ONE HUNDRED THIRD LEGISLATURE - SECOND SESSION - 2014
COMMITTEE STATEMENT
LB755

Hearing Date: Tuesday January 28, 2014
Committee On: Banking, Commerce and Insurance
Introducer: Gloor
One Liner: Adopt the Standard Valuation Act for valuation of insurance reserves

Roll Call Vote - Final Committee Action:
Advanced to General File

Vote Results:

Aye:	8	Senators Campbell, Carlson, Christensen, Garrett, Gloor, Howard, Pirsch, Schumacher
Nay:		
Absent:		
Present Not Voting:		

Proponents:	**Representing:**
Senator Mike Gloor	Introducer
Bruce Ramge	NE Department of Insurance
Thomas Mays	Pacific Life Insurance Co.
Gary Falde	Pacific Life Insurance Co.
Rhonda Ahrens	NE Department of Insurance
Jim Hall	American Council of Life Insurers
William McCartney	U.S.A.A. Life Co.
Ron Sedlacek	NE Chamber of Commerce
Tad Fraizer	Mutual of Omaha
Janis McKenzie	NE Insurance Federation

Opponents: **Representing:**

Neutral: **Representing:**

Summary of purpose and/or changes:
LB755 (Gloor), introduced at the request of the Director of Insurance, would adopt the Standard Valuation Law and update the regulatory standards applicable to setting of reserves by insurers. The bill would provide, section by section, as follows:

Principles Based Reserving
Section 1 would adopt a new section to specify that sections 1 to 12 of the bill would be known as Standard Valuation Act.

Section 2 would adopt a new section to provide that the act applies to policies and contracts issued on or after the operative date of the valuation manual designated in section 8.

Section 3 would adopt a new section to define terms for the purposes of the act. "Principle-based valuation" would be defined as a reserve valuation that uses one or more methods or one or more assumptions determined by the insurer and is required to comply with section 9 of the bill as specified in the valuation manual. "Valuation manual" would be defined as the valuation manual prescribed by the director which conforms substantially to the valuation manual developed and adopted by the National Association of Insurance Commissioners (NAIC).

Section 4 would adopt a new section to require that the director annually value the reserves for all outstanding life insurance contracts, annuity and pure endowment contracts, accident and health contracts, and deposit-type contracts of every company issued on or after the operative date of the valuation manual.

Section 5 would adopt a new section to require that the insurers with outstanding life insurance contracts, annuity and pure endowment contracts, accident and health contracts, and deposit-type contracts shall submit the opinion of the appointed actuary as to whether the reserves are computed appropriately, based on assumptions that satisfy contractual provisions, consistent with prior reported amounts, and comply with applicable law. The opinion shall also include whether the reserves, when considered in light of the assets held to support the reserves, adequately provide for the company's policy obligations. The bill would set standards for the form and content of, and procedure for submitting the memorandum.

The bill would specify that information in the memorandum in support of the opinion is confidential, privileged, not a public record, and not subject to subpoena, discovery, or admissible in evidence in a private civil action. The bill would grant the director authority to use the information as part of the director's official duties. The bill would prohibit disclosure otherwise and prohibit testimony in private civil actions. The bill would authorize sharing information with other state, federal, and international financial regulatory agencies, and with the NAIC if the recipient agrees in writing to maintain confidentiality. The bill would authorize the director to receive information from other state, federal, and international regulatory agencies, and with the NAIC on a confidential basis. The bill would provide that the information may be subject to subpoena to defend an action seeking damages from the actuary and may be used for disciplinary proceedings. The bill also would specify that if a company cites the materials in marketing, all portions of the memorandum would no longer be confidential.

Section 6 would require that for accident and health insurance contracts issued on or after the operative date of the valuation manual, the standard prescribed is the minimum standard required under section 4. For disability and sickness and accident insurance contracts issued on or after the date set forth in section 44-407.07, January 1, 1950, but before the operative date of the valuation manual, the standard is that adopted by regulation of the director.

Section 7 would amend section 44-404 to amend internal references to refer to current numbering in the Nebraska Revised Statutes and to specify that the section applies to policies issued prior to the operative date of the valuation manual, and to provide that sections 8 and 9 shall not apply to those contracts. The bill would specify that aggregate reserves for all policies cannot be less than the aggregate reserves determined by the appointed actuary to be necessary to render the required actuarial opinion.

Section 8 would adopt a new section to set the operative date of the valuation manual and to direct the director to adopt the valuation manual no later than July 1, 2017, with an operative date as of January 1 after the date on which the director prescribes the manual. The bill would provide that changes adopted by the director to the valuation manual are effective January 1 following adoption of the change unless the manual specifies a later date. The bill would require the director to adopt a valuation manual to specify minimum valuation standards for and definitions of the policies set forth in section 4, the policies subject to principle-based valuation and for those policies, the formats for reports, assumptions, and procedures for corporate governance. For policies not subject to principle-based valuation, the minimum valuation standard would be required to either be consistent with the valuation standard prior to the operative date of the valuation manual or develop reserves that quantifies the benefits associated with the contracts. The valuation manual would be required to set the data and form of the data required and may specify such other requirements as data analyses and reporting. The bill would allow the director to employ or contract for actuarial examinations of the insurer at the expense of the insurer and rely on the opinion of a qualified actuary engaged by another state or territory. The bill would specify that the director could require a company to change any assumption and adjust reserves and would grant the director authority to take other disciplinary action.

Section 9 would adopt a new section to require insurers to establish reserves using a principle-based valuation that quantifies benefits and funding associated with contracts, incorporates assumptions consistent with the overall risk management process, and incorporates assumptions. The bill would require insurers using a principle-based valuation to establish corporate governance procedures, provide the director and board an annual certification of the effectiveness of internal controls, and file a report with the director.

Section 10 would adopt a new section to require a company to submit mortality, morbidity, policyholder behavior, or expense experience as prescribed in the valuation manual.

Section 11 would adopt a new section to define confidential information to include a memorandum in support of an opinion, working papers, information in support of annual certifications, principle-based valuation reports, and experience data. The bill would specify that a company's confidential information is confidential, privileged, not a public record, not subject to subpoena, discovery, or admissible in a private civil action, but that the director could use the information in a regulatory action. The bill would authorize sharing of information with federal, state, or international regulatory agencies, and the NAIC, and in disciplinary matters, the Actuarial Board for Counseling and Discipline if the recipient agrees to maintain confidentiality. The director would be authorized to receive information from federal, state, and international agencies, and the NAIC under the protections in this section. Information could be released under the bill to defend an action against an appointed actuary, with the written consent of the insurer, or if the information is made public by the company.

Section 12 would adopt a new section to grant the director authority to exempt specific products from the act in writing if the company computes reserves using assumptions used before the operative date of the valuation manual.

Section 13 would amend section 44-403 to harmonize internal references.

Section 14 would amend section 44-407.23 to harmonize internal references.

Section 15 would amend section 44-407.24 to specify that for policies issued after the operative date of the valuation manual, the valuation manual will provide the standard mortality table for determining the minimum nonforfeiture standard that may be substituted for the Commissioners 1980 Standard Ordinary Mortality Table, and for the Commissioners 1961 Standard Industrial Mortality Table. The bill would specify that the nonforfeiture interest rate shall not be less than four percent, but for policies issued after the operative date of the valuation manual, the rate shall be provided in the valuation manual.

Section 16 would amend section 44-407.26 to harmonize an internal reference.

Section 17 would amend section 44-408 to harmonize an internal reference.

Section 18 would provide repealers for the amendatory sections.

Section 19 would outright repeal section 44-402 (replaced provisions regarding valuation of reserves).

Mike Gloor, Chairperson