

# Montana State Fund Risk Based Capital (RBC)

Title 33, Chapter 2, Part 19



1

## Risk Based Capital (RBC) Title 33, Chapter 2, Part 19

RBC is a formula driven calculation evaluating the Minimum amount of Capital (Surplus) a company needs based on their exposure to various risks. Risk areas include,

- Underwriting (Loss Reserves, Premium)
- Invested Assets (valuation, diversification, allocation)
- Credit (debt, use of reinsurance)
- Other (off balance sheet, contingencies, guarantees)



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2

2

## RBC Regulatory Triggers Defined (cont.)

- **Company Action Level (CAL)**
  - **2 times the Authorized Control Level (ACL)**
  - The insurance company prepares a plan that
    - identifies the conditions that caused the CAL trigger
    - Proposes corrective actions the company will take, and
    - provides financial projections of the next five years (key assumptions, quality of the company's business including assets, risk exposures, use of reinsurance and the mix of business.)
- **Regulatory Action Level (RAL)**
  - **1.5 times ACL**
  - The Insurance Commissioner
    - Requires the insurer to prepare and submit a plan
    - Examines and analyzes the assets, liabilities, and operations of the company
    - Issues an order requiring corrective actions

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3

3

## RBC Regulatory Triggers Defined (cont.)

- **Authorized Control Level (ACL)**
  - **Formula driven result of various risk factors**
  - The Insurance commissioner,
    - Take the actions required under the RAL criteria, or
    - if the commissioner considers it to be in the best interests of the policyholders and the public, place the company under regulatory control under Title 33, chapter 2, part 13 (Supervision, Rehabilitation, and Liquidation).
- **Mandatory Control Level (MAL)**
  - .7 times ACL, Regulator will place Insurer under control
  - The insurance commissioner places the company under regulatory control under Title 33, chapter 2, part 13 (Supervision, Rehabilitation, and Liquidation) with the rights, powers, and duties to manage the company.


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4

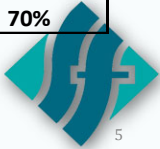
4



	Company Action Level	Regulatory Action Level	Authorized Control Level	Mandatory Control Level
Private Insurance Companies	200%	150%	100%	70%
Proposed for MSF	400%	200%	100%	70%

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5

5


## Risk Based Capital (RBC) Montana State Fund\*

Ending MSF Statutory Surplus at June 30, 2013	\$372,277,435	
Various Regulatory Action Levels	Proposed MSF RBC Trigger Measures (Percent Of ACL)	Implied Required Minimum MSF Surplus
Company Action Level (CAL)	400%	\$205,131,688
Regulatory Action Level (RAL)	200%	\$102,565,844
Authorized Control Level (ACL)		\$51,282,922
Mandatory Control level (MCL)	70%	\$35,898,045

\*Note: FY 2013 ending surplus was 726% of the ACL level

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6

6

## Risk Based Capital (RBC)

33-2-1903 (4)

*“An excess of capital over the amount produced by the risk-based capital requirements...is desirable in the business of insurance. ...insurers should seek to maintain capital above the RBC levels required by this part. Additional capital is used and useful in the insurance business and helps to secure an insurer against various risks inherent in or affecting the business of insurance and not accounted for or only partially measured by the risk-based capital requirements contained in this part.”*



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7