

Underwriting Risk Charges in NAIC Property/Casualty Risk-Based Capital

P/C Risk-Based Capital Working Group
2013 NAIC Fall National Meeting

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December 15, 2013



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- Underwriting risk charges do not fully reflect actual risk
 - The original methodology implemented two decades ago is still in use with only minor modifications
- These capital charges could potentially be modified to more accurately reflect the true risk of insolvency
 - Our understanding of insolvency risk is now significantly better, as major progress has been made in risk science over the years
 - The volume of available data is now much greater
- Consideration of ways to improve calculation of the charges has been on agendas of both the NAIC and the Academy for several years



Research on Underwriting Risk Charges and Other Risk-Based Capital Components

- CAS research is highly valuable
 - The research considers many elements of risk-based capital (RBC), rather than analyzing the underwriting risk component in isolation
 - Use of detailed data collected over a much longer time period lends credibility to conclusions and observations
- Significant progress has been made in the analysis of underwriting risk
 - The already-available results suggest potential ways to improve the way underwriting risk charges are calculated
 - The research could provide a basis for developing a specific proposal to improve the methodology used to estimate underwriting risk charges in the NAIC P/C RBC formula



Current and Future Work by Academy on Underwriting Risk Charges in RBC

- Academy's P/C RBC Committee is analyzing details of available CAS research
- P/C RBC Committee intends to work closely with the CAS RBC Working Party as Working Party research continues
- The P/C RBC Committee's ultimate goal is to develop a proposal for regulators that will:
 - be both practical and based on modern risk science
 - offer a way to determine capital charges that represents a clear improvement over the current calculation (R_4 and R_5)



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