

Errata for General Insurance Financial Reporting Topics, Fifth Edition

The Excessive Premium Growth Charge calculation for NAIC RBC regarding Reserves and Written premiums was in error. The growth rate is calculated on an all lines of business combined basis and the factors apply to the all lines of business combined total amounts for reserves and written premiums. This error was also in previous editions.

The following shows the corrected text in red.

Page 350, line before Excessive Premium Growth Charge—Reserves formula:

We focus here on the Excessive Premium Growth Charge—Reserves. It is computed on a **total business basis** as follows:

$$\text{Held Reserves} \times \text{Excessive Premium Growth Charge Factor} \times \text{RBC Average Growth Rate.}$$

Page 350, second last paragraph, second sentence:

The Excessive Premium Growth Charge Factor for reserves is selected as 45%. To compute the **total average growth rate**, use the four most recent years' gross written premium; compute three year-to-year growth rates. Each year's growth rate is capped at a maximum of 40%. The capped average growth rate is the straight average of these three capped year-to-year growth rates. The RBC Average Growth Rate is the capped average growth rate in excess of 10% (producing a value anywhere from 0% to 30%).

Page 351, Illustration at top of page:

Illustration: An insurance group has **total** gross written premium of \$80 million, \$120 million, \$150 million, and \$186 million for the past four years. The growth rates are +50%, +25% and +24%, for a capped straight average of +29.7% (average of 40%, 25% and 24%). The *RBC Average Growth Rate* is calculated as 29.7% – 10% = 19.7% and it applies to all of the insurers in the insurance group.

Page 351, formula before 12.11.9:

In summary, R_4 , the total NAIC RBC charge for reserve risk is given by the formula

$$\left[\left(\sum_{\text{LOB}} \left(\frac{\text{Base L\&LAE}}{\text{Reserve RBC}} \right)_{\text{LOB}} \times \left(\frac{\text{Loss Sensitive}}{\text{Discount}} \right)_{\text{LOB}} \right) \times \text{LCF} \right]$$

+ [Excessive Premium Growth Charge - Reserves]

+ [Conditional Amount for Reinsurance Recoverables RBC]

+ [Adjusted A&H Claims Reserve RBC].

Page 353, line before Excessive Premium Growth Charge—Written Premiums formula:

Excessive Premium Growth Charge—Written Premiums is computed on a **total business basis** as follows:

$$\text{NWP} \times \text{Excessive Premium Growth Charge Factor} \times \text{RBC Average Growth Rate.}$$

Page 354, formula before 12.11.10:

In summary, R_5 , the total NAIC RBC charge for written premium risk is given by the formula

$$\left[\left(\sum_{\text{LOB}} \left(\text{Base WP RBC} \right)_{\text{LOB}} \times \left(\text{Loss Sensitive Discount for NWP} \right)_{\text{LOB}} \right) \times \text{PCF} \right]$$

+ [Excessive Premium Growth Charge - Written Premiums]

+ [Total Net Health Premium RBC]

+ [Health Stabilization Reserves].

Page 355, table for section 12.11.11:

	<i>PPA</i>	<i>CA</i>	<i>WC</i>	<i>Total</i>	<i>Source</i>
NWP for most recent year	\$9.5M	\$2.5M	\$3M	\$15M	U&IE Part 1B
10-year average net loss and LAE ratio	95.0%	75.0%	87.5%		Schedule P Part 1
Unpaid L&LAE at end of most recent year	\$8M	\$2M	\$6M	\$16M	Schedule P Part 1
Average net loss and LAE development over the past 10 years	+10.0%	+15.0%	+2.5%		Schedule P Part 2
GWP growth rate over last 4 years (year-to-year rates)				+12%, +7.5%, +13.5%	U&IE Part 1B

Page 358, formulas after first sentence of section 12.11.11.3:

For R_4 : Total Held Reserves \times Excessive Premium Growth Charge Factor_{RES} \times RBC Average Growth Rate.

For R_5 : Total NWP \times Excessive Premium Growth Charge Factor_{WP} \times RBC Average Growth Rate.

Page 359, table and calculation before section 12.12:

For PQR, the calculation of the excessive premium growth charge is as follows (amounts in \$M):

<i>Total All Lines RBC Average Growth Rate</i>	<i>Held Reserves</i>	<i>Charge for R₄</i>	<i>NWP</i>	<i>Charge for R₅</i>
Max [0%, (12% + 7.5% + 13.5%) / 3 - 10%] = 1%	16.0	1% \times 16.0 \times 45% = 0.072	15.0	1% \times 15.0 \times 22.5% = 0.034

Therefore, the total R_4 and R_5 charges for PQR are as follows:

- $R_4 = \$1.561M + \$0.072M = \$1.633M$.
- $R_5 = \$2.463M + \$0.034M = \$2.497M$.