

# **BLAIS EXCESS & SURPLUS** **AGENCY OF TEXAS, LTD.**



## **PRESS RELEASE**

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### **RISK BASED CAPITAL (RBC) LEVELS OF LEADING D&O INSURERS**

Blais Excess & Surplus Agency of Texas Ltd. constantly monitors the financial stability of insurance companies on behalf of its agents and clients. One of the tools utilized is the relationship between an insurance company's total adjusted capital and its authorized control level risk based capital. Highlighted below is a brief overview of this tool and a few ratios of various insurers.

First introduced by the National Association of Insurance Commissioners (NAIC) in 1995, the relationship between an insurance company's Total Adjusted Capital (TAC) – essentially the policyholders' surplus – and its Authorized Control Level Risk Based Capital (ACLRBC) is one of the few objective carrier financial evaluation tools available.

An insurer's ACLRBC is a dollar value that reflects its exposure to (1) Underwriting risk, both present and historical, (2) Asset risk from owned equities and fixed-income holdings, (3) Credit risk from money owned to the insurer and (4) Off balance sheet risks. The value, which increases in direct relation to increased exposure to risk, is formulated by the NAIC based on data received from each insurer.

The next page shows the TAC: ACLRBC ratios for leading U.S. D&O carriers from 1999 to 2003.

- ✓ If an insurer's Total Adjusted Capital falls to 200% of its ACLRBC, a "Company Action Level Event" has occurred, and the insurer must submit a plan of corrective action to the insurance commissioner.
- ✓ If the TAC falls further so that it equals the ACLRBC, then the state insurance commissioner has the right to assume control of the company.
- ✓ If the TAC then drops to 70% of the ACLRBC, the commissioner is mandated to take control.

It is important to mention the NAIC emphasizes that the RBC formula was not developed as a means of comparing one adequately capitalized insurance company with another. Therefore, each insurer's TAC: ACLRBC ratio should be seen relative to the various Risk Based Control Levels (RBC), and not relative to other insurers.

**THE FOLLOWING CHART SHOWS THE  
TOTAL ADJUSTED CAPTIAL (TAC):  
AUTHORIZED CONTROL LEVEL RISK BASED CAPTIAL RATIO (ACLRBC) FOR  
LEADING U.S. D&O CARRIERS FROM 1999 TO 2003  
(SHOWN AS A PERCENTAGE %)**

COMPANY	2003 RATIO	2002 RATIO	2001 RATIO	2000 RATIO	1999 RATIO
Twin City	1083	1334	1238	1145	1036
Clearwater	822	707	551	417	371
Genesis Ins Co	789	856	631	574	847
RLI	732	560	414	529	567
Houston Casualty	662	732	650	687	539
Old Republic	600	547	717	755	821
U.S. Fire	475	379	299	368	262
Starr Excess	444	549	561	567	553
National Union	438	423	496	524	478
Navigators	432	424	761	815	735
Great American	412	335	363	371	346
St. Paul F& M	410	375	317	430	365
Carolina Casualty	406	468	507	416	407
Odyssey American	369	292	274	317	315
Admiral	362	407	380	411	399
Liberty Mutual	360	284	360	432	409
Executive Risk	342	316	328	343	371
Federal	339	291	294	327	317
Westchester Fire	339	299	285	316	268
Zurich American	301	263	272	325	388
Continental Casualty	292	228	292	397	381
Gulf Ins Co	288	278	712	391	481
Swiss Re America	242	241	218	279	337
Ace America	236	231	308	242	275
Royal Indemnity	211	207	211	348	437
Lumbermens Mutual	34	83	220	454	603

**SAMPLE CALCULATION**

CARRIER	Old Republic Insurance Company
2003 Total Adjusted Capital	\$560,310,492
2003 ACLRBC	\$94,842,630
<b>Therefore TAC is 600% of ACLRBC</b>	

**Special Note:** Carriers that do not have continuous data since 1999 or carriers whose TAC was below \$40 million during that period, are omitted.

**Data Source:** National Association of Insurance Commissioners, by permission. The NAIC does not endorse any analysis or conclusions based upon the use of its data.

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