

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 Op Risk RBC (E) Subgroup
 C3 Phase II/ AG43 (E/A) Subgroup P/C RBC (E) Working Group Stress Testing (E) Subgroup

<p style="text-align: right;">DATE: <u>10/12/2017</u></p> <p>CONTACT PERSON: <u>Lou Felice</u></p> <p>TELEPHONE: <u>212-386-1956</u></p> <p>EMAIL ADDRESS: <u>lfelice@naic.org</u></p> <p>ON BEHALF OF: <u>Operational Risk (E) Subgroup</u></p> <p>NAME: <u>Alan Seeley</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>New Mexico Office of the Super of Ins</u></p> <p>ADDRESS: _____</p>	<p style="text-align: center;"><u>FOR NAIC USE ONLY</u></p> <p>Agenda Item # <u>2017-13-O</u></p> <p>Year <u>2017</u></p> <p style="text-align: center;"><u>DISPOSITION</u></p> <p><input checked="" type="checkbox"/> ADOPTED <u>3-25-18</u></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 _____</p> <p><input type="checkbox"/> OTHER (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

Health RBC Blanks Property/Casualty RBC Blanks Life RBC Instructions
 Fraternal RBC Blanks Health RBC Instructions Property/Casualty RBC Instructions
 Life RBC Blanks Fraternal RBC Instructions OTHER _____

DESCRIPTION OF CHANGE(S)

Life / Fraternal RBC: Add new line 69; renumber subsequent existing lines and line references on page LR031 accordingly; and edit source in renumbered line 70.

P&C RBC: Add new lines 75 and 76 on Page PR032; renumber subsequent existing lines and line references accordingly;

Health RBC: Add new lines 39 and 40 on Page XR025; renumber subsequent existing lines and line references accordingly; and revise the line references on renumbered lines 41 and 42.

REASON OR JUSTIFICATION FOR CHANGE **

Adjustment to the adopted 2017 RBC structural changes to revise the "add-on" methodology for basic operational risk in accordance with direction from the Capital Adequacy (E) Task Force.

Additional Staff Comments:

- Refer to Proposal 2016-13-0 for prior history on basic operational activity.
- Exposed 10/16/16 for 45 days (November 30)
- The Subgroup adopted the structure change on January 25, 2018.
- 03-25-18 cgb The TF adopted the proposal on 3/25/2018.
- _____

Revised 11-2013

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

Life RBC Blank - Op Risk Exposure 10-16-2017

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

	<u>Source</u>	<u>Requirement</u>
<u>Asset Risk - Affiliated Amounts (C-0)</u>		
(1) Affiliated US Property-Casualty Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (1)	\$0
(2) Affiliated US Life Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (2)	\$0
(3) Affiliated US Health Insurers Directly and Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (3)	\$0
(4) Affiliated US Property-Casualty Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (4)	\$0
(5) Affiliated US Life Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (5)	\$0
(6) Affiliated Alien Life Insurers - Canadian	LR042 Summary for Affiliated Investments Column (4) Line (8)	\$0
(7) Affiliated Alien Life Insurers - All Others	LR042 Summary for Affiliated Investments Column (4) Line (9)	\$0
(8) Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (34)	\$0
(9) Total (C-0) - Pre-Tax	Sum of Lines (1) through (8)	\$0
(10) (C-0) Tax Effect	LR030 Calculation of Tax Effect for Life Risk-Based Capital Column (2) Line (120)	\$0
(11) Net (C-0) - Post-Tax	Line (9) - Line (10)	\$0
<u>Business Risk (C-4a)</u>		
(59) Premium Component	LR029 Business Risk Column (2) Lines (12) + (24) + (36)	\$0
(60) Liability Component	LR029 Business Risk Column (2) Line (39)	\$0
(61) Subtotal Business Risk (C-4a) - Pre-Tax	Lines (59) + (60)	\$0
(62) (C-4a) Tax Effect	LR030 Calculation of Tax Effect for Life Risk-Based Capital Column (2) Line (143)	\$0
(63) Net (C-4a) - Post-Tax	Line (61) - Line (62)	\$0
<u>Business Risk (C-4b)</u>		
(64) Health Administrative Expense Component of Business Risk (C-4b) - Pre-Tax	LR029 Business Risk Column (2) Line (57)	\$0
(65) (C-4b) Tax Effect	LR030 Calculation of Tax Effect for Life Risk-Based Capital Column (2) Line (144)	\$0
(66) Net (C-4b) - Post-Tax	Line (64) - Line (65)	\$0
<u>Total Risk-Based Capital After Covariance Before Basic Operational Risk</u>		
(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]	\$0
(68) Gross Basic Operational Risk	0.03 x L(67)	\$0
(69) C-4a of U.S. Life Insurance Subsidiaries	Company records	\$0
(70) Net Basic Operational Risk	Line (68) - (Line (63) + Line 69) (Not less than zero)	\$0
(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	\$0
(72) Total Risk-Based Capital After Covariance (Including Basic Operational Risk and Primary Security Shortfall multiplied by 2)	Line (67) + Line (70) + Line (71)	\$0
<u>Authorized Control Level Risk-Based Capital (After Covariance Adjustment and Shortfall)</u>		
(73) Total Risk-Based Capital After Covariance Times Fifty Percent	Line (72) x 0.50	\$0
<u>Tax Sensitivity Test</u>		
(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]	\$0
(75) Tax Sensitivity Test: Authorized Control Level Risk-Based Capital	Line (74) x 0.50	\$0

P/C RBC Blank - Op Risk Exposure 10-16-2017


R4 - Underwriting Risk - Reserves		PRBC O&I Reference	RBC Amount
(62)	One half of Reinsurance RBC	If R4 L(63)>(R3 L(57) + R3 L(58)), R3 L(58), otherwise, 0	0
(62A)	One half of Reinsurance RBC (For Informational Puposos Only)	If R4 L(63)>(R3 L(57) + R3 L(58A)), R3 L(58A), otherwise, 0	0
(63)	Total Adjusted Unpaid Loss/Expense Reserve RBC	PR017 L(15)C(20)	
(64)	Excessive Premium Growth - Loss/Expense Reserve	PR016 L(13) C(8)	0
(65)	A&H Claims Reserves Adjusted for LCF	PR024 L(5) C(2) + PR023 L(6) C(4)	0
(66)	Total R4	L(62)+L(63)+L(64)+L(65)	0
(66A)	Total R4A (For Informational Puposos Only)	L(62A)+L(63)+L(64)+L(65)	0
R5 - Underwriting Risk - Net Written Premium			
(67)	Total Adjusted NWP RBC	PR018 L(15)C(20)	0
(68)	Excessive Premium Growth - Written Premiums Charge	PR016 L(14)C(8)	0
(69)	Total Net Health Premium RBC	PR022 L(21)C(2)	0
(70)	Health Stabilization Reserves	PR025 L(8)C(2) + PR023 L(3) C(2)	0
(71)	Total R5	L(67)+L(68)+L(69)+L(70)	0
Rcat - Catastrophe Risk			
(72)	Total Rcat	PR027 L(3) C(1)	0
(73)	Total RBC After Covariance Before Basic Operational Risk = $R0 + \text{SQRT}(R1^2 + R2^2 + R3^2 + R4^2 + R5^2 + Rcat^2)$		0
(74)	BasicOperational Risk = .030 x L(73)		0
(75)	C-4a of U.S. Life Insurance Subsidiaries (from Company records)		0
(76)	Net Basic Operational Risk = Line (74) - Line (75) (Not less than zero)		
(77)	Total RBC After Covariance including Basic Operational Risk = L73+ L76		0
(78)	Authorized Control Level RBC including Basic Operational Risk = .5 x L77		0

Health RBC Blank - Op Risk Exposure 10-16-2017

CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

		(1) <u>RBC Amount</u>
H3 - CREDIT RISK		
(28) Total Reinsurance RBC	XR019, Credit Risk Page, L(21)	_____
(29) Intermediaries Credit Risk RBC	XR019, Credit Risk Page, L(28)	_____
(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	.03 x Line (37)	_____
(39) C-4a of U.S. Life Insurance Subsidiaries	Company records	_____
(40) Net Basic Operational Risk	Line (38) - Line (39) (Not less than zero)	_____
(41) RBC After Covariance Including Basic Operational Risk	Line (37) + Line (40)	_____
(42) Authorized Control Level RBC	.50 x Line (41)	_____

XR025

 Denotes items that must be manually entered on filing software.