H.482 - Floor Summary
Prepared by Department of Financial Regulation and Legislative Council
March 17, 2015

H. 482, "An act relating to principle-based valuation for life insurance reserves and a standard nonforfeiture law for life insurance policies" proposes to amend **three** substantive areas of law:

- The method for valuating life insurance reserves (Sec. 1)
- Standard nonforfeiture provisions applicable to life insurance policies (Sec. 2)
- Technical amendments to certain banking provisions (Secs. 3-5)

The first two sections reflect model laws adopted by the **NAIC** (National Association of Insurance Commissioners). The remaining sections are purely technical in nature.

Background on the NAIC Accreditation Program. Vermont participates in the NAIC Accreditation Program. The Program is a national program that develops and maintains standards to promote effective and efficient state-based insurance company regulation. (Insurance is not regulated at the federal level.) A state insurance department is accredited once it has demonstrated it has met and continues to meet an assortment of legal, financial, and organizational standards as determined by a committee of its peers. Accredited states have annual reporting requirements, and are subject to periodic on-site review. NAIC accreditation assures regulators in other states that Vermont's Department of Financial Regulation (DFR) meets or exceeds the recognized standards for insurance regulation. In turn, accreditation allows Vermont domiciled insurers, as well as DFR, to operate on a reciprocal basis with their colleagues in other states. Among other factors, accreditation rests on the passage of certain NAIC approved, and industry vetted, statutory and regulatory provisions, such as the model laws that provided the basis for Secs. 1 and 2 of this bill. Passage of the bill is important for maintaining DFR's accreditation, as well as its respected position among the states.

Sec. 1. Principle-Based Valuation for Life Insurance Reserves. This section concerns the method life insurers must use to set-aside or "reserve" funds to pay expected future life insurance claims. Currently, such funds are calculated using a pre-set formula. This bill proposes to amend the law to allow for the use of more advanced methods to better reflect and measure the risks of new, innovative insurance policies. Guidance will be provided in the NAIC Valuation Manual, which the Commissioner will adopt by rule. These advanced methods unavoidably delve into extremely complex actuarial terms and concepts. The language, however, has been fully vetted through the NAIC model law development process. Our Commissioner of Financial Regulation is very active in NAIC.

In addition, the bill preserves the Commissioner's authority to require insurance companies to change any assumption or method, as appropriate, and to engage a qualified actuary at the expense of the company to review compliance with Valuation Manual requirements.

.

.

Sec. 2. Standard Nonforfeiture Law for Life Insurance Policies. This law establishes the minimum benefit values if policies are surrendered or lapsed. For consistency, Section 2 refers to the Standard Valuation Law and the Valuation Manual as the source for mortality and interest rates used in nonforfeiture calculations. The standard nonforfeiture value calculations are not changed.

Why is there so much new language in Secs. 1 and 2 of the bill? Although much of Vermont's methods and standards remain unchanged, it was easier from a legislative drafting perspective and from a public transparency perspective, to strike the current relevant subchapters and replace them with new subchapters. Therefore, although underlined, much of the 75 page bill is repetitive of current Vermont law. I have a copy of the bill which highlights only the substantive changes.

Secs. 3-5. Miscellaneous Banking Provisions. These are purely technical amendments that reflect renumbering of the "Parts" of Title 8 of the Vermont Statutes Annotated.

Sec. 6. Repeal. This section repeals the existing subchapters on reserve valuation and nonforfeiture provisions, which are replaced by Secs. 1 and 2 of this bill.

Sec. 7. The act is effective on passage. It is important to note, however, that passage of this bill will not result in any immediate change in life insurance reserving practices. To ensure a level playing field between companies from different states, the law will not become "operative" until at least 42 states (a supermajority) representing 75% of total U.S. premium adopt the revisions. To date, 20 states have passed the legislation and at least 15 states intend to pass it in 2015. 2016 could well be the date when the above threshold is reached.

The Committee vote was 11-0.