40-2c03. Determination of risk-based capital. (a) A life and health insurer's RBC shall be determined in accordance with the formula set forth in the RBC instructions. The formula shall take into account and may adjust for the covariance between:

(1) The risk with respect to the insurer's assets;

(2) the risk of adverse insurance experience with respect to the insurer's liabilities and obligations;

(3) the interest rate risk with respect to the insurer's business; and

(4) all other business risks and such other relevant risks as are set forth in the RBC instructions;

determined in each case by applying the factors in the manner set forth in the RBC instructions.

(b) A property and casualty insurer's RBC shall be determined in accordance with the formula set forth in the RBC instructions. The formula shall take into account and may adjust for the covariance between:

(1) Asset risk;

(2) credit risk;

(3) underwriting risk; and

(4) all other business risks and such other relevant risks as are set forth in the RBC instructions;

determined in each case by applying the factors in the manner set forth in the RBC instructions.

(c) An excess of capital over the amount produced by the risk-based capital requirements contained in this act and the formulas, schedules and instructions referenced in this act is desirable in the business of insurance. Accordingly, insurers should seek to maintain capital above the RBC levels required by this act. Additional capital is used and useful in the insurance business and helps to secure an insurer against various risks inherent in, or affecting, the business of insurance and not accounted for or only partially measured by the risk-based capital requirements contained in this act.

History: L. 1994, ch. 138, § 3; L. 1996, ch. 134, § 2; July 1.