

Life Industry RBC Results for 2008

by NAIC Staff

As of July 30, 2009, approximately 847 Life Risk-Based Capital (RBC) filings have been received and uploaded to the NAIC database for calendar year 2008. This article summarizes the industry results and discusses some of the trends noted in the 2008 filings.

The NAIC RBC formula generates the regulatory minimum amount of capital that a company is required to maintain to avoid regulatory action. There are five levels of action that a company can trigger under the formula. The base action level is the Authorized Control Level. If a company's actual capital dips below its Authorized Control Level Risk-Based Capital, the state insurance regulator has the authority to place the company under regulatory control. Therefore, the Authorized Control Level (ACL) is used as the base level, and the other regulatory intervention levels are defined relative to the ACL. The five action levels are:

- 1) No Action, which means that a company's total adjusted capital (TAC) is at least twice its ACL;
- 2) Company Action Level, which means that a company's TAC is at least 1.5 times its ACL but less than twice its ACL;
- 3) Regulatory Action Level, which means that the company's TAC is at least equal to its ACL but less than 1.5 times its ACL;
- 4) Authorized Control Level, which means that a company's TAC is at least 0.70 times its ACL but less than its ACL; and
- 5) Mandatory Control Level, which means that the company's TAC is less than 0.70 times its Authorized Control Level RBC.

Most companies fall into the "No Action" level. This level does not necessarily mean that the company is in strong financial condition. It simply means that the company has not triggered one of the regulatory intervention levels. A company can be in weak condition and still pass the RBC test.

Distribution of Companies by Action Level

As can be seen in Table 1A, the number of companies triggering one of the regulatory intervention levels is relatively small. Typically, around 97 to 98 percent of all life insurers filing with the NAIC fall into the "No Action" level. That number has been fairly constant throughout the fifteen years that the NAIC's Life RBC system has been in place. Table 1B shows the 2004-2008 industry results for the Tax Sensitivity Test action levels.

Table 2A shows the disposition of insurers filing in data years 2007 and/or 2008. There is an increase of 13 new filers in 2008, which is offset by a decrease of 40 companies that filed in 2007 but did not file in 2008. Some of these companies have not filed because they have merged or otherwise gone out of business, and some have not filed because they were exempted by state regulators.

Of the 834 companies that filed in both 2007 and in 2008, 11 companies triggered one of the action levels in 2007. Four of those companies that triggered an action level in 2007 were able to move to the "No Action" level in 2008 while the remaining 7 remain in one of the action levels. Table 2B shows the disposition of insurers using the Tax Sensitivity Test action levels.

Aggregate Industry Results

The RBC ratio is the ratio of a company's TAC to its ACL RBC. Table 3A shows the median RBC ratio by asset size for data years 2004 through 2008. The "average" RBC ratio is a function of size. Larger insurers tend to operate with lower capital margins (the ratio of capital to assets). The RBC ratios reflect this difference and emphasize the inappropriateness of comparing RBC ratios between insurers. Although larger insurers tend to have lower RBC ratios, on average, the larger insurers also tend to have more stability in their operating results. Table 3B shows median Tax Sensitivity Test RBC ratios for 2004-2008.

Figure 1A shows the percentage breakdown of the aggregate RBC by component for 2008. The C1 (other asset risk) and C2 (insurance risk) components constitute the bulk of the aggregate RBC, with the insurance risk component being more prominent in the smaller companies and the other asset risk component being more influential in the larger companies. For example, insurance

risk is 47% of the total RBC for companies with between \$10 and \$25 million in total admitted assets, while other asset risk contributes 25 percent. On the other hand, companies with more than \$10 billion in assets have only 16 percent of their RBC coming from insurance risk and 53 percent of the RBC is contributed by other asset risk. Figure 1B shows the same breakdown using pre-tax RBC amounts.

Table 4 shows the industry aggregate Total Adjusted Capital and its breakdown into basic elements for 2004 through 2008. Tax Sensitivity Test TAC is also included for 2004-2008.

Table 5 shows the aggregate RBC by major covariance elements for 2004 through 2008. The RBC after covariance for each year is calculated using that year's respective covariance formula.

Overall, TAC has fallen nearly one percent in the past five years, including a 12% decrease in the past year. Total pre-tax RBC has risen three percent and RBC after covariance has increased by one percent from 2004-2008.

Table 1A
Industry Results By Action Level, 2004-2008

	2004	2005	2006	2007	2008
No Action	998	956	913	861	823
Company Action Level	13	10	5	6	10
Regulatory Action Level	1	3	4	3	5
Authorized Control Level	0	0	2	2	2
Mandatory Control Level	3	0	2	2	7
Total	1,015	969	926	874	847
Percent At 'No Action' Level	98.3%	98.7%	98.60%	98.51%	97.17%

Table 1B
Industry Results By Tax Sensitivity Test Action Level, 2004-2008

	2004	2005	2006	2007	2008
No Action	980	946	904	854	810
Company Action Level	25	13	10	8	18
Regulatory Action Level	6	7	6	6	6
Authorized Control Level	1	3	4	2	5
Mandatory Control Level	3	0	2	4	8
Total	1,015	969	926	874	847
Percent At 'No Action' Level	96.5%	97.6%	97.62%	97.71%	95.63%

Table 2A
2008 Disposition of 2007 RBC Filers By Action Level

		2008 Action					
		NO ACTION	COMPANY ACTION LEVEL	REGUL. ACTION LEVEL	AUTHOR. CONTROL LEVEL	MANDATORY CONTROL LEVEL	NOT ON DATABASE
2007 Action	NO ACTION	806	9	4	0	4	38
	COMPANY ACTION LEVEL	3	1	1	0	1	0
	REGULATORY ACTION LEVEL	0	0	0	2	0	1
	AUTHORIZED CONTROL LEVEL	0	0	0	0	1	1
	MANDATORY CONTROL LEVEL	1	0	0	0	1	0
	NOT ON DATABASE	13	0	0	0	0	0

Table 2B
2008 Disposition of 2007 RBC Filers By Tax Sensitivity Test Action Level

		2008 Action					
		NO ACTION	COMPANY ACTION LEVEL	REGUL. ACTION LEVEL	AUTHOR. CONTROL LEVEL	MANDATORY CONTROL LEVEL	NOT ON DATABASE
2007 Action	NO ACTION	791	17	4	3	2	37
	COMPANY ACTION LEVEL	4	0	1	0	2	1
	REGULATORY ACTION LEVEL	1	1	1	2	1	0
	AUTHORIZED CONTROL LEVEL	0	0	0	0	1	1
	MANDATORY CONTROL LEVEL	1	0	0	0	2	1
	NOT ON DATABASE	13	0	0	0	0	0

Table 3A
Median RBC Ratios By Asset Size, 2004-2008

Asset Size	2008 Surplus to Asset Ratio	2004	2005	2006	2007	2008
Less than \$10 million	0.483	4392%	4470%	4634%	4628%	4808%
\$10 million to \$25 million	0.451	1506%	1540%	1676%	1673%	1753%
\$25 million to \$100 million	0.314	1161%	1168%	1089%	1167%	1177%
\$100 million to \$250 million	0.243	768%	887%	820%	817%	734%
\$250 million to \$500 million	0.125	804%	753%	862%	882%	720%
\$500 million to \$1 billion	0.114	808%	977%	952%	831%	650%
\$1 billion to \$10 billion	0.084	782%	800%	824%	859%	730%
More than \$10 billion	0.053	787%	819%	827%	806%	777%
All Companies	0.180	940%	975%	996%	1009%	910%

Table 3B
Median Tax Sensitivity Test RBC Ratios By Asset Size, 2004-2008

Asset Size	2008 Surplus to Asset Ratio	2004	2005	2006	2007	2008
Less than \$10 million	0.483	3024%	3467%	3194%	3148%	3503%
\$10 million to \$25 million	0.451	1095%	1071%	1104%	1188%	1208%
\$25 million to \$100 million	0.314	839%	828%	743%	822%	823%
\$100 million to \$250 million	0.243	544%	654%	612%	562%	484%
\$250 million to \$500 million	0.125	574%	536%	582%	599%	480%
\$500 million to \$1 billion	0.114	543%	646%	685%	551%	478%
\$1 billion to \$10 billion	0.084	525%	528%	536%	582%	476%
More than \$10 billion	0.053	507%	545%	545%	526%	492%
All Companies	0.180	657%	694%	710%	705%	624%

Table 4
Industry Aggregate Total Adjusted Capital, 2004-2008

	2004	2005	2006	2007	2008
	(000)	(000)	(000)	(000)	(000)
Total Adjusted Capital Elements					
Capital and Surplus	293,539,923	294,651,577	306,758,158	322,015,036	305,219,806
AVR	33,204,687	35,508,317	40,960,664	43,589,731	20,363,672
Dividend Liability	8,733,480	8,909,795	9,183,263	9,434,527	8,887,485
Life Subsidiaries' AVR	4,077,590	4,711,467	5,192,932	6,928,252	2,782,364
Life Sub's Dividend Liability	191,006	169,155	156,249	161,270	153,712
P/C Subs' Non-Tab Discount	0	0	0	0	0
Total Adjusted Capital (TAC)	340,246,686	344,450,311	363,471,267	382,628,818	337,907,040
Tax Sensitivity Test TAC	326,076,579	330,324,278	350,048,137	367,888,064	311,977,008

Schedule BA	2,157,849	2,324,744	2,613,113	3,758,130	4,143,227	0.63%	0.67%	0.72%	0.98%	1.23%	0.66%	0.70%	0.75%	1.02%	1.33%
Real Estate															
Other Long-Term Assets	3,118,084	3,610,762	4,288,325	5,639,349	5,302,109	0.92%	1.05%	1.18%	1.47%	1.57%	0.96%	1.09%	1.23%	1.53%	1.70%
Schedule BA Mortgages	65,208	69,408	59,148	48,425	69,967	0.02%	0.02%	0.02%	0.01%	0.02%	0.02%	0.02%	0.02%	0.01%	0.02%
Concentration Factor	2,405,408	2,268,978	2,203,678	3,027,930	3,020,152	0.71%	0.66%	0.61%	0.79%	0.89%	0.74%	0.69%	0.63%	0.82%	0.97%
Miscellaneous Assets	475,892	511,810	592,216	820,966	741,342	0.14%	0.15%	0.16%	0.21%	0.22%	0.15%	0.15%	0.17%	0.22%	0.24%
Replication															
Transactions & Mandatorily Convertible Securities	83,621	85,650	94,956	239,913	212,441	0.02%	0.02%	0.03%	0.06%	0.06%	0.03%	0.03%	0.03%	0.07%	0.07%
Reinsurance	1,491,369	1,539,446	182,130	1,995,651	2,007,897	0.44%	0.45%	0.05%	0.52%	0.59%	0.46%	0.47%	0.05%	0.54%	0.64%
Total C1o – Pre-tax	47,317,957	45,370,186	47,873,821	53,067,181	53,398,853	13.91%	13.17%	13.17%	13.87%	15.80%	14.51%	13.74%	13.68%	14.42%	17.12%
Net C1o – Post-Tax	33,890,876	32,512,763	34,298,958	37,982,463	38,262,547	9.96%	9.44%	9.44%	9.93%	11.32%	10.39%	9.84%	9.80%	10.32%	12.26%
Total C1 – Pre-tax	70,041,638	69,009,089	75,548,441	85,649,343	76,742,918	20.59%	20.03%	20.79%	22.38%	22.71%	21.48%	20.89%	21.58%	23.28%	24.60%
Net C1 – Post-Tax	48,661,269	47,878,110	52,287,479	59,160,914	53,436,484	14.30%	13.90%	14.39%	15.46%	15.81%	14.92%	14.49%	14.94%	16.08%	17.13%
C2 - Insurance Risk															
Individual & Industrial Life Insurance	9,094,377	9,281,122	9,420,514	9,463,706	9,457,353	2.67%	2.69%	2.59%	2.47%	2.80%	2.79%	2.81%	2.69%	2.57%	3.03%
Group & Credit Life Insurance	6,521,892	7,026,399	7,456,946	7,655,634	7,278,762	1.92%	2.04%	2.05%	2.00%	2.15%	2.00%	2.13%	2.13%	2.08%	2.33%
Total Health Insurance Premium	14,662,928	14,162,588	16,341,561	16,636,014	17,906,941	4.31%	4.11%	4.50%	4.35%	5.30%	4.50%	4.29%	4.67%	4.52%	5.74%
Stabilization Reserve Credit	-3,411,066	-3,669,326	-3,821,315	-4,011,388	-3,970,545	-1.00%	-1.07%	-1.05%	-1.05%	-1.18%	-1.05%	-1.11%	-1.09%	-1.09%	-1.27%
Total C2 – Pre-Tax	26,868,131	26,800,783	29,397,706	29,743,967	30,672,511	7.90%	7.78%	8.09%	7.77%	9.08%	8.24%	8.11%	8.40%	8.09%	9.83%
Net C2 – Post-Tax	19,476,988	19,166,667	21,332,094	21,583,666	22,559,848	5.72%	5.56%	5.87%	5.64%	6.68%	5.97%	5.80%	6.09%	5.87%	7.23%
C3a - Interest Rate Risk															
Total C3a – Pre-Tax	22,992,693	21,814,607	19,470,620	17,525,580	17,276,884	6.76%	6.33%	5.36%	4.58%	5.11%	7.05%	6.60%	5.56%	4.76%	5.54%
Net C3a – Post-Tax	14,945,250	14,179,495	12,655,767	11,391,627	11,229,975	4.39%	4.12%	3.48%	2.98%	3.32%	4.58%	4.29%	3.62%	3.10%	3.60%
C3b – Health Credit Risk															
Total C3b – Pre-Tax	27,989	2,967	2,219	2,028	1,806	0.01%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%	0.00%	0.00%

Net C3b – Post-Tax	27,989	2,967	2,219	2,028	1,806	0.01%	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
C3c – Market Risk																
Total C3c – Pre-Tax	0	989,640	1,120,547	1,290,892	631,001	0	0.29%	0.31%	0.34%	0.19%	0	0.30%	0.32%	0.35%	0.35%	0.20%
Net C3c – Post-Tax	0	1,837,903	2,081,016	2,397,371	1,171,858	0	0.53%	0.57%	0.63%	0.35%	0	0.56%	0.59%	0.65%	0.65%	0.38%
C4a – Business Risk																
Premium Component	7,036,671	6,789,699	7,118,383	6,951,296	8,479,932	2,07%	1.97%	1.96%	1.82%	2.51%	2.16%	2.06%	2.03%	1.89%	1.89%	2.72%
Liability Component	1,038,391	1,135,645	1,322,431	1,460,464	1,058,594	0.31%	0.33%	0.36%	0.38%	0.31%	0.32%	0.34%	0.38%	0.40%	0.40%	0.34%
Subtotal	8,075,062	7,925,345	8,440,814	8,411,760	9,538,526	2.37%	2.30%	2.32%	2.20%	2.82%	2.48%	2.40%	2.41%	2.29%	2.29%	3.06%
Business Risk (C4a) – Pre-Tax	5,248,790	5,151,474	5,486,529	5,467,644	6,200,042	1.54%	1.50%	1.51%	1.43%	1.83%	1.61%	1.56%	1.57%	1.49%	1.49%	1.99%
Net C4a – Post-Tax	649,938	452,356	532,386	575,589	624,537	0.19%	0.13%	0.15%	0.15%	0.18%	0.20%	0.14%	0.15%	0.16%	0.16%	0.20%
C4b – Business Risk																
Health Admin. Expense Component – Pre-Tax	649,938	452,356	532,386	575,589	624,537	0.19%	0.13%	0.15%	0.15%	0.18%	0.20%	0.14%	0.15%	0.16%	0.16%	0.20%
Net C4b – Post-Tax	649,938	452,356	532,386	575,589	624,537	0.19%	0.13%	0.15%	0.15%	0.18%	0.20%	0.14%	0.15%	0.16%	0.16%	0.20%
Total RBC																
Total RBC – Pre-Tax	157,148,417	153,442,928	162,090,095	174,763,157	162,273,086	46.19%	44.55%	44.60%	45.67%	48.02%	48.19%	46.45%	46.31%	47.50%	47.50%	52.01%
Net RBC – Post-Tax	108,117,520	106,213,063	112,699,046	121,554,336	112,950,605	31.78%	30.84%	31.01%	31.77%	33.43%	33.16%	32.15%	32.20%	33.04%	33.04%	36.20%
Total RBC After Covariance	87,710,771	84,696,172	89,591,874	95,435,586	89,190,900	25.78%	24.59%	24.65%	24.94%	26.40%	26.90%	25.64%	25.59%	25.94%	25.94%	28.59%
Tax Sensitivity after Covariance	126,879,274	123,089,259	129,714,513	138,261,812	128,049,106	37.29%	35.73%	35.69%	36.13%	37.89%	38.91%	37.26%	37.06%	37.58%	37.58%	41.04%
Total Adjusted Capital																
Total Adjusted Capital – Tax Sensitivity	340,241,155	344,450,311	363,471,267	382,628,818	337,907,040	100.00%	100.00%	100.00%	100.00%	100.00%	104.34%	104.28%	103.83%	104.01%	104.01%	108.31%
Total Adjusted Capital – Total Adjusted Capital	326,076,579	330,324,278	350,048,137	367,888,064	311,977,008	95.84%	95.90%	96.31%	96.15%	92.33%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Figure 1A
RBC Components by Company Size
2008

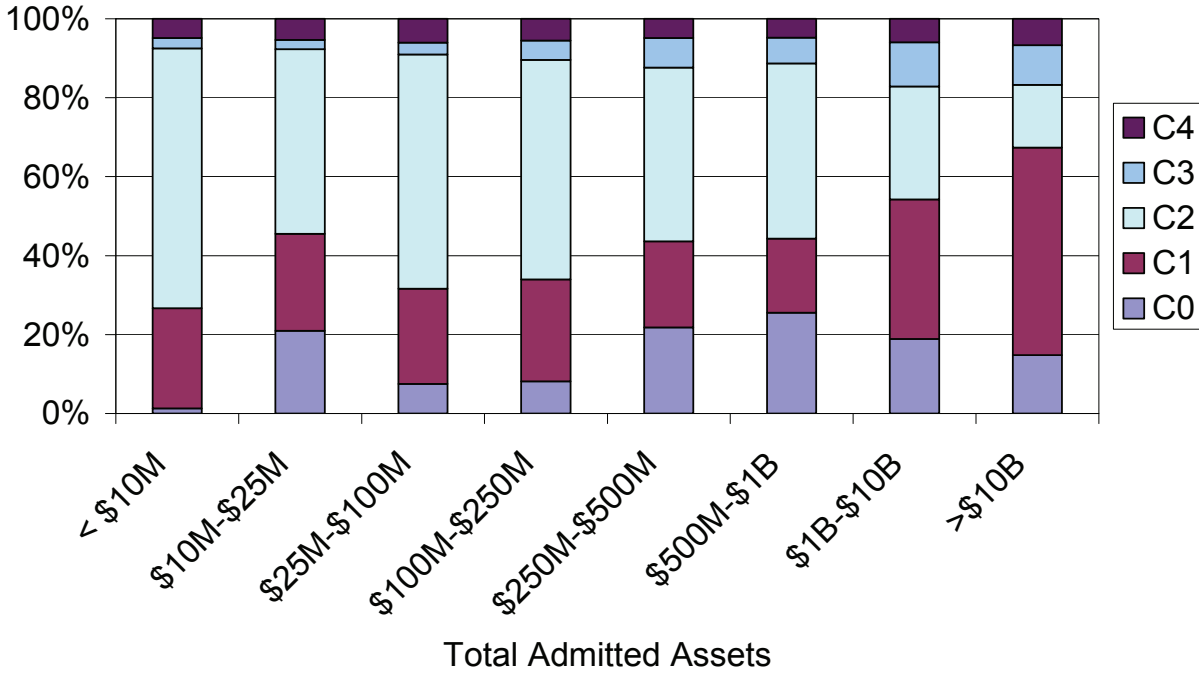


Figure 1B
Pre-tax RBC Components by Company Size
2008

