

Around The Horn



RBC CHANGES

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Investment Risk-Based Capital is changing (and changing, and changing...)

2 Key Changes:

- 1) Bond RBC factors will become more granular, and (mostly) increase
- 2) Portfolio Adjustment Factor changing to strongly incentivize holding many issuers

Investment risk factors more relevant for Life companies

Testing suggests C-1o factor to increase ~50% for Life insurers

More required capital = lower RBC ratio

Timing: Year-end 2019 implementation, though not yet finalized

Investment Risk-Based Capital is changing (and changing, and changing...)

Previous Recommendation:

To offset changes, shift towards “barbell” off AAA/AA+ bonds and BB+ bonds, which get relatively favorable treatment

New recommendation:

Increase # of issuers held to improve the Portfolio Adjustment Fact (bond ETF's may help)

