



SENATE BILL 667: Principle-Based Reserving

2015-2016 General Assembly

Committee: Senate Insurance
Introduced by: Sen. Apodaca
Analysis of: First Edition

Date: April 23, 2015
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SUMMARY: *Senate Bill 667 would 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.*

[As introduced, this bill was identical to H361, as introduced by Reps. Collins, Tine, Setzer, which is currently in House Insurance.]

BACKGROUND AND CURRENT 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:

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 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.

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

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

EFFECTIVE DATE: Sections 1 and 2 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 this act is effective when it becomes law.