

American Academy of Actuaries
Risk Based Capital Subgroup on Pricing & Reserving Charges
Summary of Capped Factors - 2009 Update

Summary Exhibit

Line	Line Letter	Proposed 2009 Values						Values for 2008 from NAIC P/C RBC Newsletter 14.1, June 2008						Reserve Charge		Premium Charge		Change	
		Reserve Runoff Ratio	Reserving IIO	Reserve Charge	Premium Loss and LAE Ratio	Premium IIO	Premium Charge	Reserve Runoff Ratio	Reserving IIO	Resulting Charge	Premium Loss and LAE Ratio	Premium IIO	Premium Charge Before Cap, with Min	Proposed 2009	Current 2008	Proposed 2009	Current 2008	Reserve	Premium
		(7)	(8)	(9)	(10)	(11)	(12)	(1)	(2)	(3)	(4)	(5)	(6)	(13)	(14)	(15)	(16)	(17)	(18)
(1) H/F	A	0.206	0.939	0.132	0.949	0.951	0.157	0.230	0.939	0.156	0.927	0.951	0.137	0.132	0.156	0.157	0.137	-15.0%	15.0%
(2) PPA	B	0.199	0.927	0.112	0.983	0.921	0.160	0.221	0.927	0.132	1.014	0.921	0.188	0.112	0.132	0.160	0.188	-15.0%	-15.0%
(3) CA	C	0.238	0.909	0.125	1.005	0.883	0.142	0.254	0.909	0.140	1.005	0.883	0.142	0.125	0.140	0.142	0.142	-10.7%	0.0%
(4) WC	D	0.293	0.835	0.080	1.051	0.832	0.129	0.310	0.835	0.094	1.031	0.832	0.112	0.080	0.094	0.129	0.112	-15.0%	15.0%
(5) CMP	E	0.439	0.884	0.273	0.935	0.888	0.085	0.403	0.884	0.240	0.924	0.888	0.075	0.273	0.240	0.085	0.075	13.3%	13.2%
(6) MM Occurrence	F1	0.439	0.869	0.250	1.842	0.778	0.689	0.490	0.869	0.295	1.727	0.778	0.599	0.250	0.295	0.689	0.599	-15.0%	15.0%
(7) MM CM	F2	0.283	0.893	0.146	1.071	0.835	0.149	0.269	0.893	0.133	1.047	0.835	0.129	0.146	0.133	0.149	0.129	9.3%	15.0%
(8) SL	G	0.249	0.901	0.124	0.910	0.897	0.071	0.242	0.901	0.119	0.918	0.897	0.078	0.124	0.119	0.071	0.078	4.6%	-9.1%
(9) OL	H	0.478	0.862	0.274	1.045	0.820	0.113	0.478	0.862	0.274	1.045	0.820	0.113	0.274	0.274	0.113	0.113	0.0%	0.0%
(11) Spec Prop	I	0.184	0.966	0.144	0.955	0.944	0.157	0.165	0.966	0.125	0.985	0.944	0.185	0.144	0.125	0.157	0.185	15.0%	-15.0%
(12) Auto Phys Damage	J	0.118	0.975	0.090	0.847	0.972	0.078	0.135	0.975	0.106	0.847	0.972	0.078	0.090	0.106	0.078	0.078	-15.0%	0.0%
(10) Fidelity & Surety	K	0.315	0.957	0.258	0.863	0.921	0.050	0.280	0.957	0.225	0.863	0.921	0.050	0.258	0.225	0.050	0.050	15.0%	0.0%
(13) Other	L	0.183	0.964	0.141	0.891	0.956	0.106	0.164	0.964	0.123	0.876	0.956	0.092	0.141	0.123	0.106	0.092	15.0%	15.0%
(15) International	M	0.327	0.877	0.164	1.169	0.901	0.308	0.327	0.877	0.164	1.169	0.901	0.308	0.164	0.164	0.308	0.308	0.0%	0.0%
(16) Rein Property & Financial	N&P	0.278	0.901	0.152	1.337	0.884	0.438	0.256	0.901	0.132	1.273	0.884	0.381	0.152	0.132	0.438	0.381	15.0%	15.0%
(17) Reinsurance Liab	O	0.750	0.834	0.459	1.419	0.810	0.404	0.678	0.834	0.399	1.354	0.810	0.352	0.459	0.399	0.404	0.352	15.0%	15.0%
(18) Products Liability	R	0.627	0.838	0.363	1.195	0.778	0.185	0.571	0.838	0.316	1.164	0.778	0.161	0.363	0.316	0.185	0.161	15.0%	15.0%
(14) Fin & Mort	S	0.150	0.962	0.107	1.400	0.916	0.537	0.150	0.962	0.107	1.400	0.916	0.537	0.107	0.107	0.537	0.537	0.0%	0.0%

Selections:

Industry Underwriting Expense	
QUE	25.5%

Note that the analysis underlying the current values and the indicated uncapped values is taken from the Academy report, "An Update to P/C Risk-Based Capital Underwriting Factors", issued in September 2007 by the American Academy of Actuaries P/C RBC Committee.

American Academy of Actuaries
Development of Capped Factors - 2009 Update
Annual Cap of 15% Applied to Values Utilized in the 2008 Update

Exhibit I

Line	Line Letter	Aggregate Loss & LAE	Net Written Premium 2005	Proposed Values - Before Capping - From Original Academy Report						Current Values 2008 - Implemented by NAIC Using 15% Cap						Reserve Charge including IIO		Premium Charge including IIO	
				Reserve Runoff Ratio	Reserving IIO	Reserve Cap, with Min	Premium Loss and LAE Ratio	Premium IIO	Premium Charge Before Cap, with Min	Reserve Runoff Ratio	Reserving IIO	Reserve Charge including IIO	Premium Loss and LAE Ratio	Premium IIO	Premium Charge including IIO	Current	Indicated Capped	Current	Indicated Capped
(1) H/F	A	19,852,268	54,800,315	0.177	0.939	0.106	0.963	0.951	0.170	0.230	0.939	0.156	0.927	0.951	0.137	0.156	0.132	0.137	0.157
(2) PPA	B	85,172,579	94,860,497	0.128	0.927	0.050	0.946	0.921	0.126	0.221	0.927	0.132	1.014	0.921	0.188	0.132	0.112	0.188	0.160
(3) CA	C	25,944,273	19,766,966	0.238	0.909	0.125	1.005	0.883	0.142	0.254	0.909	0.140	1.005	0.883	0.142	0.140	0.125	0.142	0.142
(4) WC	D	129,490,920	48,860,164	0.274	0.835	0.064	1.053	0.832	0.131	0.310	0.835	0.094	1.031	0.832	0.112	0.094	0.080	0.112	0.129
(5) CMP	E	36,578,767	29,645,006	0.439	0.884	0.273	0.935	0.888	0.085	0.403	0.884	0.240	0.924	0.888	0.075	0.240	0.273	0.075	0.085
(6) MM Occurrence	F1	11,831,384	2,332,329	0.323	0.869	0.149	2.060	0.778	0.859	0.490	0.869	0.295	1.727	0.778	0.599	0.295	0.250	0.599	0.689
(7) MM CM	F2	17,498,277	7,782,258	0.283	0.893	0.146	1.620	0.835	0.608	0.269	0.893	0.133	1.047	0.835	0.129	0.133	0.146	0.129	0.149
(8) SL	G	6,521,213	6,450,843	0.249	0.901	0.124	0.910	0.897	0.071	0.242	0.901	0.119	0.918	0.897	0.078	0.119	0.124	0.078	0.071
(9) OL	H	108,313,309	39,533,685	0.478	0.862	0.274	1.045	0.820	0.113	0.478	0.862	0.274	1.045	0.820	0.113	0.274	0.274	0.113	0.113
(11) Spec Prop	I	15,184,142	25,690,669	0.290	0.966	0.246	0.798	0.944	0.050	0.165	0.966	0.125	0.985	0.944	0.185	0.125	0.144	0.185	0.157
(12) Auto Phys Damage	J	5,694,477	71,886,152	0.096	0.975	0.068	0.847	0.972	0.078	0.135	0.975	0.106	0.847	0.972	0.106	0.106	0.090	0.078	0.078
(10) Fidelity & Surety	K	4,498,952	5,064,801	0.427	0.957	0.366	0.856	0.921	0.050	0.280	0.957	0.225	0.863	0.921	0.050	0.225	0.258	0.050	0.050
(13) Other	L	5,223,907	13,452,554	0.361	0.964	0.312	0.959	0.956	0.172	0.164	0.964	0.123	0.876	0.956	0.092	0.123	0.141	0.092	0.106
(15) International	M	635,439	230,162	0.327	0.877	0.164	1.169	0.901	0.308	0.327	0.877	0.164	1.169	0.901	0.308	0.164	0.164	0.308	0.308
(16) Rein Property & Financial	N&P	12,020,001	4,340,816	0.742	0.901	0.570	1.830	0.884	0.874	0.256	0.901	0.132	1.273	0.884	0.381	0.132	0.152	0.381	0.438
(17) Reinsurance Liab	O	44,160,796	3,095,066	0.849	0.834	0.542	1.552	0.810	0.512	0.678	0.834	0.399	1.354	0.810	0.352	0.399	0.459	0.352	0.404
(18) Products Liability	R	16,625,011	3,521,836	1.488	0.838	1.085	1.380	0.778	0.329	0.571	0.838	0.316	1.164	0.778	0.161	0.316	0.363	0.161	0.185
(14) Fin & Mort	S	27,816	7,435,150	0.150	0.962	0.107	1.400	0.916	0.537	0.150	0.962	0.107	1.400	0.916	0.537	0.107	0.107	0.537	0.537
		545,273,531	438,749,267																

Selections:			
Percentile Selected	87.5%	Minimum Charge Applie	0.050
Industry Underwriting Expense OUE	25.5%		

Note that the analysis underlying the current values and the indicated uncapped values is taken from the Academy report, "An Update to P/C Risk-Based Capital Underwriting Factors", issued in September 2007 by the American Academy of Actuaries P/C RBC Committee.

American Academy of Actuaries
Analysis of Lines Hitting Cap of 15% for Reserves and Premium Components
And Overall Impacts on Charges

Exhibit II

Line	Impact from Reserving	Impact from Premium	Hit Cap?		Weighted Average Change in Factors (Weighted by Industry Reserves and Premiums)								
			Res	Prem	Reserve (\$)		Premium (\$)		Change (\$)		Percent Total Change		
					Charge Before	Capped Charge	Charge Before	Capped Charge	Reserve	Premium		Total	
(1) H/F	-15.0%	15.0%	1	1	3,091,395	2,627,686	7,487,701	8,610,857	-463,709	1,123,155	659,446	6.2%	
(2) PPA	-15.0%	-15.0%	1	1	11,216,709	9,534,203	17,860,183	15,181,155	-1,682,506	-2,679,027	-4,361,534	-15.0%	
(3) CA	-10.7%	0.0%	0	0	3,632,840	3,244,142	2,801,812	2,801,812	-388,698	0	-388,698	-6.0%	
(4) WC	-15.0%	15.0%	1	1	12,113,565	10,296,530	5,489,009	6,312,361	-1,817,035	823,351	-993,683	-5.6%	
(5) CMP	13.3%	13.2%	0	0	8,796,755	9,970,380	2,237,374	2,532,466	1,173,625	295,092	1,468,717	13.3%	
(6) MM Occurrence	-15.0%	15.0%	1	1	3,486,569	2,963,584	1,397,841	1,607,517	-522,985	209,676	-313,309	-6.4%	
(7) MM CM	9.3%	15.0%	0	1	2,330,930	2,548,619	1,007,725	1,158,883	217,689	151,159	368,848	11.0%	
(8) SL	4.6%	-9.1%	0	0	775,647	811,573	505,668	459,647	35,925	-46,020	-10,095	-0.8%	
(9) OL	0.0%	0.0%	0	0	29,686,311	29,686,311	4,449,541	4,449,541	0	0	0	0.0%	
(11) Spec Prop	15.0%	-15.0%	1	1	1,902,634	2,188,029	4,744,889	4,033,156	285,395	-711,733	-426,338	-6.4%	
(12) Auto Phys Damage	-15.0%	0.0%	1	0	606,006	515,105	5,578,174	5,578,174	-90,901	0	-90,901	-1.5%	
(10) Fidelity & Surety	15.0%	0.0%	1	0	1,010,949	1,162,592	253,240	253,240	151,642	0	151,642	12.0%	
(13) Other	15.0%	15.0%	1	1	640,639	736,735	1,243,576	1,430,112	96,096	186,536	282,632	15.0%	
(15) International	0.0%	0.0%	0	0	104,346	104,346	70,966	70,966	0	0	0	0.0%	
(16) Rein Property & Financial	15.0%	15.0%	1	1	1,585,300	1,823,095	1,651,812	1,899,584	237,795	247,772	485,567	15.0%	
(17) Reinsurance Liab	15.0%	15.0%	1	1	17,635,265	20,280,555	1,088,435	1,251,700	2,645,290	163,265	2,808,555	15.0%	
(18) Products Liability	15.0%	15.0%	1	1	5,250,471	6,038,042	566,044	650,950	787,571	84,907	872,477	15.0%	
(14) Fin & Mort	0.0%	0.0%	0	0	2,966	2,966	3,996,364	3,996,364	0	0	0	0.0%	
Percentage of Reserve/Premium Capped			64%	59%									
Number Capped	11	10		21	Totals	103,869,298	104,534,492	62,430,352	62,278,485	665,193	-151,868	513,326	0.3%
Proportion of Lines Capped	61%	56%		58%									

Shading above indicates the line hit the 15% cap in 2009 update.

Note the total weighted change in factor above is not necessarily the total impact of the factor change. Reasons include the application of the covariance in the RBC calculation, the use of the industry average expense ratio, and the company specific components of the RBC formula.

American Academy of Actuaries
2009 Update
Summary of Results - After Capping and Minimums
And Impacts by Segment

Exhibit III

Line	Line Letter	New Values 2009 (After minimums and capping)				Current Values 2008				Change in Charge weighted by Industry Premiums/Reserves Impact		
		Reserving Runoff Ratio	Reserving IIO	Loss and LAE Ratio	Premium IIO	Reserving Runoff Ratio	Reserving IIO	Loss and LAE Ratio	Premium IIO	Impact from Reserving	from Premium	Combined Change
(1) H/F	A	0.206	0.939	0.949	0.951	0.230	0.939	0.927	0.951	-15.0%	15.0%	6.2%
(2) PPA	B	0.199	0.927	0.983	0.921	0.221	0.927	1.014	0.921	-15.0%	-15.0%	-15.0%
(3) CA	C	0.238	0.909	1.005	0.883	0.254	0.909	1.005	0.883	-10.7%	0.0%	-6.0%
(4) WC	D	0.293	0.835	1.051	0.832	0.310	0.835	1.031	0.832	-15.0%	15.0%	-5.6%
(5) CMP	E	0.439	0.884	0.935	0.888	0.403	0.884	0.924	0.888	13.3%	13.2%	13.3%
(6) MM Occurrence	F1	0.439	0.869	1.842	0.778	0.490	0.869	1.727	0.778	-15.0%	15.0%	-6.4%
(7) MM CM	F2	0.283	0.893	1.071	0.835	0.269	0.893	1.047	0.835	9.3%	15.0%	11.0%
(8) SL	G	0.249	0.901	0.910	0.897	0.242	0.901	0.918	0.897	4.6%	-9.1%	-0.8%
(9) OL	H	0.478	0.862	1.045	0.820	0.478	0.862	1.045	0.820	0.0%	0.0%	0.0%
(11) Spec Prop	I	0.184	0.966	0.955	0.944	0.165	0.966	0.985	0.944	15.0%	-15.0%	-6.4%
(12) Auto Phys Damage	J	0.118	0.975	0.847	0.972	0.135	0.975	0.847	0.972	-15.0%	0.0%	-1.5%
(10) Fidelity & Surety	K	0.315	0.957	0.863	0.921	0.280	0.957	0.863	0.921	15.0%	0.0%	12.0%
(13) Other	L	0.183	0.964	0.891	0.956	0.164	0.964	0.876	0.956	15.0%	15.0%	15.0%
(15) International	M	0.327	0.877	1.169	0.901	0.327	0.877	1.169	0.901	0.0%	0.0%	0.0%
(16) Rein Property & Financial	N&P	0.278	0.901	1.337	0.884	0.256	0.901	1.273	0.884	15.0%	15.0%	15.0%
(17) Reinsurance Liab	O	0.750	0.834	1.419	0.810	0.678	0.834	1.354	0.810	15.0%	15.0%	15.0%
(18) Products Liability	R	0.627	0.838	1.195	0.778	0.571	0.838	1.164	0.778	15.0%	15.0%	15.0%
(14) Fin & Mort	S	0.150	0.962	1.400	0.916	0.150	0.962	1.400	0.916	0.0%	0.0%	0.0%
Reserve/Premium Weighted Change										0.1%	0.0%	0.3%

Underwriting Expense Ratio	Percentage change in charges weighted by industry reserves and premiums		
	Reserve	Premium	Total
25.5%			
			HO/PPA/APD
			CMP/WC/CA/OL/SP/PL
			Reinsurance
			Medical Malpractice
			Overall

Note that the analysis underlying the current values and the indicated uncapped values is taken from the Academy report, "An Update to P/C Risk-Based Capital Underwriting Factors", issued in September 2007 by the American Academy of Actuaries P/C RBC Committee. Note the total weighted change in factor above is not necessarily the total impact of the factor change. Reasons include the application of the covariance in the RBC calculation, the use of the industry average expense ratio, and the company specific components of the RBC formula.

American Academy of Actuaries

2009 Update: Recap of Original Uncapped Indications and Hypothetical Impact of Adopting

Exhibit IV

(for example purposes only)

Indicated Values (before minimums and capping)

Current Values 2008 (includes first update)

Impact of Adopting
Uncapped Indications
in 2009

Line	Line Letter	Indicated Values (before minimums and capping)				Current Values 2008 (includes first update)				Impact from Reserving	Impact from Premium
		Reserving RBC charge	Reserving IIO	Premium RBC Charge	Premium IIO	Reserving RBC charge	Reserving IIO	Premium RBC Charge	Premium IIO		
(1) H/F	A	0.177	0.939	0.963	0.951	0.230	0.939	0.927	0.951	-32.1%	24.8%
(2) PPA	B	0.128	0.927	0.946	0.921	0.221	0.927	1.014	0.921	-65.0%	-33.0%
(3) CA	C	0.238	0.909	1.005	0.883	0.254	0.909	1.005	0.883	-10.7%	0.0%
(4) WC	D	0.274	0.835	1.053	0.832	0.310	0.835	1.031	0.832	-31.8%	16.4%
(5) CMP	E	0.439	0.884	0.935	0.888	0.403	0.884	0.924	0.888	13.3%	13.2%
(6) MM Occurrence	F1	0.323	0.869	2.060	0.778	0.490	0.869	1.727	0.778	-49.3%	43.3%
(7) MM CM	F2	0.283	0.893	1.620	0.835	0.269	0.893	1.047	0.835	9.3%	369.4%
(8) SL	G	0.249	0.901	0.910	0.897	0.242	0.901	0.918	0.897	4.6%	-9.1%
(9) OL	H	0.478	0.862	1.045	0.820	0.478	0.862	1.045	0.820	0.0%	0.0%
(11) Spec Prop	I	0.290	0.966	0.798	0.944	0.165	0.966	0.985	0.944	96.0%	-95.5%
(12) Auto Phys Damage	J	0.096	0.975	0.847	0.972	0.135	0.975	0.847	0.972	-35.9%	0.0%
(10) Fidelity & Surety	K	0.427	0.957	0.856	0.921	0.280	0.957	0.863	0.921	62.7%	-13.4%
(13) Other	L	0.361	0.964	0.959	0.956	0.164	0.964	0.876	0.956	154.4%	86.0%
(15) International	M	0.327	0.877	1.169	0.901	0.327	0.877	1.169	0.901	0.0%	0.0%
(16) Rein Property & Financial	N&P	0.742	0.901	1.830	0.884	0.256	0.901	1.273	0.884	332.1%	129.6%
(17) Reinsurance Liab	O	0.849	0.834	1.552	0.810	0.678	0.834	1.354	0.810	35.7%	45.6%
(18) Products Liability	R	1.488	0.838	1.380	0.778	0.571	0.838	1.164	0.778	243.4%	104.7%
(14) Fin & Mort	S	0.150	0.962	1.400	0.916	0.150	0.962	1.400	0.916	0.0%	0.0%

Underwriting Expense Ratio

25.5%