

Part IV. Statutory Filings to Accompany the Annual Statement

TABLE 88

| Reporting Entity Insurance Company (REIC) | | | | | | | |
|--|--|--------------|-------------|-----------|-----------|------------------------|---|
| <u>Given the following data:</u> | | <u>HO/FO</u> | <u>PPAL</u> | <u>WC</u> | <u>OL</u> | <u>Total All Lines</u> | <u>Source</u> |
| (1) | Industry Average Loss & LAE Development Ratio | 0.989 | 1.022 | 0.952 | 0.966 | | Provided by NAIC |
| (2) | Company Average Loss & LAE Dvpt Ratio for prior 9 years | 1.070 | 1.100 | 1.125 | 1.150 | | Company Schedule P, Part 2 |
| (3) | Industry Loss & LAE RBC % | 0.213 | 0.181 | 0.336 | 0.531 | | Provided by NAIC |
| (4) | Adjustment for Investment Income | 0.938 | 0.928 | 0.830 | 0.852 | | Provided by NAIC |
| (5) | Company Net Loss & LAE Unpaid, gross of non-tabular discount | 10,000 | 8,000 | 17,000 | 12,000 | 47,000 | Company Schedule P, Part 1 |
| (6) | Other Discount Amount Not Included in Unpaid Loss & LAE | — | — | — | — | — | Company data |
| (7) | Portion of Reserves on Retro-Rated Plans: | | | | | | |
| (a) | % Direct Loss Sensitive | 0.0% | 0.0% | 20.0% | 0.0% | | Company Schedule P, Part 7A, Col 3 |
| (b) | % Assumed Loss Sensitive | 0.0% | 0.0% | 0.0% | 0.0% | | Company Schedule P, Part 7B, Col 3 |
| <u>Calculation of Reserve RBC</u> | | <u>HO/FO</u> | <u>PPAL</u> | <u>WC</u> | <u>OL</u> | <u>Total All Lines</u> | |
| Step 1: Base Loss & LAE Reserve RBC | | | | | | | |
| (8) | Ratio of Company Average Development Ratio to Industry | 1.082 | 1.076 | 1.182 | 1.190 | | = (2) / (1) |
| (9) | Company Loss & LAE RBC % | 0.222 | 0.188 | 0.367 | 0.582 | | = 50% of (3) + 50% of (8)*(3) |
| (10) | Base Loss & LAE Reserve RBC Charge | 1,460 | 819 | 2,282 | 4,170 | | = { [(9)+1] * (4) } - 1 } * { (5) + (6) } |
| Step 2: Loss & LAE RBC After Discount | | | | | | | |
| (11) | Loss-sensitive Factor | — | — | 0.060 | — | | = 30% of (7a) + 15% of (7b) |
| (12) | Loss-sensitive Discount | — | — | 137 | — | | = (11) * (10) |
| (13) | Loss & LAE RBC After Discount | 1,460 | 819 | 2,145 | 4,170 | 8,594 | = (10) - (12) |
| Step 3: Net Loss & LAE RBC * 1,000 | | | | | | | |
| (14) | Distribution of Loss & LAE Reserves by Line | 21% | 17% | 36% | 26% | | = (5) by line / (5) total |
| (15) | Loss Concentration Factor | | | | | 0.809 | = 0.300 * Max of (14) + 0.700 |
| (16) | Net Loss & LAE RBC * 1,000 | | | | | 6,948,010 | = (13) * (15) * 1,000 |

As displayed in Table 88, the reserve RBC included in the R₄ charge for REIC is \$6,948,010. The main driver of the reserve RBC is the company RBC percentage for loss and LAE reserve risk. This percentage is higher than the industry RBC percent in line 3 because REIC's ultimate estimates tend to develop adversely, as evidenced by the ratios of company development to industry development in excess of 1.000 in line 8 above.

Table 89 provides another example of the detailed R₄ calculation for the commercial automobile liability (CAL) line of business for Fictitious Insurance Company. This calculation uses the financial statements and Schedule P line detail found in other examples within this publication.

TABLE 89