HOUSE BILL 361: Principle-Based Reserving

2015-2016 General Assembly

Committee:	Senate Rules	**Date:**	September 16, 2015
Introduced by:	Reps. Collins, Tine, Setzer	**Prepared by:**	Kristen Harris
Analysis of:	PCS to First Edition		Tim Hovis
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***SUMMARY:** The Proposed Committee Substitute for House Bill 361 would 1) provide for a principle-based reserving approach to valuing life insurance reserves in North Carolina and make minor conforming changes to the Standard Nonforfeiture Law; 2) make clarifying and conforming changes to various provisions of North Carolina's insurance laws, as requested by the Department of Insurance; 3) revise North Carolina's insurance policy renewal provision; 4) amend the definition of small employer; and 5) make technical corrections to S.L. 2015-146 and S.L. 2015-101.*

[As introduced, this bill was identical to S667, as introduced by Sen. Apodaca, which is currently in House Judiciary I, if favorable, Insurance.]

BACKGROUND AND CURRENT LAW:

North Carolina's Standard Valuation Law

North Carolina currently uses a formula-based approach based on mortality tables and interest rates to calculate life insurance policy reserves.

In 2009, the National Association of Insurance Commissioners (NAIC) adopted the Standard Valuation Law (SVL) which introduced a new method for calculating life insurance policy reserves called "principle-based reserving" (PBR). The PBR approach replaces the formulaic approach by adopting a Valuation Manual which is maintained by the NAIC. To date, 21 states have enacted legislation to implement principle-based reserving. Once at least 42 states, representing 75% of the total U.S. premium adopt the revisions to the SVL, PBR will be implemented over approximately three years and only for new business.[1]

It is anticipated that PBR will become an NAIC accreditation requirement by 2016 or 2017.

BILL ANALYSIS:

Part I. Revisions to North Carolina's Standard Valuation and Nonforfeiture Laws

Section 1 would incorporate model language from the NAIC's Standard Valuation Law for new business issued after the operative date of the valuation manual, as defined in Section 3. The current statutory language would apply to business issued prior to the manual's operative date. The bill would require the Commissioner to value annually reserves for various types of contracts in the State issued on or after the operative date of the manual. Every company with outstanding contracts would be required to submit annually the opinion of the appointed actuary in accordance with the guidelines prescribed in the manual. A provision would be included addressing the confidentiality of documents, materials, and other information provided to the Commissioner. The Commissioner would be allowed to exempt specific

[1] http://www.naic.org/documents/committees_ex_pbr_implementation_tf_related_150301_pbr_implementation.pdf

product forms and lines of a domestic company from the manual's requirements under certain circumstances. The Department of Insurance would have authority to enter into contracts with the NAIC, other states, entities, or persons to fulfill the requirements of this section.

Section 2 would make conforming changes to the Standard Nonforfeiture Law to maintain consistency with the Standard Valuation Law in Section 1.

Section 3 would define the operative date of the NAIC valuation manual.

Section 4 would incorporate model language from the NAIC's Standard Valuation Law.

Part II. Conforming and Clarifying Changes to Various Insurance Law Provisions

G.S. 58-7-37(a) was changed during the legislative session to remove the requirement for control individuals to submit, along with fingerprints, "a recent photograph." This was due to the fact that the SBI no longer requires a photograph. **Section 6** would make the Professional Employer Organizations (PEO) statute consistent with the General Domestic Companies statute.

Section 7 would update the law pertaining to domestic security deposits (G.S. 58-5-55) to include a deposit requirement for domestic "non-stock insurance companies" organized pursuant to G.S. 58-7-75(1a). G.S. 58-5-55 addresses the deposit requirements for stock and mutual companies, but it does not address the requirement for non-stock companies.

Section 8 would update language referencing the "North Carolina Association of Non-Profit Homes for the Aging." (NCANPHA) NCANPHA would now be called "LeadingAge North Carolina."

Section 9 would require insurers in an expedited external review process to provide information to the Commissioner within one day as opposed to one "business" day.

Section 10 would allow insurers to write coverage within a policy jointly as long as the policy identifies the company responsible for each coverage.

Part III. Revision to Insurance Policy Renewal Provision

Section 11 would allow for the delivery of a policy superseding a previous policy at the end of the previously issued policy period not to be a refusal to renew when it is delivered by the same insurer or an affiliate or subsidiary.

Part IV. Amendment to the Definition of Small Employer

Section 12 would amend the definition of small employer in G.S. 58-50-110 to conform to the federal definition of small employer.

Part V. Technical Corrections

Sections 13 and 14 make changes to the effective dates of S.L. 2015-146 (Insurance Technical Changes-AB) and 2015-101 (Surplus Lines Amendments).

EFFECTIVE DATE: Sections 1 and 2 of Part I of this act become effective on the operative date of the manual of valuation instructions adopted by the National Association of Insurance Commissioners as provided in G.S. 58-58-51. The remainder of Part I of this act is effective when it becomes law. Section 9 of Part II of this act becomes effective on January 1, 2016. The remainder of Part II of this act is effective when it becomes law. Part III of this act is effective when it becomes law. Part IV of this act becomes effective on January 1, 2016. Part V of this act is effective when it becomes law.