



AMERICAN ACADEMY *of* ACTUARIES

March 25, 2008

Ms. Anne Kelly, Chair
Property Risk-Based Capital Working Group
Capital Adequacy (E) Task Force
National Association of Insurance Commissioners

Re: Risk-Based Capital Underwriting Factors September 2007 Report Addendum

Dear Ms. Kelly:

At your request, I have attached a document with the revised updated factors. Please let me know if you have any questions.

Sincerely,

Alex Krutov, Chair
American Academy of Actuaries' P/C Risk-Based Capital Committee



AMERICAN ACADEMY *of* ACTUARIES

**Update to P/C Risk-Based Capital Underwriting Factors Presented to National
Association of Insurance Commissioners' P/C Risk-Based Capital Working Group**

March 2008

This report was prepared by the Academy's P/C Risk-Based Capital Committee.

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AMERICAN ACADEMY *of* ACTUARIES

March 17, 2008

Ms. Anne Kelly, Chair
Property Risk-Based Capital Working Group
Capital Adequacy (E) Task Force
National Association of Insurance Commissioners

Re: Risk-Based Capital Underwriting Factors September 2007 Report Addendum

Dear Ms. Kelly:

At the request of the National Association of Insurance Commissioners (NAIC), the American Academy of Actuaries' Risk-Based Capital Committee (Committee) provides this addendum to the September 2007 report "An Update to the Risk-Based Capital Underwriting Factors." The Committee was asked to provide the underwriting factors using a cap of 15% instead of 35% as illustrated in the original report. The resultant factors are attached as the revised Appendix 2.

As shown in the revised Appendix 2, nearly 80% of the factors, by count and by weighted RBC charge, would be affected by the 15% cap as compared to only about half being affected by the original 35% cap. This implies, as it did with the original cap, that while this would be an important first step in moving RBC towards statistically derived factors, it would not accomplish this all in one step.

The weighted aggregate impact remains small, from -3.1% using the original cap to -1.4% using the revised cap. Completely uncapped, the overall change would have been about +9%, driven mainly by increases in the reinsurance lines.

As with the original report, the revised Appendix 2 illustrates the impact of the change in factors by line groupings. See Exhibit II. The indicated factors continue to go in the direction of increasing RBC for reinsurers, decreasing RBC for personal lines insurers, and maintaining a fairly moderate level for commercial lines and medical malpractice insurers.

Sincerely,

Alex Krutov, Chair
American Academy of Actuaries' P/C Risk-Based Capital Committee

American Academy of Actuaries
Risk Based Capital Subgroup on Pricing & Reserving Charges
Summary of Results - AFTER Capping and Minimums - Revised Methodology

Appendix 2

Exhibit I

(for example purposes only)

Line	Line Letter	New Values (After minimums and capping)				Current Values				Change in Charge weighted by Industry Premiums/Reserves		
		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	Impact from Premium	Combined Change
(1) H/F	A	0.230	0.939	0.927	0.951	0.275	0.928	0.917	0.942	-15.0%	15.0%	4.2%
(2) PPA	B	0.221	0.927	1.014	0.921	0.254	0.921	1.046	0.924	-15.0%	-15.0%	-15.0%
(3) CA	C	0.254	0.909	1.005	0.883	0.287	0.905	1.013	0.900	-15.0%	-15.0%	-15.0%
(4) WC	D	0.310	0.835	1.031	0.832	0.273	0.872	1.008	0.836	-15.0%	15.0%	-7.5%
(5) CMP	E	0.403	0.884	0.924	0.888	0.374	0.880	0.917	0.884	15.0%	15.0%	15.0%
(6) MM Occurrence	F1	0.490	0.869	1.727	0.778	0.709	0.788	1.761	0.719	-15.0%	15.0%	-8.1%
(7) MM CM	F2	0.269	0.893	1.047	0.835	0.346	0.829	1.072	0.800	15.0%	15.0%	15.0%
(8) SL	G	0.242	0.901	0.918	0.897	0.244	0.887	0.917	0.913	15.0%	-15.0%	0.9%
(9) OL	H	0.478	0.862	1.045	0.820	0.520	0.832	1.082	0.808	3.6%	-12.9%	1.1%
(11) Spec Prop	I	0.165	0.966	0.985	0.944	0.160	0.956	1.014	0.949	15.0%	-15.0%	-8.1%
(12) Auto Phys Damage	J	0.135	0.975	0.847	0.972	0.160	0.970	0.853	0.968	-15.0%	-3.8%	-5.1%
(10) Fidelity & Surety	K	0.280	0.957	0.863	0.921	0.269	0.942	0.875	0.913	15.0%	-7.2%	9.7%
(13) Other	L	0.164	0.964	0.876	0.956	0.160	0.954	0.867	0.952	15.0%	15.0%	15.0%
(15) International	M	0.327	0.877	1.169	0.901	0.327	0.864	1.169	0.879	12.1%	9.1%	10.9%
(16) Rein Property & Financial	N&P	0.256	0.901	1.273	0.884	0.313	0.849	1.224	0.879	15.0%	15.0%	15.0%
(17) Reinsurance Liab	O	0.678	0.834	1.354	0.810	0.838	0.733	1.379	0.762	15.0%	15.0%	15.0%
(18) Products Liability	R	0.571	0.838	1.164	0.778	0.532	0.832	1.095	0.808	15.0%	15.0%	15.0%
(14) Fin & Mort	S	0.150	0.962	1.400	0.916	0.160	0.942	1.400	0.913	15.0%	0.8%	0.8%
Reserve/Premium Weighted Change										0.0%	-0.6%	-1.4%

Underwriting Expense Ratio
25.5%

Percentage change in estimated impact using industry factors alone

	Reserve	Premium	Total
HO/PPA/APD	-15.0%	-7.2%	-9.9%
CMP/WC/CA/OL/SP/PL	0.5%	-4.3%	-0.7%
Reinsurance	15.0%	15.0%	15.0%
Medical Malpractice	-5.1%	15.0%	0.0%
Overall	0.2%	-3.9%	-1.4%

American Academy of Actuaries

Risk Based Capital Subgroup on Pricing & Reserving Charges

Summary of Results - BEFORE Capping and Minimums - Revised Methodology

Appendix 2

Exhibit II

(for example purposes only)

Line	Line Letter	New Values (before minimums and capping)				Current Values				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	0.275	0.928	0.917	0.942	-42.3%	43.5%
(2) PPA	B	0.128	0.927	0.946	0.921	0.254	0.921	1.046	0.924	-70.3%	-43.1%
(3) CA	C	0.238	0.909	1.005	0.883	0.287	0.905	1.013	0.9	-24.1%	-15.0%
(4) WC	D	0.274	0.835	1.053	0.832	0.273	0.872	1.008	0.836	-42.0%	33.9%
(5) CMP	E	0.439	0.884	0.935	0.888	0.374	0.88	0.917	0.884	30.3%	30.2%
(6) MM Occurrence	F1	0.323	0.869	2.060	0.778	0.709	0.788	1.761	0.719	-56.9%	64.8%
(7) MM CM	F2	0.283	0.893	1.620	0.835	0.346	0.829	1.072	0.8	25.7%	439.8%
(8) SL	G	0.249	0.901	0.910	0.897	0.244	0.887	0.917	0.913	20.3%	-22.7%
(9) OL	H	0.478	0.862	1.045	0.820	0.520	0.832	1.082	0.808	3.6%	-12.9%
(11) Spec Prop	I	0.290	0.966	0.798	0.944	0.160	0.956	1.014	0.949	125.4%	-96.2%
(12) Auto Phys Damage	J	0.096	0.975	0.847	0.972	0.160	0.97	0.853	0.968	-45.5%	-3.8%
(10) Fidelity & Surety	K	0.427	0.957	0.856	0.921	0.269	0.942	0.875	0.913	87.1%	-19.6%
(13) Other	L	0.361	0.964	0.959	0.956	0.160	0.954	0.867	0.952	192.5%	113.9%
(15) International	M	0.327	0.877	1.169	0.901	0.327	0.864	1.169	0.879	12.1%	9.1%
(16) Rein Property & Financial	N&P	0.742	0.901	1.830	0.884	0.313	0.849	1.224	0.879	396.7%	164.0%
(17) Reinsurance Liab	O	0.849	0.834	1.552	0.810	0.838	0.733	1.379	0.762	56.1%	67.4%
(18) Products Liability	R	1.488	0.838	1.380	0.778	0.532	0.832	1.095	0.808	294.9%	135.4%
(14) Fin & Mort	S	0.160	0.962	1.400	0.916	0.160	0.942	1.400	0.913	25.4%	0.8%

Underwriting Expense Ratio
25.5%

American Academy of Actuaries
Risk Based Capital Subgroup on Pricing & Reserving Charges
Development of Capped Factors - Revised Methodology
15%

Appendix 2

Exhibit III

(for example purposes only)

Development of Proposed with Minimums and Capping

Line	Line Letter	Proposed Values - Before Capping								Current Values						Reserve Charge		Premium Charge	
		Aggregate Loss & LAE	Net Written Premium 2005	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	Premium Loss and LAE Ratio	Premium IIO	Premium Charge	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	0.275	0.928	0.183	0.917	0.942	0.119	0.183	0.156	0.119	0.137
(2) PPA	B	85,172,579	94,860,497	0.128	0.927	0.050	0.946	0.921	0.126	0.254	0.921	0.155	1.046	0.924	0.222	0.155	0.132	0.222	0.188
(3) CA	C	25,944,273	19,766,966	0.238	0.909	0.125	1.005	0.883	0.142	0.287	0.905	0.165	1.013	0.900	0.167	0.165	0.140	0.167	0.142
(4) WC	D	129,490,920	48,860,164	0.274	0.835	0.064	1.053	0.832	0.131	0.273	0.872	0.110	1.008	0.836	0.098	0.110	0.094	0.098	0.112
(5) CMP	E	36,578,767	29,645,006	0.439	0.884	0.273	0.935	0.888	0.085	0.374	0.880	0.209	0.917	0.884	0.066	0.209	0.240	0.066	0.075
(6) MM Occurrence	F1	11,831,384	2,332,329	0.323	0.869	0.149	2.060	0.778	0.859	0.709	0.788	0.347	1.761	0.719	0.521	0.347	0.295	0.521	0.599
(7) MM CM	F2	17,498,277	7,782,258	0.283	0.893	0.146	1.620	0.835	0.608	0.346	0.829	0.116	1.072	0.800	0.113	0.116	0.133	0.113	0.129
(8) SL	G	6,521,213	6,450,843	0.249	0.901	0.124	0.910	0.897	0.071	0.244	0.887	0.103	0.917	0.913	0.092	0.103	0.119	0.092	0.078
(9) OL	H	108,313,309	39,533,685	0.478	0.862	0.274	1.045	0.820	0.113	0.520	0.832	0.265	1.082	0.808	0.129	0.265	0.274	0.129	0.113
(11) Spec Prop	I	15,184,142	25,690,669	0.290	0.966	0.246	0.798	0.944	0.050	0.160	0.956	0.109	1.014	0.949	0.217	0.109	0.125	0.217	0.185
(12) Auto Phys Damage	J	5,694,477	71,886,152	0.096	0.975	0.068	0.847	0.972	0.078	0.160	0.970	0.125	0.853	0.968	0.081	0.125	0.106	0.081	0.078
(10) Fidelity & Surety	K	4,498,952	5,064,801	0.427	0.957	0.366	0.856	0.921	0.050	0.269	0.942	0.195	0.875	0.913	0.054	0.195	0.225	0.054	0.050
(13) Other	L	5,223,907	13,452,554	0.361	0.964	0.312	0.959	0.956	0.172	0.160	0.954	0.107	0.867	0.952	0.080	0.107	0.123	0.080	0.092
(15) International	M	635,439	230,162	0.327	0.877	0.164	1.169	0.901	0.308	0.327	0.864	0.147	1.169	0.879	0.283	0.147	0.164	0.283	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	0.313	0.849	0.115	1.224	0.879	0.331	0.115	0.132	0.331	0.381
(17) Reinsurance Liab	O	44,160,796	3,095,066	0.849	0.834	0.542	1.552	0.810	0.512	0.838	0.733	0.347	1.379	0.762	0.306	0.347	0.399	0.306	0.352
(18) Products Liability	R	16,625,011	3,521,836	1.488	0.838	1.085	1.380	0.778	0.329	0.532	0.832	0.275	1.095	0.808	0.140	0.275	0.316	0.140	0.161
(14) Fin & Mort	S	27,816	7,435,150	0.160	0.962	0.116	1.400	0.916	0.537	0.160	0.942	0.093	1.400	0.913	0.533	0.093	0.107	0.533	0.537
		545,273,531	438,749,267																

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

