

MIA BULLETIN 01-3

TO: Presidents, Health Maintenance Organizations, Provider-Sponsored Organizations and Nonprofit Health Service Plans

FROM: Steven B. Larsen, Insurance Commissioner

SUBJECT: Risk-Based Capital Requirement

Risk-Based Capital Requirement:

Risk-based capital (RBC) is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. It provides an elastic means of setting the capital requirement in which the degree of risk taken by the company is the primary determinant.

A company's risk-based capital is calculated by applying factors to various asset, premium and reserve items. The factors are higher for those items with greater underlying risk and lower for less risky items. The adequacy of a company's actual capital can then be measured by a comparison to its risk-based capital as determined by the formula.

Chapter 331, Laws of Maryland, 2000, effective July 1, 2000, provides that health maintenance organizations, nonprofit health service plans and provider-sponsored organizations will be subject to risk-based capital (RBC) standards beginning with their calendar year 2000 annual filings. The law permits the Administration to set in motion appropriate regulatory actions relating to companies that show indications of weak or deteriorating conditions. It will provide an additional standard for capital requirements that companies should meet to avoid being placed in rehabilitation or liquidation.

Therefore, for the annual reporting period ending December 31, 2000, health maintenance organizations, nonprofit health service plans, and provider-sponsored organizations are required to complete, and file with the Administration, the National Association of Insurance Commissioners (NAIC) Managed Care Organizations Risk-Based Capital Report. In addition, the total adjusted capital and authorized control level RBC are to be reported in the 2000 Annual Statement on the Five-Year Historical Data schedule.

Software containing the RBC formula, instructions and a filing diskette are available from the NAIC for a nominal cost. The RBC software program will run in conjunction

with commercial Annual Statement preparation packages, and thus requires minimal manual data entry. Contact the NAIC publications department at 1-816-783-8300 or its website address at www.naic.org. The Risk-Based Capital Report is to be filed with the Administration, in hard copy and electronic format, and is to be filed with the NAIC in electronic format, by March 1, 2001.

Proposed Exemptions:

The Administration will be preparing legislation in the 2001 Session of the Maryland General Assembly which, if enacted, will provide an exemption from the risk-based capital requirements for any domestic health insurer that:

1. Writes direct business only in Maryland;
2. Assumes no reinsurance in excess of five percent (5%) of direct premiums written;
3. Writes direct annual premiums for comprehensive medical business of \$2,000,000 or less; **or**,
4. Covers less than 2,000 lives if the health insurer is:
 - a. A nonprofit health service plan that provides coverage solely for dental services;
or,
 - b. A dental plan organization.

If you have any questions regarding these requirements, please contact Lester C. Schott, Associate Commissioner, at (410) 468-2119.

Steven B. Larsen
Insurance Commissioner