

## Capital Adequacy (E) Task Force

### RBC Proposal Form

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

<p style="text-align: right;"><b>DATE:</b> <u>7-12-17</u></p> <p><b>CONTACT PERSON:</b> <u>Crystal Brown</u></p> <p><b>TELEPHONE:</b> <u>816-783-8146</u></p> <p><b>EMAIL ADDRESS:</b> <u>cbrown@naic.org</u></p> <p><b>ON BEHALF OF:</b> <u>Health RBC (E) Working Group</u></p> <p><b>NAME:</b> <u>Patrick McNaughton</u></p> <p><b>TITLE:</b> <u>Chief Financial Examiner/Chair</u></p> <p><b>AFFILIATION:</b> <u>WA Office of Insurance Commissioner</u></p> <p><b>ADDRESS:</b> <u>PO Box 40255</u> <u>Olympia, WA 98504-0255</u></p>	<p style="text-align: center;"><b><u>FOR NAIC USE ONLY</u></b></p> <p>Agenda Item # <u>2017-10-H</u></p> <p>Year <u>2018</u></p> <p style="text-align: center;"><b><u>DISPOSITION</u></b></p> <p><input type="checkbox"/> ADOPTED _____</p> <p><input type="checkbox"/> REJECTED _____</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input checked="" type="checkbox"/> EXPOSED <u>9-8-17</u></p> <p><input type="checkbox"/> OTHER (SPECIFY) _____</p>
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#### IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

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

#### DESCRIPTION OF CHANGE(S)

Delete lines (4), (5), (10) and (11) for the break out of the Recoverables on Paid and Unpaid Losses for ACA and Non-Affiliates. Update instructions to remove the instructions for the ACA reinsurance.

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

The reinsurance program established under the Federal ACA program ended at year-end 2016. As a result, the ACA lines can be removed from the Credit Risk page.

#### Additional Staff Comments:

8-7-17 cgb The HRBCWG exposed the proposal for a 30-day comment period ending 9-8-17

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

Revised 11-2013

**CREDIT RISK**  
XR019

**Reinsurance Ceded – L(1) through L(21)**

There is a credit risk associated with recoverability of amounts due from reinsurers. However, reinsurance with wholly owned subsidiaries is exempt from RBC requirements because affiliate risk is addressed elsewhere in the Health RBC formula. The RBC requirement is 0.5 percent of the annual statement value of recoverables, unearned premiums, and other reserve credits.

The annual statement references for reinsurance recoverables (paid and unpaid) come from Schedule S, Part 2. The annual statement references for unearned premiums and other reserve credits are in Schedule S, Part 3. ~~The annual statement reference for reinsurance recoverables related to the federal Affordable Care Act (ACA) should be reported in Line (4) and Line (10) and excluded from Line (3) and Line (9).~~

**CREDIT RISK**

		(1)	(2)
	<u>Annual Statement Source</u>	<u>Amount</u>	<u>Factor RBC Requirement</u>
<b>Reinsurance Ceded</b>			
(1)	Recoverables on Paid Losses - 100% Owned Affiliates	Included in Sch S, Pt 2, Col 6, Line 1899999	
(2)	Recoverables on Paid Losses - Other Affiliates	Included in Sch S, Pt 2, Col 6, Line 1899999	0.005
(3)	Recoverables on Paid Losses - Non-Affiliates <del>(Excluding ACA Rein</del> Included in Sch S, Pt 2, Col 6, Line 2199999		0.005
(4)	<del>Recoverables on Paid Losses—Affordable Care Act</del>	<del>Notes to Financial Statement 24E(2)b1</del>	
(5)	<del>Recoverables on Paid Losses—Non-Affiliates—</del>	<del>Lines (3) + (4)</del>	<del>0.005</del>
(4)	Total Recoverables on Paid Losses	Lines (1) + (2) + (3)	
		(Sch S, Pt 2, Col 6, Line 2299999)	
(5)	Recoverables on Unpaid Losses - 100% Owned Affiliates	Included in Sch S, Pt 2, Col 7, Line 1899999	
(6)	Recoverables on Unpaid Losses - Other Affiliates	Included in Sch S, Pt 2, Col 7, Line 1899999	0.005
(7)	Recoverables on Unpaid Losses - Non-Affiliates <del>(Excluding ACA R</del> Included in Sch S, Pt 2, Col 7, Line 2199999		0.005
(10)	<del>Recoverables on Unpaid Losses—Affordable Care Act</del>	<del>Notes to Financial Statement 24E(2)b2</del>	
(11)	<del>Recoverables on Unpaid Losses—Non-Affiliates—</del>	<del>Lines (9) + (10)</del>	<del>0.005</del>
(8)	Total Recoverables on Unpaid Losses	Lines (5) + (6) + (7)	
		(Sch S, Pt 2, Col 7, Line 2299999)	
(9)	Unearned Premiums - 100% Owned Affiliates	Included in Sch S, Pt 3, Sn 2, Col 9, Line 0799999 + Line 1899999+Line 2999999	
(10)	Unearned Premiums - Other Affiliates	Included in Sch S, Pt 3, Sn 2, Col 9, Line 0799999 + Line 1899999 + Line 2999999	0.005
(11)	Unearned Premiums - Non-Affiliates	Included in Sch S, Pt 3, Sn 2, Col 9, Line 1099999 + Line 2199999 + Line 3299999	0.005
(12)	Total Unearned Premiums	Lines (9) + (10) + (11)	
(13)	Other Reserve Credits - 100% Owned Affiliates	Included in Sch S, Pt 3, Sn 2, Col 10, Line 0799999 + Line 1899999 + 2999999	
(14)	Other Reserve Credits - Other Affiliates	Included in Sch S, Pt 3, Sn 2, Col 10, Line 0799999 + Line 1899999 + Line 2999999	0.005
(15)	Other Reserve Credits - Non-Affiliates	Included in Sch S, Pt 3, Sn 2, Col 10, Line 1099999 + Line 2199999 + Line 3299999	0.005
(16)	Total Other Reserve Credits	Lines (13) + (14) + (15)	
(17)	Total Reinsurance RBC	L(4)+L(8)+L(12)+L(16)	
<b>Capitations to Intermediaries</b>			
(18)	Total Capitations Paid Directly to Providers	XR017, Col (2), Line (5)	
(19)	Less Secured Capitations to Providers	Company Records	0.000
(20)	Capitation to Providers Subject to Credit Risk Charge	L(18)-L(19)	0.020
(21)	Total Capitations to Intermediaries	XR017, Col (2), Line (6)+(7)	
(22)	Less Secured Capitations to Intermediaries	Company Records	
(23)	Capitations to Intermediaries Subject to Credit Risk Charge	L(21)-L(22)	0.040
(24)	Capitation Credit Risk RBC	L(20)+L(23)	

Denotes items that must be manually entered on filing software.

## CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

(1)


RBC Amount

### H3 - CREDIT RISK

(28)	Total Reinsurance RBC	XR019, Credit Risk Page, <b>L(17)</b>	_____
(29)	Intermediaries Credit Risk RBC	XR019, Credit Risk Page, <b>L(24)</b>	_____
(30)	Total Other Receivables RBC	XR020, Credit Risk Page, L(34)	_____
(31)	Total H3	Sum L(28) through L(30)	=====

### H4 - BUSINESS RISK

(32)	Administrative Expense RBC	XR021, Business Risk Page, L(7)	_____
(33)	Non-Underwritten and Limited Risk Business RBC	XR021, Business Risk Page, L(11)	_____
(34)	Premiums Subject to Guaranty Fund Assessments	XR021, Business Risk Page, L(12)	_____
(35)	Excessive Growth RBC	XR021, Business Risk Page, L(19)	_____
(36)	Total H4	Sum L(32) through L(35)	=====
(37)	RBC after Covariance Before Basic Operational Risk	$H0 + \text{Square Root of } (H1^2 + H2^2 + H3^2 + H4^2)$	_____
(38)	Basic Operational Risk	.015 x L(37)	_____
(39)	RBC After Covariance Including Basic Operational Risk	L(37) + L(38)	_____
(40)	Authorized Control Level RBC	.50 x L(39)	_____

 Denotes items that must be manually entered on filing software.