

Capital Adequacy (E) Task Force

RBC Proposal Form

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

DATE: <u>1/27/17</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Paul Graham</u>	Agenda Item # <u>2017-02-L</u>
TELEPHONE: <u>(202) 624-2164</u>	Year <u>2017</u>
EMAIL ADDRESS: <u>PaulGraham@acli.com</u>	<u>DISPOSITION</u>
ON BEHALF OF: _____	<input type="checkbox"/> ADOPTED _____
NAME: _____	<input type="checkbox"/> REJECTED _____
TITLE: _____	<input type="checkbox"/> DEFERRED TO _____
AFFILIATION: <u>ACLI</u>	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP
ADDRESS: <u>101 Constitution Ave, NW</u>	<input checked="" type="checkbox"/> EXPOSED <u>1/27/17, 3/24/17, 6/9/17</u>
<u>Washington, DC 20001</u>	<input type="checkbox"/> OTHER (SPECIFY) _____

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

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

DESCRIPTION OF CHANGE(S)

The proposal includes changes to the instructions for LR031 Calculation of Authorized Control Level RBC and LR036 XXX/AXXX Reinsurance Primary Security Shortfall By Cession. This includes a column heading change to the LR036 schedule.

REASON OR JUSTIFICATION FOR CHANGE **

The proposal makes changes needed due to the adoption of the NAIC Term and Universal Life Insurance Reserve Financing Model Regulation.

Additional Staff Comments:

** This section must be completed on all forms.

Revised 11-2013

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

LR031

Basis of Factors

The purpose of the formula is to estimate the risk-based capital levels required to manage losses that can be caused by a series of catastrophic financial events. However, it is remote that all such losses will occur simultaneously. The covariance adjustment states that the combined effect of the C-1o, C-1cs, C-2 and C-3 and a portion of the C-4 risks are not equal to their sum but are equal to the square root calculation described below. It is statistically assumed that the C-1o risk and a portion of the C-3 risk are correlated, while the C-1cs risk, the C-2 risk, the balance of the C-3 risk and a portion of the C-4 risk are independent of both. The split of the C-3 and C-4 risks allows for general consistency with the health RBC formula. This assumption provides a reasonable approximation of the capital requirements needed at any particular level of losses.

Authorized Control Level Risk-Based Capital is 50 percent of the sum of items A plus B where:

“A” equals C-0 plus the C-4a risk-based capital and the square root of the sum of the C-1o and C-3a risk-based capital squared, the C-1cs and C-3c risk-based capital squared, the C-2 risk-based capital squared, the C-3b risk-based capital squared and the C-4b risk-based capital squared and,

“B” equals the greater of zero and the amount of Primary Security shortfalls for all cessions covered by Actuarial Guideline XLVIII (AG 48) multiplied by two.

The intent of this addend is to produce a dollar for dollar increase in the Authorized Control Level for the total of the AG 48 Primary Security shortfall. This Authorized Control Level increase for the amount of Primary Security shortfall applies to all insurers and all cessions of Covered Policies as defined in AG 48, that do not fall within an exemption set forth in AG 48, regardless of whether a state may have chosen to waive all or part of AG 48. For example, if a cession is of Covered Policies and no exemption is available under the terms of AG 48 for a particular insurer or transaction, but a state nevertheless determines that the insurer or Appointed Actuary will not be required to comply in full with the Guideline, then for RBC a computation of shortfall, if any, will still be required and an increase to Authorized Control Level for any such shortfall will still apply. This calculation is not required for cessions covered by the state equivalent of the NAIC Term and Universal Life Insurance Reserve Financing Model Regulation (Model #787) so long as the state equivalent regulation has the following similarities to Model #787: the same definition of Primary Security, the same definition of Required Level of Primary Security, the same definition of Covered Policies, the same Exemptions (Section 4), the same Actuarial Method (Section 6), and the same requirement that cessions without sufficient Primary Security and Other Security (Sections 7A3 and 7A4) must directly establish a liability for the difference between the credit for reinsurance taken and the actual Primary Security held.

The information reported should be consistent with the information that will be included in Part 2B, Columns 13, 14, 15, and 19, of the annual statement Supplemental Term and Universal Life Insurance Reinsurance Exhibit.

Mandatory Control Level Risk-Based Capital is 70 percent of Authorized Control Level Risk-Based Capital.

Specific Instructions for Application of the Formula

All amounts reflected for the calculation of Authorized Control Level Risk-Based Capital will be calculated automatically by the software.

In recognition of the exclusion of the carrying value of Alien Insurance Subsidiaries – Other from Total Adjusted Capital, the carrying value of these entities is also to be excluded from the calculation of C-O risk-based capital.

XXX/AXXX REINSURANCE PRIMARY SECURITY SHORTFALL BY CESSION

LR036

This calculation is not required for cessions covered by the state equivalent of the NAIC Term and Universal Life Insurance Reserve Financing Model Regulation (Model #787) so long as the state equivalent regulation has the following similarities to Model #787: the same definition of Primary Security, the same definition of Required Level of Primary Security, the same definition of Covered Policies, the same Exemptions (Section 4), the same Actuarial Method (Section 6), and the same requirement that cessions without sufficient Primary Security and Other Security (Sections 7A3 and 7A4) must directly establish a liability for the difference between the credit for reinsurance taken and the actual Primary Security held. Such cessions should not be listed. In the event that such a cession also includes policies that are regulated by AG 48, only list the portion of the cession regulated by AG 48.

The information reported for this RBC schedule should be consistent with the information that will be included in Part 2B, Columns 13, 14, 15, and 19 of the annual statement Supplemental Term and Universal Life Reinsurance Exhibit.

Cessions shall be reported on a treaty by treaty basis.

The terms below shall have the following definitions for the purposes of this RBC Schedule:

- A. Actuarial Method: The methodology used to determine the Required Level of Primary Security, as described in Section 5 of AG 48.
- B. Covered Policies: Subject to the exemptions described in Section 3 of AG 48, Covered Policies are those policies of the following policy types: (1) life insurance policies with guaranteed nonlevel gross premiums and/or guaranteed nonlevel benefits, except for flexible premium universal life insurance policies or (2) flexible premium universal life insurance policies with provisions resulting in the ability of a policyholder to keep a policy in force over a secondary guarantee period; provided, however, that Covered Policies shall not include policies that were both (1) issued prior to 1/1/2015 and (2) ceded so that they were part of a reinsurance arrangement, as of 12/31/2014, that would not qualify for exemption as described in Section 3 of AG 48.
- C. Required Level of Primary Security: The dollar amount determined by applying the Actuarial Method to the risks ceded with respect to Covered Policies, but not more than the total reserve ceded.
- D. Primary Security: The following forms of security:
 - 1. Cash meeting the requirements of Section 3.A. of the NAIC Credit for Reinsurance Model Law (Model 785);
 - 2. SVO-listed securities meeting the requirements of Section 3.B. of Model 785, but excluding any synthetic letter of credit, contingent note, credit-linked note or other similar security that operates in a manner similar to a letter of credit, and excluding any securities issued by the ceding insurer or any of its affiliates; and
 - 3. For security held in connection with funds-withheld and modified coinsurance reinsurance arrangements:
 - a. Commercial loans in good standing of CM3 quality and higher;
 - b. Policy Loans; and

c. Derivatives acquired in the normal course and used to support and hedge liabilities pertaining to the actual risks in the policies ceded pursuant to the reinsurance [treaty](#).

- Column 1 – Cession ID
Enter a unique Cession ID for each line (01 – 99).
- Column 2 – NAIC Company Code
Provide the NAIC code of the assuming insurer.
- Column 3 – ID Number
Enter one of the following as appropriate for the assuming insurer being reported on the schedule. See the Schedule S General Instructions for more information on these identification numbers.
- | | |
|---|--------|
| Federal Employer Identification Number | (FEIN) |
| Alien Insurer Identification Number | (AIIN) |
| Certified Reinsurer Identification Number | (CRIN) |
- Column 4 – Name of Company
Provide the name of the assuming insurer.
- Column 5 – Required Level of Primary Security
State the Required Level of Primary Security applicable to the statutory policy reserves as of the current annual statement date.
- Column 6 – Primary Security and [Remediation Adjustments](#)
Reflect the values as of the current annual statement date of the Primary Security as defined in D. above held by or on behalf of the reporting entity. Also reflect any amounts qualifying as [Remediation Adjustments as provided for in AG 48, Section 6.B.1](#):
1. Additional Primary Security added on or before March 1 of the year in which the actuarial opinion is being filed held by or on behalf of the ceding insurer, as security under the [cession](#), on a funds withheld, Trust, or modified coinsurance basis; or
 2. Any liability established equal to some or all of the difference between the Primary Security held pursuant to AG 48, Section 6.A.1 and the Required Level of Primary Security.
- Column 7 – Primary Security Shortfall
For a given cession the Column 7 Primary Security Shortfall equals the greater of (a) zero and (b) Column 5 Required Level of Primary Security less Column 6 Primary Security and [Remediation Adjustments](#). The total for line (9999999) will be doubled and added to line (68) of LR031 Calculation of Authorized

Control Level Risk-Based Capital. The adjustment will result in a dollar for dollar increase in Authorized Control Level for the total of all primary security shortfalls.


XXX/XXX REINSURANCE PRIMARY SECURITY SHORTFALL BY CESSION

(1) (2) (3) (4) (5) (6) (7)

Cession ID NAIC Company Code ID Number Name of Company Required Level of Primary Security Primary Security and ~~Primary Security~~ Remediation Adjustments Primary Security Shortfall

(000001)							
(000002)							
(000003)							
(000004)							
(000005)							
(000006)							
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(000019)							
(000020)							

(999999)							
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 Denotes items that must be manually entered on the filing software.