“An NAIC Regulatory Perspective”

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Two New Risk Charges in RBC

- Catastrophe Risk Charge
  - Implementation in progress
- Operational Risk Charge
  - In initial design stage

Catastrophe Risk Charge

- To be included in 2013 and 2014 P/C RBC for informational purposes
- Charge to become effective in 2015 or 2016
- Separate risk charges for hurricane and earthquake
- Tornadoes and other cat events not included

How Cat Risk Charges Will Be Determined

- ✓ Each cat risk charge will equal worst year’s modeled loss in 50 or 100 years (yet to be determined) net of reinsurance
- ✓ Plus a 10% surcharge on the ceded portion of the modeled losses, for risk of uncollectible reinsurance in a catastrophe
- ✓ Insurer must use models from the main commercial modelers
- ✓ To allow removal of cat losses from Underwriting Premium Risk Charge, insurers will annually report their hurricane and earthquake losses

Use of Models

- RMS, AIR, EQECAT only
  - An insurer can use the results of one model or a combination of two or three models
  - “Homemade” models not yet allowed
- Use test
  - Model inputs and parameters must be the same used by insurer for internal risk management

Exempt Insurers

- Criteria being developed to exempt insurers with minimal hurricane and earthquake exposure

- Criteria under consideration:
  - Low premium volume in property lines
  - Low ratio of total insured values to PHS
  - Low exposures in hurricane and earthquake prone states

Future Potential Enhancements

- ✓ Inclusion of tornados and other types of cats
- ✓ Use of proprietary cat models
- ✓ Revisions to 10% reinsurance credit risk charge
- ✓ Inclusion of pandemic risk charge in Health RBC

Operational Risk Charge

- ✓ In early development stage
- ✓ Initial version currently targeted for 2014 RBC and likely to be a simple factor-based model as in other jurisdictions
- ✓ Development of an insurance operational risk database being considered
- ✓ Later versions may be based on company-specific operational risk assessments