

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

	<input checked="" type="checkbox"/> EXPOSED <u>3/15/21</u> <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 _____

DESCRIPTION OF CHANGE(S)

Adding examples as a guide to portray the intent of the R3 ratings instructions.

REASON OR JUSTIFICATION FOR CHANGE **

The proposed instruction changes would provide examples to clarify how the reporting companies should select the designation in the Annual Statement Part 3, Reinsurer Designation Equivalent Rating column if the reporting entities subscribe to one or multiple rating agencies.

Additional Staff Comments:

3/15/21 – The PCRBC WG exposed this proposal for a thirty-day public comment period ending Apr. 14.
 4/27/21 – The PCRBC WG adopted this proposal with no received comments.
 4/29/21 cgb – The Capital Adequacy Task Force adopted the proposal on 4/29/21.

**** This section must be completed on all forms.** **Revised 2-2019**

Reinsurer Designation Equivalent Rating Category and Corresponding Factor RBC R3 Credit Risk Charge

Description	Secure 1	Secure 2	Secure 3	Secure 4	Secure 5	Vulnerable 6 or Unrated
A.M. Best	A++	A+	A	A-	B++, B+	B, B-, C++, C+, C, C-, D, E, F
Standard & Poors	AAA	AA+, AA, AA -	A+, A	A-	BBB+, BBB, BBB-	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R
Moody's	Aaa	Aa1, Aa2, Aa3	A1, A2	A3	Baa1, Baa2, Baa3	Ba1, Ba2, Ba3, B1, B2, B3, Caa, Ca, C
Fitch	AAA	AA+, AA, AA -	A+, A	A-	BBB+, BBB, BBB-	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R
Collateralized Amounts Factors	3.6%	4.1%	4.8%	5.0%	5.0%	5.0%
Uncollateralized Amounts Factors	3.6%	4.1%	4.8%	5.3%	7.1%	14.0%

Each reporting company should record in Schedule F Part 3, Column 34, the reinsurer designation equivalent financial strength ratings assigned to the (re)insurers listed, where there are balances receivable on reinsurance ceded for the Schedule F category. The resulting credit risk charge on reinsurance recoverables is determined by applying the corresponding factor by reinsurer designation equivalent to the collateralized and uncollateralized balances respectively. These respective charges are derived from Schedule F Part 3, Columns 35 and 36 and Line 9999999 totals are reported on PR012 Lines 5 and 6 below.

Miscellaneous Recoverables

There is risk associated with recoverability of amounts from creditors other than reinsurers. In addition to default risk, there is the risk that the amounts are not accurately estimated. The factor to measure this risk is estimated at 5 percent for Amounts Receivable Relating to Uninsured Accident and Health Recoverables from Parent, Subsidiaries and Affiliates; and Aggregate Writings for Other Than Invested Assets. For Interest, Dividends and Real Estate Income Due and Accrued, which for the purposes of interest income due and accrued from bond holdings, the charge is 1 percent, which is equivalent to the charge applicable to unaffiliated bonds.

Examples: The following examples are here as a guide to portray the intent of these instructions.

These examples assume that all financial strength ratings are from one of the rating agencies in the table above and there is interactive communication between the rating agency and the reinsurer unless stated otherwise.

Example 1 Reinsurer has only one rating. Assume the Reinsurer XYZ has a financial strength rating of A from A.M. Best. This falls in the Secure 3 category and the reporting company should select this category and corresponding charge.

Example 2 Reinsurer has more than one rating. Assume the Reinsurer XYZ has a financial strength rating of A from A.M. Best and another rating of AAA from Fitch. The reporting company may use either of the ratings provided by A.M. Best or Fitch.

Example 3 Reinsurer only has a Public Information Rating: Ratings that include the symbol of p), which indicates a public information rating, are not allowed to be used. If a reinsurer has only been assigned Public Information ratings and no other financial strength ratings have been assigned to it; then the reporting company must