

18. (2.75 points)

Given the following RBC information for an insurer as of December 31, 2018:

R0	0
R1	300,000
R2	
R3	500,000
R4	10,000,000
R5	1,000,000

- Total adjusted capital is \$18 million
- Total adjusted capital as a percent of Authorized Control Level (ACL) is 285%
- The insurer currently holds \$10 million of Class 06 unaffiliated stocks. Class 06 means “in or near default”
- Of the insurer’s top 10 largest equity investments, none are in Class 06
- The NAIC Class 06 RBC factor for equities is 0.3
- The insurer’s combined ratio for the current year is 125%

a. (0.25 point)

Briefly describe why this insurer fails the trend test.

b. (2 points)

Calculate the minimum amount of the Class 06 unaffiliated stocks that the insurer must convert to government bonds in order to achieve an RBC ratio of 300%.

c. (0.5 point)

Identify the usual range for IRIS ratio 5 (Two-Year Overall Operating Ratio), and briefly describe one reason why it may be outside of the usual range for this insurer.