



AMERICAN ACADEMY *of* ACTUARIES

2009 Update to P/C Risk-Based Capital Underwriting Factors Presented to National Association of Insurance Commissioners' P/C Risk-Based Capital Working Group

December 2008

This report was prepared by the Academy's P/C Risk-Based Capital Committee

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December 5, 2008

Ms. Anne Kelly, Chair
Property Risk-Based Capital Working Group
Capital Adequacy (E) Task Force
National Association of Insurance Commissioners

Re: Risk-Based Capital Underwriting Factors – 2009 Update

Dear Ms. Kelly:

At the request of the National Association of Insurance Commissioners (NAIC), the American Academy of Actuaries' Risk-Based Capital Committee (Committee) provides this update to the September 2007 report "An Update to the Risk-Based Capital Underwriting Factors" and the related March 2008 addendum. The Committee was asked to provide the underwriting factors using the same cap of 15% applied to our recommended factors (from the March 2008 addendum) that were adopted by the NAIC in June 2008. We did so using the original 2007 study as our actuarially indicated factors.

As shown in the attached exhibits, nearly 60% of the factors, by count and by weighted RBC charge, are affected by the cap, as compared to nearly 80% at initial adoption. This implies that the risk charges are moving towards statistically derived factors although most charges have not moved all the way to the actuarially indicated factors.

The weighted aggregate impact, prior to the effect of any covariance adjustments, remains small at 0.3% for this 2009 update following an aggregate impact of -1.4% at initial adoption. (Note: The impact is measured by applying factors to 2007 reported data.)

As with the original report, the exhibits illustrate the impact of the change in factors by line groupings. The indicated factors continue to go in the direction of increasing RBC for reinsurers, decreasing RBC for personal lines insurers, and maintaining a fairly moderate level for commercial lines and medical malpractice insurers.

We are pleased to assist the NAIC in this important revision. Please feel free to call on us any time we can help.

Sincerely,

Alex Krutov, Chair
American Academy of Actuaries' P/C Risk-Based Capital Committee