

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
 OperationalRisk(E) Subgroup
 C3 Phase IIAG43 (E/A) Subgroup
 P/CRBC (E) Working Group
 Longevity Risk(A/E) Subgroup

DATE: <u>4/7/2019</u> CONTACT PERSON: <u>Jane Barr</u> TELEPHONE: _____ EMAIL ADDRESS: _____ ON BEHALF OF: <u>Commissioner Altmaier</u> NAME: <u>Florida Commissioner</u> TITLE: <u>Capital Adequacy Task Force chair</u> AFFILIATION: _____ ADDRESS: _____ _____ _____	<p align="center"><u>FOR NAIC USE ONLY</u></p> Agenda Item # <u>2019-07-CA</u> Year <u>2019</u> <p align="center"><u>DISPOSITION</u></p> <input checked="" type="checkbox"/> ADOPTED <u>12/8/19</u> <input type="checkbox"/> REJECTED _____ <input type="checkbox"/> DEFERRED TO _____ <input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____ <input checked="" type="checkbox"/> EXPOSED _____ <input type="checkbox"/> OTHER (SPECIFY) _____
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- Health RBC Blanks
 Property/Casualty RBC Blanks
 Life and Fraternal RBC Instructions
 Health RBC Instructions
 Property/Casualty RBC Instructions
 Life and Fraternal RBC Blanks
 OTHER RBC Preamble

DESCRIPTION OF CHANGE(S)

Preamble provides a summary of the purpose of RBC including the history, objectives and ~~concepts~~ **concepts** of RBC.

REASON OR JUSTIFICATION FOR CHANGE **

The purpose of the preamble is to provide a clear understanding of the purpose of RBC and the goals of RBC as the Task Force and Working Groups review referrals and proposals.

Additional Staff Comments:

4-7-19 cgb Exposed for 30 day comment period ending on 7/5/19.
 8-4-19 jdb Exposed for a 30 day comment period ending 4-19
 12-8-19 cgb The Capital Adequacy Task Force adopted the proposal at the Fall National Meeting.

** This section must be completed on all forms.

Risk-Based Capital Preamble

History of Risk-Based Capital by the NAIC

A. Background

1. The NAIC, through its committees and working groups, facilitates many projects of importance to state insurance regulators, the industry and users of statutory financial information in the early 1990s. That was evidenced by the original mission statement and charges given to the Capital Adequacy (E) Task Force (CADTF) of the Financial Condition Committee.
2. From the inception of insurance regulation in the mid-1800s, the limitation of insurance company insolvency risk has been a major goal of the regulatory process. The requirement of adequate capital has been a major tool in limiting insolvency costs throughout the history of insurance regulation. Initially, the states enacted statutes requiring a specified minimum amount of capital and surplus for an insurance company to enter the business or to remain in business.
3. Fixed minimum capital requirements were largely based on the judgment of the drafters of the statutes and varied widely among the states. Those fixed minimum capital and surplus requirements have served to protect the public reasonably well for more than a century. However, they fail to recognize variations in risk between broad categories of key elements of insurance, nor do they recognize differences in the amount of capital appropriate for the size of various insurers.
4. In 1992, the NAIC adopted the risk-based capital (RBC) formula with an implementation date of year-end 1993. The formula was developed for specific regulatory needs. Four major categories were identified for the life formula: asset risk; insurance risk; interest rate risk; and all other business risk. The property/casualty and health formulas were implemented in 1994 and 1998, respectively. The focus of these formulas is asset risk; underwriting risk; credit risk; and covariance. The covariance categories are not likely to occur.
6. The mission of the CADTF was to hold to avoid triggering variations of a series of risk factors that could affect financial data to establish the risk of that item.

7.

Preamble

To support this role, the RBC reports identify potentially weakly capitalized companies in that each insurer must report situations where the actual

Preamble

17. The CADTF and its RBC working groups will monitor and evaluate changes to the annual financial statements and the Purposes and Procedure Manual of the NAIC Investment Analysis Office to determine if assets or specifically, investments evaluated by the NAIC Securities Valuation Office are relevant to the RBC formula in determining the threshold capital (b)(7) rei