

Property and Casualty Risk-Based Capital (E) Working Group Update

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Property and Casualty Risk-Based Capital Committee

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Topics Covered Today

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- R4/R5 Loss/Premium Concentration Factors
- P&C RBC Project Planning 2025 Priorities

R4/R5 – Loss/Premium Concentration Factors

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- RBC provides a credit for writing in multiple lines of business. Currently, the formula provides a max diversification credit (MDC) of 30% for reserve and premium risk.
- The concentration factor is calculated as the maximum percentage of loss or premium in any single line times 30% plus 70%: $LCF = 1 - MDC + (MDC * CoMaxLine\%rsv)$
- The concentration factor is RBC Line 14 on pages PR017 and PR018, respectively.

R4/R5 – Loss/Premium Concentration Factors

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- The formula for concentration factors and the MDC of 30% have not been revised since the inception of the RBC formula.
- The committee's analysis found that MDCs greater than 30% are better supported by the data than the current 30% MDC. The committee intends to publish this analysis in a report in the next several months.

P&C RBC Project Plan – 2025 Prioritized Projects

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- There are eight topics that we propose to prioritize in 2025.
- We list these on the next six slides.
- We plan to begin these projects in 2025. These will be multi-year projects, for which we have not established detailed timelines.
- For context, we also provide a list of projects that we have not included in this plan.
- We welcome the NAIC's Working Group feedback on this plan.

A. Projects Currently Underway (Projects 1 and 2)

- (1) R4/R5 Concentration Factors (Dependency) by LOB – draft report is nearing completion.
- (2) RBC Line 1 (industry average) on pages PR017 and PR018 for reserve risk and premium risk. Review approach. Work is underway.

B. Line 4 Risk Factors (Projects 3-6)

This calibration work will use the method documented in the committee's 2023 Report.

The 2023 Report used Annual Statement data through year-end 2017. The calibration will use Annual Statement data through 2023 and possibly 2024.

This project includes the following major segments:

B1. Line 4 Risk Factors (Projects 3 and 4)

(3) Pooling:

- Update pool map.
- Test the extent to which pooling is essential / search for a simpler approach.

(4) Payment Patterns (used in Investment Income Adjustment (IIA) factors):

- Update to reflect latest data.

B2. Line 4 Risk Factors – (Projects 5 and 6)

(5) Catastrophe Overlap Adjustment:

- Update the Line 4 adjustment on page PR018 (premium risk) to prevent overlap of Cat and Non-Cat risk elements in RBC.
- Reflect 2018 and subsequent cat experience and additional perils consistent with NAIC priorities (wildfire, convective storm, etc.).

(6) Determine indicated Line 4 premium and reserve risk factors and Investment Income Adjustment factors reflecting the results of projects 3 through 5.

C. Other Research (Project 7)

(7) Insolvency History:

- Study the history of U.S. P&C insolvencies and investigate the extent to which RBC provided an early warning.

D. Process Improvement (Project 8)

(8) Calculation/Programming Approach and Data Team:

- Form a centralized team within the committee to obtain data necessary for all analysis.
- Explore tools beyond Excel as appropriate.
- Create librarian function to organize and preserve working files.

Topics That Are Not in Our 2025 Plans

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- The committee's project plan does not include the following:
 - Growth charge
 - Dependency between premium risk and reserve risk
 - Geographic Dependency
 - Workers Compensation Tabular Reserve and RBC
 - Impact of Asbestos & Environmental (A&E) on RBC
 - Cyber Risk and RBC

Topics That Are Not in Our 2025 Plans (cont'd)

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- The committee's project plan does not include the following:
 - Risk development beyond the 10-year Schedule P time horizon
 - Reinsurance availability (the RBC formula assumes that reinsurance capacity is always available)
 - Risks other than R4, R5
 - Operational Risk charge for RBC
 - Compare U.S. P&C RBC to other regions (EU Solvency II, Asia, Bermuda, etc.)

- **Summary: Committee's Proposed Priorities for 2025:**
 - (1) Concentration Factors (Dependency) by LOB
 - (2) Review methodology for RBC Line 1 (industry average)
 - (3) Pooling
 - (4) Payment Patterns
 - (5) For Premium Risk, update the Line 4 catastrophe overlap adjustment
 - (6) Calculate risk charges for Reserve and Premium Risk
 - (7) Insolvency History
 - (8) Calculation/Programming and Data

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