

MIA BULLETIN NO. 00-2

TO: President, Managed Care Organizations

FROM: Steven B. Larsen, Insurance Commissioner

SUBJECT: Risk-Based Capital Reporting Requirement

Risk-based capital (RBC) is a method of measuring the minimum amount of capital appropriate for a managed care organization (MCO) 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 MCO is the primary determinant.

A company's risk-based capital is calculated by applying factors to various asset, premium and reserve items. The factor is 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.

Senate Bill 60, filed in the 2000 session of the Maryland General Assembly, if enacted, will permit the use of risk-based capital standards by regulators to set in motion appropriate regulatory actions relating to MCOs that show indications of weak or deteriorating conditions. It will also provide an additional standard for minimum capital requirements that companies should meet to avoid being placed in rehabilitation or liquidation.

Therefore, effective for the annual reporting period ending December 31, 1999, MCOs are required to complete and file with the Administration, the National Association of Insurance Commissioners (NAIC) Managed Care Organizations Risk-Based Capital Report. Software containing the 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 1-816-374-7529 or its website address at www.naic.org. The Risk-Based Capital Report is to be filed with the Administration, in hardcopy and electronic format by March 1, 2000. **Do not file the Report with the NAIC.** A newsletter, which specifies minimum system requirements for the RBC program is attached.

If you have any questions regarding the filing requirements, please contact Lester C. Schott at 410-468-2167.