



AMERICAN ACADEMY of ACTUARIES

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Oct. 1, 2014

Via email to: eyeung@naic.org

David Altmaier
Chair, Property/Casualty Risk-Based Capital (E) Working Group
Interim Chair, Catastrophe Risk (E) Subgroup

c/o Eva Yeung, Senior Insurance Reporting Analyst
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Reinsurance Association of America Proposal

Dear David:

The American Academy of Actuaries¹ Property/Casualty Risk-Based Capital (RBC) Committee has reviewed the R3 RBC load exhibits, which were recently revised by the Reinsurance Association of America (RAA). Based upon this review, the Committee reiterates its support for the RAA's R3 RBC recommendations.

The Committee first expressed its support for the recommendations in our May 12, 2014 [letter](#) to you. The Committee views the RAA recommendations as a significant advance in the determination of RBC requirements because the revised R3 loads will better reflect the actual credit risk of reinsurers. However, the Committee reiterates its concern, originally raised in its May 12 letter, that the RAA's recent revisions do not address the issue of excessive use of reinsurance.²

¹ The American Academy of Actuaries is an 18,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

² As illustrated on page 31 of our March 2013 report on reinsurance credit risk, the mortality rate increases by a factor of almost three as the ratio of ceded premium to gross premium increases. See http://actuary.org/files/Report_to_PC_RBC_WG_on_Reinsurance_Credit_Risk_in_RBC_3.29.13.pdf (Report 4 - Section 2.5 - Table 7 - page 10).

The Academy's P/C RBC Committee appreciates this opportunity to provide comments to the Working Group. We hope these observations are helpful, and we welcome further discussion. If you have any questions about our comments, please contact Lauren Pachman, the Academy's casualty policy analyst, at pachman@actuary.org or (202) 223-8196.

Sincerely,

Tom McIntyre, MAAA, FCAS, CERA
Chairperson, P/C Risk-Based Capital Committee
American Academy of Actuaries