

One Hundred Third Legislature - Second Session - 2014

Introducer's Statement of Intent

LB755

Chairperson: Senator Mike Gloor

Committee: Banking, Commerce and Insurance

Date of Hearing: January 28, 2014

The following constitutes the reasons for this bill and the purposes which are sought to be accomplished thereby:

LB755 is a bill introduced at the request of the Nebraska Department of Insurance.

This bill would amend the statutes governing the establishment of reserves by life and health insurers by adopting the National Association of Insurance Commissioners Standard Valuation Act and amendments to Nebraska's Nonforfeiture Law. The bill will update the standards by replacing the current formulaic standards based on tables with a valuation manual which includes more sophisticated methods to allow insurers to more accurately value the risk they insure.

This bill would amend statutes governing the establishment of reserves by life and health insurers by adopting the National Association of Insurance Commissioners Standard Valuation Act. The bill would declare that it would apply to policies and contracts issued on or after the operative date of the valuation manual designated in section 8. The bill would define terms. "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. "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. (Sections 1 through 3 of the bill.)

The bill would require that the Director of Insurance 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 and submit the opinion memorandum of the appointed actuary as to whether the reserves are computed appropriately. The bill would set standards for the form and content of, and procedure for, submitting the memorandum. So that companies can submit filings with the assurance that they will be confidential, the bill would specify that information in the memorandum in support of the opinion shall be confidential, privileged,

not a public record, and not subject to subpoena, discovery, or admissible in evidence in a private civil action. Until the standards for accident and health and disability insurance are adopted in the valuation manual, the existing Nebraska statutes will govern the reserving for 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. (Sections 4 to 7 of the bill.)

The bill would require the director to adopt a valuation manual that conforms substantially to that adopted by the National Association of Insurance Commissioners, and would direct the director to prescribe the valuation manual no later than July 1, 2017. In order to support increased analysis of reserves under the new system, the director would be given authority to retain specific staff. The bill would require increased corporate governance procedures and reporting for insurers implementing principle-based reserves. The bill would require a company to submit mortality, morbidity, policyholder behavior, or expense experience as prescribed in the valuation manual. Because the new reserving standards involve submission of substantial confidential supporting information, the bill would include specific confidentiality provisions applicable to this information. The bill would allow the director to exempt specific products from the new act if the company computes reserves using reserving assumptions used before the implementation of the new standards. (Sections 8 to 12 of the bill.)

The bill would amend internal references to refer to current numbering practice in the Nebraska Revised Statutes and amend section 44-4107.24 to require the valuation manual for the minimum nonforfeiture standard and specify that the nonforfeiture interest rate may not be less than four percent, but for policies issued after the operative date of the valuation manual, the valuation manual would set the rate. The bill would provide repealers. (Sections 13 to 19 of the bill.)

Principal Introducer: _____

Senator Mike Gloor