



# CUG.COMments

A Newsletter from Chicago Underwriting Group, Inc.  
Underwriters of D & O and Professional Liability Insurance

Issue 33

June 2004

In the November 2002 issue of CUG.COMments we examined the Risk Based Capital (RBC) levels of the leading D&O insurers. In this issue we revisit the subject and the data, nearly two years on.

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 (ACLRCB) is one of the few objective carrier financial evaluation tools available.

An insurer's ACLRCB 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 owed 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: ACLRCB ratios for leading U.S. D&O carriers from 1999 to 2003.

- If an insurer's Total Adjusted Capital falls to 200% of its ACLRCB, 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 ACLRCB, then the state insurance commissioner has the right to assume control of the company.
- If the TAC then drops to 70% of the ACLRCB, 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: ACLRCB ratio should be seen relative to the various Risk Based Control Levels (RBC), and not relative to other insurers.

For further reading, see "NAIC Research Quarterly," October 1996, Volume II Issue 4: "The NAIC'S Risk Based Capital System," by Brian K. Atchinson, and also the NAIC Risk Based Capital Model Act 1995.

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



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**ADDRESS CORRECTION REQUESTED**

	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%	338%	292%	397%	381%
Gulf Ins Co	288%	378%	712%	391%	481%
Swiss Re America	242%	241%	218%	279%	337%
Ace American	236%	231%	308%	242%	275%
Royal Indemnity	211%	207%	211%	348%	437%
Lumbermens Mutual	34%	83%	220%	454%	603%

\* Formerly Odyssey Re

Sample calculation: Old Republic Insurance Company  
2003 Total Adjusted Capital: \$569,310,492.  
2003 ACLRBC: \$94,842,630. Therefore TAC is 600% of ACLRBC.

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.

Old Republic International's 2003 Review of operations recently became available. If you would like a copy of this 80th Anniversary issue, please contact Bertha Sifuentes at [bifuentes@cug.com](mailto:bifuentes@cug.com) or 312.750.8985