American Academy of Actuaries (AAA) Stop Loss Risk-Based Capital Work Group is Reviewing the Potential Need for Changes in the RBC Factors

By Michael L. Frank

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In 1999, the National Association of Insurance Commissioners (NAIC) requested that the American Academy of Actuaries (Academy) review the various risk-based capital (RBC) formulas for health insurance products such as long term disability, long-term care and stop loss insurance. The stop-loss RBC work group (work group) was formed to address stop loss (medical excess of loss) business, and charged with researching the formula to be used by carriers (HMOs, Blues plans, A&H insurers, P&C insurers) writing this business. RBC formulas are used to measure the minimum amount of statutory capital that an insurance company is required to hold based on the size and degree of risk taken by the insurer. As a result, the ongoing review of risk-based capital formulas is a vital process.

This summer, the work group will be working with the Society of Actuaries (SOA) to contact insurance companies and reinsurers for non-proprietary, non-confidential financial data for the purpose of updating the prior study to enable the work group to propose revised capital requirements to the NAIC. Information will be collected and analyzed by the SOA. The work group will use aggregated data results provided by the SOA to form a proposed formula. As in the past, the work group will be preparing a study of insurance and reinsurance company financial data in the stop loss insurance arena including self-funded stop loss (specific and aggregate), medical (portfolio) excess, HMO reinsurance and provider excess coverage.

Keys to the success of this updated review will include obtaining a critical mass of experience from insurance companies and reinsurers by the various stop loss product lines. Confidentiality of information is important for participants, and the work group will not be seeking to obtain data that is confidential or business proprietary in nature from participants.

The stop loss product lines are unique given that a significant portion of the business in the industry involves two or more parties (including reinsurers, issuing carriers and managing general underwriters). As a result, it will take significant energy to ensure that duplicate experience is not reflected in the review. Prior members of the work group have taken considerable care not to have duplicate experience, and the current work group will also focus its energy here.

Insurance companies and reinsurers interested in supplying data for the study should contact Barbara Scott at the SOA, at *bscott@soa.org*, to provide her with your name and contact information. Updates for the work group will be provided in future newsletters.

Members of the 2009 work group are: Devin B. Dixon, Michael L. Frank, David C. Fry, James A. Kaiser, John I. Mange, Ian K. McAlister, Shaun L. Peterson, Michael E. Rieth, Eric L. Smithback, David Vnenchak, Ruth Ann Woodley. ■

[1] The American Academy of Actuaries is a 16,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.