



# AMERICAN ACADEMY *of* ACTUARIES

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**To:** Elise Liebers, Chair, NAIC P&C RBC Working Group  
**From:** Ralph Blanchard, Chair, AAA P&C RBC Committee  
**Date:** February 29, 2000  
**Subject:** Report on AAA P&C RBC Committee projects as of 2/29/2000.

The following is a report on the current American Academy<sup>1</sup> projects as of 2/29/2000. It includes two completed analyses, plus status reports for currently active projects.

## **I. Completed analysis.**

### **A. SSAP 68 - goodwill**

Attachment 1 includes an analysis of the possible RBC treatment of goodwill after codification is implemented. After discussing the issue, our committee recommends that the admitted portion of goodwill be treated similarly to the excess of market over book. This change would have any admitted goodwill be subject to a 22.5% charge, with the resulting product included in R2.

This proposal is also being discussed at the Academy's Joint RBC Task Force level. Bill Weller should be able to comment on the position of the joint task force on this issue.

### **B. FX issues and RBC**

We were asked at the last NAIC meeting to look into this issue, relative to possible changes to the non-summary sections of Schedule P. (The issue is whether the current calculation of company experience adjustments would be distorted if changes in FX rates are allowed to flow through the line-by-line Schedule P schedules. If there is agreement that there is a distortion, should there be an adjustment to these line-by-line Schedules, and what would those adjustments be.)

Attachment 2 is a response from the subgroup asked to look into that issue. The response was that this is an issue of extremely limited scope (at least to-date), and with no known concerns or bias from the status quo. As such, we do not see any reason currently to make FX-related Schedule P changes from an RBC perspective.

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## **II. Status of active workplan projects**

### **A. Life companies reinsuring WC - RBC issues**

We are assisting the Academy's Life RBC task force on this issue, and contributed to the work that they will be presenting at the NAIC Life RBC working group meeting. We do not see any issues relative to the P&C formula from this.

### **B. Reinsurance A & C.**

We plan on producing an analysis of relative Reinsurance A versus Reinsurance C risk, and potentially recommending separate RBC factors for the two lines. This analysis will not begin until 1999 year-end data is available, hence we do not plan on performing and reporting on this analysis until the June NAIC meeting.

### **C. Analysis of loss sensitive credit - reinsurers - using Schedule P - Part 7**

We have a full project team assigned to this topic. Work will not begin until 12/99 data is available, sometime next spring. Completion is expected in time for the September 2000 NAIC meeting.

### **D. Asset risk factors**

We are participating in the Academy's Joint RBC Task Force discussions in this area.

### **E. International Issues**

We are monitoring various activities at the International Actuarial Association and the Basel Committee (working on banking capital standards) relative to RBC for property/casualty insurance companies. (We present this item for informational purposes only, as the drafting bodies to-date have been outside the NAIC.)