

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

P/C Risk-Based Capital Working Group  
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# Underwriting Risk Charges in NAIC Property/Casualty (P/C) Risk-Based Capital

- 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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