-1 factors without adjustment.
- Schedule BA real estate currently uses Schedule A real estate C-1 factors but with an upward adjustment resulting in a proportionately higher C-1 factor for BA real estate.

Outcome: create new C-1 factors



- This outcome means that a new set of C-1 factors should be developed for this asset class.
- For example, CLOs may retain the 20 possible designations that they are currently mapped into. But instead of those 20 designations corresponding to the 20 corporate bond C-1 factors, CLOs may instead have their own set of 20 C-1 factors.
- Instead of just a slight adjustment to existing C-1 factors, this outcome requires fundamental modeling work to derive new factors.

Outcome: model asset individually



- This outcome means that each asset within this asset class needs to be modeled individually in order to generate a C-1 factor.
- In practice, this is currently how non-agency RMBS and CMBS are treated. The modeling work is done by the Structured Securities Group to determine the NAIC designation, after which point corporate bond factors are used. This is functionally similar to modeling each RMBS and CMBS security individually to determine its C-1 factor.
- Because of the significant operational complexity involved, this outcome is a last resort.

Structured Securities C-1 Principles

Glossary of Terms

- **ABS**: bonds falling within the emerging definition of ABS in SSAP 26, most recently exposed November 16, 2022
- **Vertical Slice**: an investment in all tranches of an ABS in equal proportion to the total outstanding
- **RBC-transformative ABS**[1]: ABS where a vertical slice draws a lower aggregate C-1 requirement, considering only base factors (before portfolio adjustment and covariance adjustment), than its underlying collateral would draw if held directly by a life insurer
- **RBC Arbitrage (narrower)**: Holding a vertical slice of an RBC-transformative ABS
- **RBC Arbitrage (broad)**: Holding any part of an RBC-transformative ABS

1. Conversely, one could then define RBC-neutral ABS as ABS where a vertical slice draws aggregate C1 equal to that which would be drawn by its underlying collateral

Candidate-Principle #1.
The RBC Formula Is a Blunt Filtering Tool

- **The purpose of RBC is to help regulators identify weakly capitalized insurers, therefore small inaccuracies in RBC formulaic requirements will seldom justify a change to the RBC formula**
  - A structure that is close to RBC-neutral may not require a change in C-1 requirements.
  - Small allocations to RBC-transformative ABS may not require a change in C-1 requirements.
  - Small allocations to RBC-transformative ABS at the industry level will not avoid regulatory scrutiny.

Candidate-Principle #2.
RBC Is Based on Statutory Accounting

- **RBC measures the impact of risk on statutory surplus. Changes in accounting treatment will affect C-1 requirements**
  - All else equal, assets that are marked to market ("MTM") may have higher C-1 requirements because C-1 on MTM assets incorporates price fluctuations in addition to credit losses.

Candidate-Principle #3.
C-1 Established for Underlying Collateral

- **RBC arbitrage can only be measured for ABS where the underlying collateral has an established asset-class-specific C-1 requirement**
  - ABS collateral may include unrated debt securities that would be either NAIC-6 or non-admitted if held directly by insurers—NAIC-6 assets draw a 30% pre-tax C-1 factor regardless of risk.
  - This unrated collateral, often non-corporate, typically does not have an established asset-class-specific framework for assigning C-1 (e.g., auto loans or credit card receivables).
  - ABS including such collateral is very often RBC-transformative because it converts NAIC-6 or non-admitted assets into rated paper.
  - Because the underlying collateral does not have an established asset-class-specific C-1 requirement, forcing C-1 on the ABS to be RBC-neutral would likely result in a C-1 requirement that is more conservative than C-1 for comparable risk in other asset classes.

Candidate-Principle #4.
Intentions Don't Matter For C-1 Requirements

- **The motivation behind creating an ABS structure should have no bearing on its C-1 requirements.** Even a structure designed with the explicit intent of reducing C-1 requirements should be treated like any other ABS. C-1 requirements represent a quantitative assessment of risk.
  - For many structures, it may be impractical or even impossible to objectively determine the intention of the design.
  - Even structures not designed to reduce C-1 may nevertheless lead to insufficient C-1 requirements.

Candidate-Principle #5.
C-1 Requirements Reflect Likely Future Trading Activity

- **C-1 requirements on ABS should treat the collateral as a dynamic pool of assets, incorporating future trading activity that is likely to occur based on historical data or mandated by the structure's legal documents.**
  - If C-1 requirements on ABS acknowledge the evolving nature of the collateral pool, the total C-1 of the structure may not equal the C-1 of a snapshot of the collateral pool at any one point in time.
  - Specific to CLOs, management of the collateral is a known factor impacting risk that can be modeled with reference to historical data.
  - While the Academy supports this candidate-principle, we acknowledge that the current C-1 framework generally does not incorporate likely future changes to a portfolio, except indirectly in cases where Credit Rating Providers have assigned a rating that incorporates assumptions about portfolio management.
  - The RBCIRE WG have expressed concerns with incorporating active management in C-1 requirements for CLOs.
  - This candidate-principle does not imply incorporating credit selection on the part of the ABS manager. In other words, this candidate-principle is separate from the concept of active management as commonly understood.

Candidate-Principle #6.
C-1 Requirement for Each Tranche Is Independent

- **RBC is based on the holdings of an insurer; assets not owned by an insurer should not impact its RBC**
  - This principle would imply RBC arbitrage depends on which tranche is held, even if an insurer holds a tranche issued by an RBC-transformative ABS.
  - This principle would imply that RBC arbitrage exists only in the tranches whose C-1 requirement is inadequate relative to the measured risk.
  - This principle would avoid tainting an entire structure with the label of RBC arbitrage in cases where C-1 is already sufficient for the particular tranche held by an insurer.
  - One practical drawback to this principle is it requires measuring risk at each tranche. The broad definition is simpler; showing that a structure is RBC-transformative is sufficient to identify RBC arbitrage per the broad definition. However, a C-1 requirement is still needed for each tranche held by an insurer, so the apparent simplicity under the broad definition is illusory.

Candidate-Principle #7.
Different Risk Measures

- Each C-1 factor is based on the asset class's risk profile. However, the risk profile for at least some ABS is quite different from the risk profile for bonds. Therefore, **C-1 requirements for ABS** should be calibrated to **different risk measures** where appropriate.
  - In our December 2022 report to RBCIRE WG, the Academy recommended adopting a different risk measure for CLOs—Conditional Tail Expectation ("CTE")—because CTE may better capture tail risk inherent in CLOs.
  - While different risk *measures* are appropriate, each asset's C-1 factor aims for a similar *magnitude*. For example, because most bonds use a 96th percentile, a CTE-96 for CLOs would be overly conservative. CTE-90 would be more consistent with the 96th percentile.
  - It is impossible to simultaneously reject this candidate-principle and require that all ABS structures are RBC-neutral, because in this case the collateral and the ABS would have C-1 requirements set to different statistical safety levels.

Summary of Candidate-Principles

1. The purpose of RBC is to help regulators identify weakly capitalized insurers, therefore small inaccuracies in RBC requirements may not justify a change to the RBC formula.
2. RBC measures the impact of risk on statutory surplus. Changes in accounting treatment will affect C-1 requirements.
3. RBC arbitrage can only be measured for ABS where the underlying collateral has an established asset-class-specific C-1 requirement.
4. The motivation behind creating an ABS structure should have no bearing on its C-1 requirements.
5. C-1 requirements on ABS should treat the collateral as a dynamic pool of assets, incorporating future trading activity that is likely to occur based on historical data or mandated by the structure's legal documents.
6. RBC is based on the holdings of an insurer; assets not owned by an insurer should not impact its RBC.
7. C-1 requirements for ABS should be calibrated to different risk measures where appropriate.

Key Questions for Regulators

- Which candidate-principles do regulators support?
- Are there additional principles not outlined herein that also ought to be incorporated into RBC for ABS?

Appendix A—RBC Arbitrage

Impact of Principles on Definition of RBC Arbitrage

- By discussing broader principles, this presentation seeks to spark conversation on the definition of Risk-Based Capital (RBC) arbitrage in Asset Backed Securities (ABS) and clarify the implications of conflicting RBC arbitrage definitions.
- The NAIC's Investment Analysis Office (IAO) has proposed a constraint in the model used to determine designations, and therefore RBC requirements, for CLOs. This constraint would eliminate RBC arbitrage, as defined by the IAO, that the IAO believes is present in CLOs.
- Competing definitions among interested parties and regulators have been used in some formal and informal discussions, so far without a forum for being discussed directly.
- This presentation attributes differences in RBC arbitrage definitions to underlying principles of RBC. The C1WG is requesting guidance from regulators on which principles should be followed. Once the principles have been identified, RBC arbitrage can be more clearly defined and more effectively mitigated. These principles will also guide a broader effort around improving the C-1 framework for all ABS.

Asset Classes With Greatest Potential for RBC Arbitrage

	Tranched	Pass-Through
Established asset-class-specific C-1	CLO Non-Agency RMBS/CMO CMBS CFO	Agency RMBS
No established asset-class-specific C-1	Consumer Finance Asset-based Lending Credit feeder fund	

- Quantifying RBC arbitrage is most direct when the underlying collateral has an explicit C-1 factor
- Tranched structures are more likely to produce RBC arbitrage than pass-through structures because tranching transforms risk
- RBC arbitrage discussions should focus on tranched structures with established asset-class-specific C-1

Definitions of RBC Arbitrage

- IAO has expressed its view that holding **any tranche** of a securitization whose vertical slice carries a different aggregate C-1 requirement compared to the underlying collateral constitutes RBC arbitrage—we term this the **broad**[1] definition of RBC arbitrage
- An alternative, **narrower**[1] definition of RBC arbitrage includes only instances where an insurer holds a **vertical slice**[1]
- Many other possible definitions lie somewhere in between

1. Please see Appendix B—Definitions of Terms for precise definitions of technical terms.

IAO Usage of the Term "RBC Arbitrage"

- A letter from IAO to VOSTF dated May 25, 2022, introduces the concept of RBC arbitrage within the context of CLOs: "The aggregate RBC factor for owning all of the CLO tranches should be the same as that required for owning all of the underlying loan collateral. If it is less, it means there is RBC arbitrage."
- SVO's Structured Equity & Funds Proposal dated November 28, 2022, also uses the term "RBC arbitrage" with effectively the same meaning but expanding the scope from CLOs to include certain feeder fund structures.

Academy Usage of "RBC Arbitrage"

- In our presentation to RBCIREWG dated December 14, 2022, the Academy disagreed with the concept that the existence of RBC arbitrage, as defined by IAO, necessarily implied an incorrect C-1 requirement
- The Academy believes dialogue among all parties will be improved if we first collectively agree on a definition of RBC arbitrage before discussing its implications for C-1 requirements

Related Regulatory Concerns

- IAO has also pointed out the possibility of RBC-transformative ABS being used to reclassify investments to technically comply with investment limits set forth in state insurance law, for example converting equity to debt for statutory purposes
- RBC-transformative ABS may also be used to reclassify investment returns or losses from an accounting perspective
- While we acknowledge these related potential issues, this presentation focuses only on C-1 implications of RBC-transformative ABS

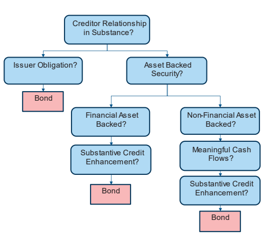
Appendix B—Definitions of Terms

ABS Definition

- RBC arbitrage discussions typically involve structured securities, for example CLOs and rated note feeder fund structures.
- Within this presentation, we refer to all such structured securities as **ABS**, and we intend for the definition of ABS to align with the emerging definition of ABS in **SSAP 26**, most recently exposed November 16, 2022. Under this definition, ABS has a primary purpose of raising debt capital backed by collateral that provides the cash flows to service the debt.

ABS Definition, Continued

Bond Principles Flowchart



- Exposed principles-based definition of ABS is illustrated here
- Image taken from "Assets: Regulatory Updates in Life Insurance" April 4, 2023, webinar by the American Academy of Actuaries

Vertical Slice Definition

A vertical slice is an investment in all tranches of an ABS in equal proportion to the total outstanding. A vertical slice is economically equivalent to a direct investment in the underlying collateral at any one point in time.

RBC-Transformative ABS Definition

An RBC-transformative ABS is any ABS where a vertical slice draws a lower aggregate C-1 requirement than its underlying collateral would draw if held directly by a life insurer.

Narrowly Defined RBC Arbitrage

- **Holding a vertical slice of an RBC-transformative ABS** constitutes RBC arbitrage under the narrow definition.
- In this case, it is unambiguously true that absent the structure of the ABS a life insurer would be required to hold a higher level of C-1 capital.
- Even under the narrow definition of RBC arbitrage, C-1 requirements for the collateral may be inappropriately high rather than the ABS C-1 requirements being inappropriately low. Also, C-1 for the ABS and its collateral may be calibrated precisely to the prescribed risk measures despite the ABS being RBC-transformative. Regardless, in such cases holding a vertical slice of an RBC-transformative ABS would still constitute RBC arbitrage.

Broadly Defined RBC Arbitrage

- **Holding any part of an RBC-transformative ABS** constitutes RBC arbitrage under the broad definition
- For example, any CLO holdings would constitute RBC arbitrage under this definition, because CLOs are an RBC-transformative ABS (as discussed in the Academy's December 2022 presentation to RBCIREWG)
- IAO letters written to VOSTF during 2022 employ the broad definition of RBC arbitrage

QUESTIONS

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

CAPITAL ADEQUACY (E) TASK FORCE
WORKING AGENDA ITEMS FOR CALENDAR YEAR 2023

2023 #	Owner	2023 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
Ongoing Items – Life RBC							
L1	Life RBC WG	Ongoing	Ongoing	Make technical corrections to Life RBC instructions, blank and /or methods to provide for consistent treatment among asset types and among the various components of the RBC calculations for a single asset type.			
L2	Life RBC WG	1	2023 or later	1. Monitor the impact of the changes to the variable annuities reserve framework and risk-based capital (RBC) calculation and determine if additional revisions need to be made. 2. Develop and recommend appropriate changes including those to improve accuracy and clarity of variable annuity (VA) capital and reserve requirements.	CADTF	Being addressed by the Variable Annuities Capital and Reserve (E/A) Subgroup	
L3	Life RBC WG	1	2023 or later	Provide recommendations for the appropriate treatment of longevity risk transfers by the updated longevity factors and consider expanding the scope to include all payout annuities.	New Jersey	Being addressed by the Longevity (E/A) Subgroup	
L4	Life RBC WG	1	2023 or later	Monitor the economic scenario governance framework, review material economic scenario generator updates, key economic conditions and metrics, support the implementation of an economic scenario generator for use in statutory reserve and capital calculations and develop and maintain acceptance criteria		Being addressed by the Generator of Economic Scenarios (GOES) (E/A) Subgroup	
Carryover Items Currently being Addressed – Life RBC							
L4	Life RBC WG	1	2023 or later	Update the current C-3 Phase I or C-3 Phase II methodology to include indexed annuities with consideration of contingent deferred annuities as well	AAA		
L5	Life RBC WG	1	2023 or later	Review companies at action levels, including previous years, to determine what drivers of the events are and consider whether changes to the RBC statistics are warranted.			
L6	Life RBC WG	1	2023 or later	Work with the Academy on creating guidance for the adopted C-2 mortality treatment for 2023 and next steps.			
2023 #	**Owner**	**2023 Priority**	**Expected Completion Date**	**Working Agenda Item**	**Source**	**Comments**	**Date Added to Agenda**
Ongoing Items – RBC IR & E							
Carryover Items Currently being Addressed – RBC IR &E							
IR1	RBC IRE	2	2023 or later	Supplementary Investment Risks Interrogatories (SIRI)	**Referred from CADTF**	The Task Force received the referral on Oct. 27. This referral will be tabled until the bond factors have been adopted and	**1/12/2022** 11/19/2020

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					Referral from Blackrock and IL DOI	the TF will conduct a holistic review all investment referrals.	
IR2	RBC IRE	2	2023 or later	NAIC Designation for Schedule D, Part 2 Section 2 - Common Stocks Equity investments that have an underlying bond characteristic should have a lower RBC charge. Similar to existing guidance for SVO-identified ETFs reported on Schedule D-1, are treated as bonds.	**Referred from CADTF** Referral from SAPWG 8/13/2018	10/8/19 - Exposed for a 30-day Comment period ending 11/8/2019 3-22-20 - Tabled discussion pending adoption of the bond structure and factors.	**1/12/2022** 10/11/2018
IR3	RBC IRE	2	2023 or later	Structured Notes - defined as an investment that is structured to resemble a debt instrument, where the contractual amount of the instrument to be paid at maturity is at risk for other than the failure of the borrower to pay the contractual amount due. Structured notes reflect derivative instruments (i.e. put option or forward contract) that are wrapped by a debt structure.	**Referred from CADTF** Referral from SAPWG April 16, 2019	10/8/19 - Exposed for a 30-day Comment period ending 11/8/2019 3-22-20 - Tabled discussion pending adoption of the bond structure and factors.	**1/12/2022** 8/4/2019
IR4	RBC IRE	2	2023 or later	Comprehensive Fund Review for investments reported on Schedule D Pt 2 Sn2	**Referred from CADTF** Referral from VOSTF 9/21/2018	Discussed during Spring Mtg. NAIC staff to do analysis. 10/8/19 - Exposed for a 30-day comment period ending 11/8/19 3-22-20 - Tabled discussion pending adoption of the bond structure and factors.	**1/12/2022** 11/16/2018
New Items – RBC IR & E							
IR5			2023 or later	Evaluate the appropriate RBC treatment of Asset-Backed Securities (ABS), including Collateralized Loan Obligations (CLO), collateralized fund obligations (CFOs), or other similar securities carrying similar types of tail risk (Complex Assets).	Request from E Committee, SAPWG, VOSTF	Per the request of E Committee comments were solicited asking if these types of assets should be considered a part of the RBC framework.	1/12/2022
IR6			2023 or later	Evaluate the appropriate RBC treatment of Residual Tranches.	Request from E Committee, SAPWG, VOSTF	Per the request of E Committee comments were solicited asking if these types of assets should be considered a part of the RBC framework.	1/12/2022
IR7			2025 or later	Phase 2 Bond analysis - evaluate and develop an approach to map other ABS to current bond factors following the established principles from Phase I where the collateral has an assigned RBC. This project will likely require an outside consultant and the timeline could exceed 2-3 years.	Request from E Committee	Per the request of E Committee comments were solicited requesting the need for outside review.	1/12/2022
IR8	RBC IRE		2023 or later	Address the tail risk concerns no captured by reserves for privately structured securities.	Referral from the Macroprudential (E) Working Group		8/11/2022

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2023 #	Owner	2023 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
				Ongoing Items – P&C RBC			
P1	Cat Risk SG	1		Continue development of RBC formula revisions to include a risk charge based on catastrophe model output:			
			Year-end 2023 or later	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	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.	4/26/2021
				Carryover Items Currently being Addressed – P&C RBC			
P2	P&C RBC WG	1	Year-end 2020 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.	Refer from Operational Risk Subgroup	1) Sent a referral to the Academy on 6/14/18 conference call.	1/25/2018
P3	P&C RBC WG	1	2023 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.			6/10/2019
P4	P&C RBC WG	1	2023 Summer Meeting or later	Evaluate the Underwriting Risk Line 1 Factors in the P/C formula.			7/30/2020

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~~P7~~	~~PCRBCWG~~	~~1~~	~~2023 Spring Meeting~~	~~Changing the RBC PR035 Line of Business categories to match the Lines of Business categories in the Annual Statement, Underwriting and Investment Exhibit, Part 1B.~~	~~-~~	~~8/9/22 - The WG exposed proposal 2022-07-P for a 30-day comment period.~~	~~7/7/2022~~
P5	PCRBCWG	1	Ongoing	Review and analyze the P/C RBC charges that have not been reviewed since developed.			3/23/2023
P6	Cat Risk SG	1	2024 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 the wildfire peril			3/21/2023
P7	Cat Risk SG	2	2025 Spring Meeting	Evaluate the impact of flood peril to the insurance market			3/21/2023
New Items – P&C RBC							
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.			7/27/2023
2023 #	**Owner**	**2023 Priority**	**Expected Completion Date**	**Working Agenda Item**	**Source**	**Comments**	**Date Added to Agenda**
Ongoing Items – Health RBC							
X1	Health RBC WG	Yearly	Yearly	Evaluate the yield of the 6-month U.S. Treasury Bond as of Jan. 1 each year to determine if further modification to the Comprehensive Medical, Medicare Supplement and Dental and Vision underwriting risk factors is required. Any adjustments will be rounded up to the nearest 0.5%.	HRBCWG	Adopted 2022-16-CA (YE-2023)	11/4/2021
X2	Health RBC WG	3	Ongoing	Continue to monitor the Federal Health Care Law or any other development of federal level programs and actions (e.g., state reinsurance programs, association health plans, mandated benefits, and cross-border) for future changes that may have an impact on the Health RBC Formula.	4/13/2010 CATF Call	Adopted 2014-01H Adopted 2014-02H Adopted 2014-05H Adopted 2014-06H Adopted 2014-24H Adopted 2014-25H Adopted 2016-01-H Adopted 2017-09-CA Adopted 2017-10-H The Working Group will continually evaluate any changes to the health formula because of ongoing federal discussions and legislation. Discuss and monitor the development of federal level programs and the potential impact on the HRBC formula.	1/11/2018
Carryover Items Currently being Addressed – Health RBC							

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X3	Health RBC WG	2	Year-End 2024 RBC or Later	Consider changes for stop-loss insurance or reinsurance.	AAA Report at Dec. 2006 Meeting	(Based on Academy report expected to be received at YE-2016) 2016-17-CA Adopted proposal 2023-01-CA	
X4	Health RBC WG	2	Year-end 2024 RBC or later	Review the individual factors for each health care receivables line within the Credit Risk H3 component of the RBC formula. Work with the American Academy of Actuaries (Academy) to inquire through the NAIC on the reporting of the health care receivables to better understand why these receivables are being reported as such. With the intention to produce recommendations to improve instruction clarity or provide additional guidance.	HRBC WG	Adopted 2016-06-H Rejected 2019-04-H Annual Statement Guidance (Year-End 2020) and Annual Statement Blanks Proposal (Year-End 2021) referred to the Blanks (E) Working Group	
				.			
X5	Health RBC WG	1	Year-end 2024 RBC or later	Work with the Academy to perform a comprehensive review of the H2 - Underwriting Risk component of the health RBC formula including the Managed Care Credit review (Item 18 above) Review the Managed Care Credit calculation in the health RBC formula - specifically Category 2a and 2b. Review Managed Care Credit across formulas. As part of the H2 - Underwriting Risk review, determine if other lines of business should include investment income and how investment income would be incorporated into the existing lines if there are changes to the structure.	HRBCWG	Review the Managed Care Category and the credit calculated, more specifically the credit calculated when moving from Category 0 & 1 to 2a and 2b.	4/23/2021 12/3/2018
X6	Health RBC WG	1	Year-end 2024 or later	Review referral letter from the Operational Risk (E) Subgroup on the excessive growth charge and the development of an Ad Hoc group to charge.	HRBCWG	Review if changes are required to the Health RBC Formula	4/7/2019
X7	Health RBC WG	2	Year-End 2024 or later	Consider the impact of COVID-19 and pandemic risk in the health RBC formula.	HRBCWG		7/30/2020
X8	Health RBC WG	3	Year-End 2025 or later	Discuss and determine the re-evaluation of the bond factors for the 20 designations.	Referral from Investment RBC July/2020	Working Group will use two- and five-year time horizon factors in 2020 impact analysis. Proposal 2021-09-H - Adopted 5/25/21 by the WG	9/11/2020
New Items – Health RBC							
2023 #	**Owner**	**2023 Priority**	**Expected Completion Date**	**Working Agenda Item**	**Source**	**Comments**	**Date Added to Agenda**
Ongoing Items – Task Force							

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CA1	CADTF	2	2023	Affiliated Investment Subsidiaries Referral Ad Hoc group formed Sept. 2016	Ad Hoc Group	Structural and instructions changes will be exposed by each individual working group for comment in 2022 with an anticipated effective date of 2023. Proposal 2022-09-CA was adopted at the 2022 Summer Meeting. Proposal 2022-09-CA MOD was adopted at the 2023 Spring Meeting.	
Carryover Items Currently being Addressed – Task Force							
CA2			Ongoing	All investment related items referred to the RBC Investment Risk & Evaluation (E) Working Group			1/12/2022
CA3	CADTF	3	Ongoing	Receivable for Securities factor		Consider evaluating the factor every 3 years. (2021, 2024, 2027, etc.) **Factors are exposed for comment. Comments due May 28, 2021 for consideration on June 30th.** Factors Adopted for 2021.	
New Items –Task Force							
CA4	CADTF	1	2023	Evaluate if changes should be made to RBC formulas to better assess companies in runoff	PCRBCWG	TF shared the referral to the Life and Health RBC WGs at the summer meeting. TF forwarded the responses to the RMSG at the Spring meeting.	8/11/2022
CA5	CADTF	1	2023	Update the Health Premiums and Underwriting Risk Premium References to match the Annual Statement Schedule H, Part 1, and Part 5 references	2021-14-BWG	TF adopted the proposal 2022-13-CA at the Spring meeting.	11/30/2022
CA6	CADTF	1	2026 or later	Established the Risk Evaluation Ad Hoc Group to: a) Evaluate the RBC factors; b) Potentially develop an evaluating process; c) Prioritize those factors that require reviewing.		7/26/23 – the Risk Evaluation Ad Hoc Group established 3 Ad Hoc Subgroup to focus on different issues: 1) RBC Purposes & Guidelines Ad Hoc Subgroup; 2) Asset Concentration Ad Hoc Subgroup; and 3) Geographic Concentration Ad Hoc Subgroup.	03/23/2023

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