

Capital Adequacy (E) Task Force

RBC Proposal Form

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|---|---|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input checked="" type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> Investment RBC (E) Working Group | <input type="checkbox"/> Op Risk 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 |

DATE: <u>3/23/2018</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Eva Yeung</u>	Agenda Item # <u>2018-08-CR</u>
TELEPHONE: <u>816-783-8407</u>	Year <u>2018</u>
EMAIL ADDRESS: <u>eveung@naic.org</u>	<u>DISPOSITION</u>
ON BEHALF OF: <u>Catastrophe Risk (E) Subgroup</u>	<input checked="" type="checkbox"/> ADOPTED <u>6/28/18</u>
NAME: <u>Ron Dahlquist</u>	<input type="checkbox"/> REJECTED _____
TITLE: <u>Cat Risk SG Chair</u>	<input type="checkbox"/> DEFERRED TO _____
AFFILIATION: <u>Cat Risk SG</u>	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____
ADDRESS: _____	<input checked="" type="checkbox"/> EXPOSED <u>3/23/18, 4/26/18, 6/13/18</u>
_____	<input type="checkbox"/> OTHER (SPECIFY) _____

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

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

To clarify that the PR027 interrogatory.

REASON OR JUSTIFICATION FOR CHANGE **

The purpose of this change is to make it clear that the PR027 interrogatory must be completed by the filers taking an catastrophe risk charge exemption on either earthquake, hurricane or both.

Additional Staff Comments:

- 3/23/18 – The Catastrophe Risk (E) Subgroup exposed the proposal for a 30-day public comment period ending April 22.
- 4/20/18 – The Chairman of the Subgroup revised the instruction to make it clearer that any company qualifying for exemption must answer the particular questions.
- 4/26/18 – Mr. Dahlquist agreed with the comment from the RAA that “Catastrophe-Prone Areas” should be modified to “Catastrophe-Prone Areas in the U.S.” The updated wordings will be reflected in the proposal. The Subgroup exposed it for a 30-day public comment period ending May 25.
- 6/13/18 – The Catastrophe Risk (E) Subgroup agreed to expose the AIA proposed changes for 7-day public comment period ending June 20.
- 6/22/18 – The Catastrophe Risk (E) Subgroup adopted the proposal. No comment received during the exposure period.
- 6/28/18 – The Capital Adequacy (E) Task Force adopted the proposal.

** This section must be completed on all forms.

Revised 11-2013

**CALCULATION OF CATASTROPHE RISK CHARGE RCAT
PR027**

Detail Eliminated To Conserve Space

The Grand Total (PR027) page includes an interrogatory to support an exemption from filing the catastrophe risk charge. Any company qualifying for exemption from the earthquake risk charge must identify the particular criteria from among (1a), (1b), (2) and (3) that provides its qualification for exemption, and may leave the other three items from this group of four possible qualifications for exemption blank; except identification of criteria (3) as the basis for the exemption requires a further answer to (3a) and (3b). Any company qualifying for exemption from the hurricane risk charge must identify the particular criteria from among (4a), (4b), (5) and (6) that provides its qualification for exemption, and may leave the other three items from this second group of four possible qualifications for exemption blank. If the company qualifies for exemption from the earthquake risk charge, page PR027A and line (1) on this page may be left blank. If the company qualifies for exemption from the hurricane risk charge, page PR027B and line (2) on this page may be left blank. ~~THIS INTERROGATORY MUST BE COMPLETED BY ALL FILERS.~~

In general, the following conditions will qualify a company for exemption: if a company uses an intercompany pooling arrangement or quota share arrangement with U.S. affiliates covering 100% of its earthquake and hurricane risks such that there is no exposure for these risks; then this page may be left blank, except for the interrogatory which must be completed by all filers. ~~For all other companies with substantive earthquake and hurricane risk exposure, this page must be completed. Zero entries may be made for companies with any of the following circumstances:~~

- ~~1. Satisfy the 0% net exposure standard as described in interrogatory #1 in PR027 or~~
- ~~2. if it has a ratio of Insured Value – Property to surplus as regards policyholders of less than 50%; or~~
- ~~3. if it writes Insured Value – Property that includes hurricane and/or earthquake coverage in catastrophe-prone areas representing less than 10% of its surplus as regards policyholders.~~

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

“Catastrophe-Prone Areas in the U.S.” include:

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

Detail Eliminated To Conserve Space

INTERROGATORY TO SUPPORT EXEMPTION FROM COMPLETING PR027 (To be completed by companies reporting no RBC charge in either Line 1 or Line 2)

Place an "X" in the appropriate cell for the criteria under which the company is claiming an exemption.

A Earthquake Exemption (To be completed by companies reporting no RBC charge in Line 1) -

- (1) The company has not entered into a reinsurance agreement covering earthquake exposure with a non-affiliate or a non-US affiliate and, either
 - (1a) the company participates in an inter-company pooling arrangement with 0% participation, leaving no net exposure for earthquake risks; Or
 - (1b) the company cedes 100% of its earthquake exposures to its US affiliate(s), leaving no net exposure for earthquake risks
- (2) The Company's Ratio of Insured Value - Property to surplus as regards policyholders is less than 50%
- (3) The company has written Insured Value - Property that includes earthquake coverage in the Earthquake-Prone areas representing less than 10% of its surplus as regards policyholders

For any company qualifying for the exemption under 3 provide details about how the "geographic areas in the New Madrid Seismic Zone" were determined.

(3a) What resource was used to define the New Madrid Seismic Zone?

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(3b) Was exposure determined based on zip codes or counties in the zone, was it based on all of the earthquake exposure in the identified states or was another methodology used? Describe any other methodology used.

B Hurricane Exemption (To be completed by companies reporting no RBC charge in Line 2) -

- (4) The company has not entered into a reinsurance agreement covering hurricane exposure with a non-affiliate or a non-US affiliate and, either
 - (4a) the company participates in an inter-company pooling arrangement with 0% participation, leaving no net exposure for hurricane risks; Or
 - (4b) the company cedes 100% of its hurricane exposures to its US affiliate(s), leaving no net exposure for hurricane risks
- (5) The Company's Ratio of Insured Value - Property to surplus as regards policyholders is less than 50%
- (6) The company has written Insured Value - Property that includes hurricane coverage in the Hurricane-Prone areas representing less than 10% of its surplus as regards policyholders

Note: "Earthquake-Prone areas" include any of the following states or commonwealths: Alaska, Hawaii, Washington, Oregon, California, Idaho, Nevada, Utah, Arizona, Montana, Wyoming, Colorado, New Mexico, Puerto Rico, and geographic areas in the following states that are in the New Madrid Seismic Zone - Missouri, Arkansas, Mississippi, Tennessee, Illinois and Kentucky.

"Hurricane-Prone areas" include Hawaii, District of Columbia and states and commonwealths bordering on the Atlantic Ocean, and/or Gulf of Mexico including Puerto Rico.

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