SENATE BILL REPORT
SB 5180

As of February 3, 2016

Title: An act relating to modernizing life insurance reserve requirements.

Brief Description: Modernizing life insurance reserve requirements.

Sponsors: Senators Benton, Mullet, Angel, Hobbs, Hargrove, Keiser and Darneille; by request of Insurance Commissioner.

Brief History:
Committee Activity: Financial Institutions & Insurance: 1/21/15.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Staff: Shani Bauer (786-7468)

Background: Standard Valuation Law. Life insurance policy reserves are the money an insurance company must set aside today to pay expected future life insurance claims. These reserves are currently calculated (or valued) using pre-set formulas and assumptions as prescribed by law. This methodology for calculating reserves is based on the Standard Valuation Law (SVL). SVL, a National Association of Insurance Commissioners (NAIC) model act, was enacted by the Legislature in 1982 and has not been amended since that time.

Under SVL, the Office of the Insurance Commissioner (Commissioner) annually values the reserve liabilities for outstanding policies issued by every life insurance company doing business in the state. In turn, life insurance companies must submit the opinion of a qualified actuary regarding whether the required reserve amounts were appropriately determined. The insurance companies must rely on standard mortality tables to determine the minimum standard valuation of the policies and contracts issued.

NAIC adopted a revised model SVL in 2009, which introduced Principle Based Reserving (PBR). PBR would allow insurance companies to use a wide range of economic conditions as well as company experience factors such as mortality, policyholder behavior, and expenses in calculating reserve requirements. Insurance companies would be required to compare their calculation of reserves under the formula with the PBR reserves and hold the higher of the two reserve levels. The new reserve calculation requirements are contained in a Valuation Manual developed and maintained by NAIC.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Standard Nonforfeiture Law. The Standard Nonforfeiture Law (SNL), also adopted in 1982, establishes minimum benefit values for when a life insurance policy is surrendered or lapses. Standard mortality tables are currently used to value these minimum benefits. NAIC also adopted a new SNL model act in 2009 to require the Valuation Manual as the source for mortality and interest rates used in nonforfeiture calculations.

Operative Date of Valuation Manual. PBR and the Valuation Manual become operative once the SVL revisions are adopted by at least 42 states representing 75 percent of total U.S. premiums. SVL has been adopted in 18 states as of August 2014, with five more states expected for the remainder of 2014, and 12 states expected to enact in 2015. The Commissioner anticipates the earliest operative date for the Valuation Manual is January 1, 2017.

Summary of Bill: Prior to Operative Date of Valuation Manual. Current methodologies for valuing reserves and policies under SVL and SNL continue until the operative date of the Valuation Manual. More robust confidentiality provisions are included to clarify that memoranda and information submitted to the Commissioner to support a company's reserve calculations are confidential and privileged and not subject to public disclosure. The Commissioner's authority to share documents and information with other regulatory entities is specifically outlined.

Standard Valuation Law (After Operative Date of Valuation Manual). The Commissioner must annually value the reserve liabilities for all outstanding life insurance contracts, annuity and endowment contracts, disability contracts, and deposit-type contracts issued after the date of the Valuation Manual. As prescribed by the Valuation Manual, every company with outstanding insurance contracts as noted above must annually submit an opinion of an appointed actuary as to whether its reserves and related actuarial items held in support of the policies and contracts are computed appropriately. If the insurance company fails to do so or the opinion submitted is inadequate, the Commissioner may engage a qualified actuary at the expense of the company to review the opinion.

An insurance company must establish reserves using a principle-based valuation meeting conditions as provided in the Valuation Manual. The company must further establish procedures for corporate governance and oversight of the actuarial valuation function; provide the Commissioner with an annual certification of the effectiveness of its internal controls for principle-based valuation; and upon request, file a principle-based valuation report with the Commissioner.

The contents of the Valuation Manual are specified. The operative date of the Valuation Manual is January 1 of the first calendar year following the first July 1 as of which all of the following have occurred:

- The Valuation Manual has been adopted by NAIC by at least 42 members or three-fourths of the members voting, whichever is greater;
- SVL, as amended by NAIC in 2009, has been enacted by states representing at least 75 percent of the direct insurance premiums written and as reported in 2008; and
- SVL, as amended by NAIC in 2009, has been enacted by at least 42 U.S. jurisdictions.

Likewise, future changes to the Valuation Manual take effect on January 1 following affirmation by three-fourths of the voting members of NAIC and by members of NAIC representing states with at least 75 percent of the total U.S. premiums.

Confidentiality provisions for documents and information submitted to support the insurance company's reserve calculations are outlined.

Standard Nonforfeiture Law (After Operative Date of Valuation Manual). For policies issued on or after the operative date of the Valuation Manual, the Valuation Manual must be used as the source for mortality and interest rates in establishing minimum nonforfeiture values.

Public Disclosure. A cross-reference is added to the public disclosure law to clarify that documents, materials, or information obtained by the Commissioner in determining an insurance company's reserve requirements are exempt from public disclosure.

Appropriation: None.

Fiscal Note: Requested on January 20, 2015

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on January 1, 2016.

Staff Summary of Public Testimony: PRO: This bill is part of an NAIC model act to modernize how reserves are calculated. It has been extremely well vetted at NAIC. It is a great bill for consumers because it allows for the right-sizing of reserves for products that are tailored for individual consumers and makes sure companies are held in a position to make good on their obligations to consumers. This has been an opportunity for regulators and industry to come forward together in support of this bill. To date, 20 states have passed the model act, representing 35.6 percent of gross premiums. Principle-based reserving is not a new idea and has been in place for health and property insurers for several years. This bill would put those concepts into place for life insurance providers.

Persons Testifying: PRO: Mel Sorensen, American Council of Life Insurers, Allstate, American Family Insurance; Lonnie Johns-Brown, Office of the Insurance Commissioner; Carrie Tellefson, United Services Automobile Association.

Persons Signed In To Testify But Not Testifying: No one.