



AMERICAN ACADEMY *of* ACTUARIES

June 17, 2003

Ms. Anne Kelly, FCAS, MAAA
NAIC Property & Casualty Risk-Based Capital Working Group
National Association of Insurance Commissioners (NAIC)
Chief Casualty Actuary
New York State Insurance Department
25 Beaver Street
New York, NY 10004

Re: Reinsurance A&C Treatment in the Risk-Based Capital Formula

Dear Ms. Kelly:

Thank you for the opportunity to evaluate whether the risk-based capital (RBC) reserve and premium risk factors for Reinsurance A (non-proportional assumed property) and Reinsurance C (non-proportional assumed financial) should be split. We recommend that no change be made to these factors at this time. Splitting the factors should be re-evaluated in conjunction with a more in-depth review of the various components of the RBC algorithm.

Our analysis of the available 2001 Annual Statement data revealed that relatively few companies report Reinsurance C (179) compared to Reinsurance A (455), and that there has not been much of growth in the number of companies reporting these lines of business in the past ten years. The proportion of Reinsurance C has increased somewhat (in the 6%-8% range, depending on which values are compared). As expected, the current factors are close to those based solely on Reinsurance A.

We recommend that the RBC factors for Reinsurance A&C not be split at this time, for the following reasons:

- Lack of known problems with application of the current (combined) factors.
- There is a limited volume of Reinsurance C; only two companies had more than 10% of their 2002 net earned premium from this line.
- Potential hardship to affected companies during the transition to new Reinsurance A; 35 separate companies have over 10% of their 2002 net earned premium from this line, and some companies have all of their business in Reinsurance A.
- Anticipated review of all of the by-line factors of the property-casualty RBC formula.

The American Academy of Actuaries¹ Property/Casualty Risk-Based Capital Committee is available to discuss this issue further or to provide additional analysis as needed. We would like to acknowledge the work done by NAIC staff members Glenda Channel and Tian Xiao, who provided guidance and support in accessing appropriate RBC data.

We would be happy to assist and are available to discuss this matter with you. Please contact Greg Vass, the Academy's senior casualty policy analyst (vass@actuary.org; 202-785-7865), if you have any questions.

Sincerely,

Stuart B. Suchoff, MAAA, FCAS, FCA, Chairperson
Property/Casualty Risk-Based Capital Committee

¹ The American Academy of Actuaries is the public policy organization for actuaries of all specialties within the United States. In addition to setting qualification standards and standards of actuarial practice, a major purpose of the Academy is to act as the public information organization for the profession. The Academy is nonpartisan and assists the public policy process through the presentation of clear actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal and state elected officials, regulators and congressional staff, comments on proposed federal and state regulations and legislation, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualifications and practice, and the Code of Professional Conduct for all actuaries practicing in the United States.