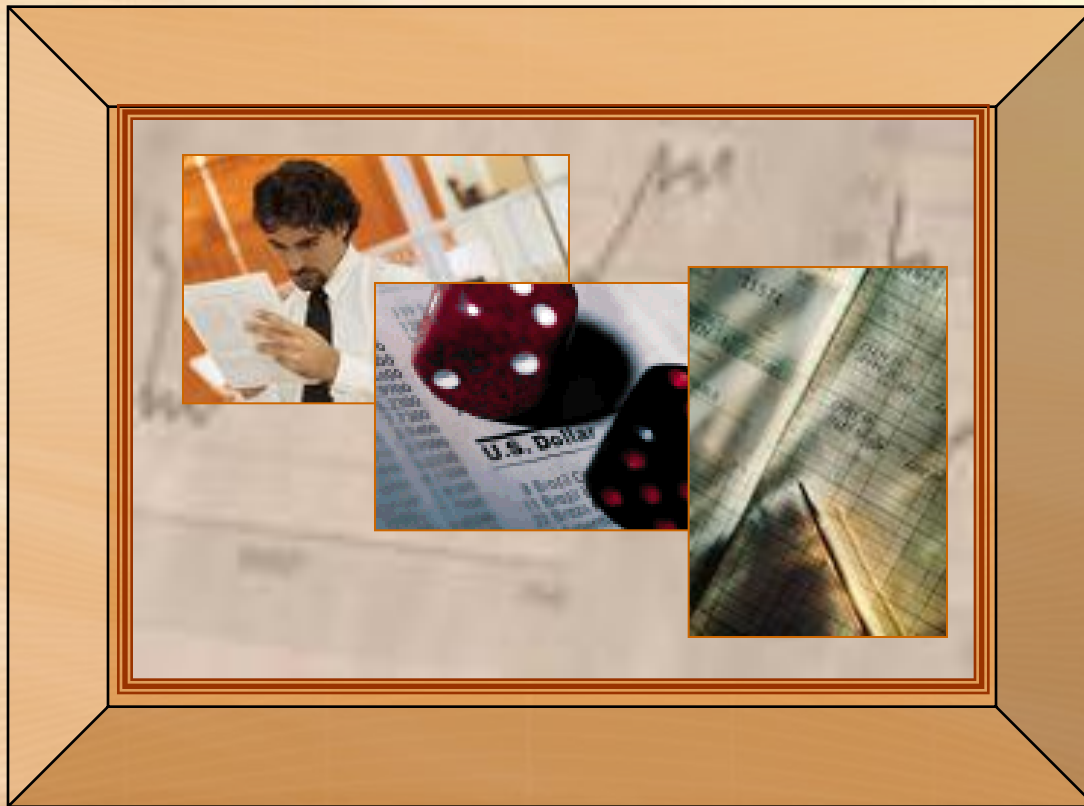


# NAIC Risk-Based Capital (RBC)

## HISTORY



# HISTORY OF RBC

# History of RBC

## State Capital Requirements (Fixed)

- Minimum \$ for Licensing & Operation
- Problems?
  - Growth Rate of the Company?
  - Size of the Company?
  - Mix of Lines of Business?
  - Financial Condition of the Company?
  - Unrelated to the Company's Risk Exposure!  
(Risk = Exposure to Financial Loss)
  - No Provision for Timely Regulatory Action!

## History of RBC (Cont.)

- RBC for Banks Early 1990s
- NAIC Begins Work on RBC in 1990
- NAIC Implements RBC Formulas
  - Life 1993
  - Property/Casualty 1994
  - Health 1998
- Separate Formulas Reflect Unique Industry Risks
- Sections Within each Formula Recognize Unique Operational Risks



# Current RBC Formula Regulatory Purpose / Use

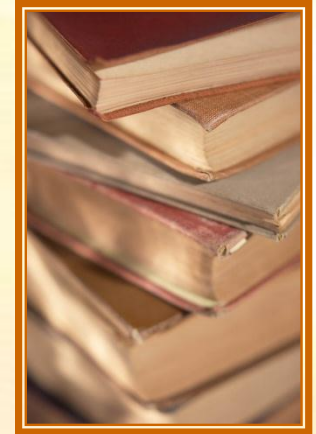
- Rules Based
- Formulaic / Factor Driven
  - *One Size Fits All*
  - *Industry Averages*
- Benchmark – Not Meant to be Precise
- Action Driven
- Model Law / Accreditation Standard

# Current U.S. RBC – Framework / Structure

- Part of Regulatory Safety Net
  - *RBC*
  - *Financial Analysis and Reporting*
  - *Examinations*
  - *Accounting*
  - *Coming Soon – Governance / Risk Assessment / Internal Capital*

# Overview of RBC Model Laws (Cont.)

- RBC Plan
  - Identify Conditions
  - Proposed Corrective Actions
  - Current + 4 Year Financial Projections
  - Key Assumptions for Projections
  - Quality of & Problems with Insurer's Business
  - Submitted within 45 Days of Company Action Level Event
- Commissioner Response to RBC Plan (60 Days)
  - Plan to be Implemented, or
  - Unsatisfactory (Revised RBC Plan or Reg. A.L. Event)



# Overview of RBC Model Law Actions

- Authorized Control Level Event
  - RBC Plan (within 45 days) to Commissioner AND
  - Commissioner Examination or Analysis AND
  - Commissioner's Order for Corrective Actions AND
  - Experts to Review RBC Plan at Insurer's ExpenseOR
  - Place
  
- Mandatory Control Level Event
  - Place Company under "Regulatory Control"



# Solvency II

- Solvency II Identifies Target Capital as Well as Regulatory Capital
  - Minimum Capital Requirement (MCR), similar to RBC concept
  - Solvency Capital Requirement (SCR)
    - Standard Formula with Simplifications
    - Standard Formula
    - Standard Formula with USPs
    - Partial Internal Models
    - Full Internal Model

# RBC - Different from Solvency II

- RBC is a Tool for Use with Potentially Troubled Insurers
  - NOT about a company's target capital level for solvency purposes
  - RBC formula is not a perfect fit for all companies, but is just ONE of many tools used to identify potentially troubled insurers
  - Provides explicit regulatory actions by statute
    - Insurers cannot contest these actions in court as they can less explicit issues and authority