HOUSE RESEARCH

Bill Summary

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Overview

This bill implements the National Association of Insurance Commissioners ("NAIC") Standard Valuation Law and revisions to the NAIC Standard Nonforfeiture Law for Life Insurance. Under current Minnesota law, insurers must use a formulaic approach to determine the amount they must hold as reserves for accident and health insurance policies, annuity contracts, and life insurance policies. This bill requires insurers to use a principle-based method to determine the amount they must hold in reserve for a policy. Changes are made both to the nonforfeiture requirements for policies (regulating the benefits that must be provided by a policy if the owner fails to pay a premium), and to the valuation requirements (regulating the amount an insurer must reserve for different insurance products).

These changes are not effective until they have been adopted by at least 42 of 55 jurisdictions, including the 50 states, American Samoa, the American Virgin Islands, D.C., Guam, and Puerto Rico. Currently, 40 jurisdictions have adopted this methodology, with additional jurisdictions considering legislation.

<u>Section</u>

1 **Definitions.** Defines "operative date of the valuation manual" as January 1 of the first calendar year the valuation manual is effective ("VME"). Certain events must occur before the valuation manual is effective, these are described on page 23, lines 18 to 32 of the bill.

2 **Calculation of adjusted premiums by the nonforfeiture net level premium method.** Provides that for policies issued on or after the VME, the mortality table included in the

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valuation manual can be used by the insurer, unless the commissioner of commerce promulgates rules requiring a specific mortality table to be used. The nonforfeiture interest rate will be provided by the valuation manual.

3 **Standard valuation law.**

Subd. 1a. Definitions. Provides definitions, including that "principle-based valuation" means a reserve valuation that uses one or more methods or assumptions determined by the insurer and meets the requirements of subdivision 11; and "valuation manual" means the method of valuation instructions adopted by the NAIC.

Subd. 2. Valuation of reserves; policies and contracts issued prior to the operative date of the valuation manual. Provides that the valuation of reserves for policies issued on or after the operative date of Laws 1947, chapter 182 (generally, January 1, 1948) and until the VME, are to be valued according to the current method.

Subd. 2a. Actuarial opinion of reserves prior to the operative date of the valuation manual; general. Clarifies that this subdivision applies to policies issued on or after the operative date of Laws 1947, chapter 182 (generally, January 1, 1948) and until the VME.

Subd. 2b. Actuarial analysis prior to the operative date of the valuation manual. Clarifies that this subdivision applies to policies issued on or after the operative date of Laws 1947, chapter 182 (generally, January 1, 1948) and until the VME.

Subd. 2c. Valuation of reserves; policies and contracts issued on or after the operative date of the valuation manual. Provides that the commissioner must annually value, or cause to be valued, the reserves for life insurance contracts, annuity and pure endowment contracts, accident and health contracts, and deposit-type contracts, issued on or after the VME.

Subd. 2d. Actuarial opinion of reserves after the operative date of the valuation manual; general and actuarial analysis. Requires every insurer to annually submit to the commissioner an actuarial opinion and memorandum including certain information and computations about the insurer's reserves. The opinion and memorandum must meet specifics provided by the valuation manual, and be acceptable to the commissioner. The commissioner has the authority to engage an actuary at the expense of the insurer to prepare a memorandum under certain circumstances. An insurer's failure to file the opinion and memorandum is a violation of section 72A.061, subdivision 3, which includes a penalty of $25 per day for each day in default, and a possible suspension of license to do business after 90 days in default.

Subd. 3. Minimum standards of valuation generally. Makes technical changes.

Subd. 3a. Minimum standard of valuation for annuities and pure endowment contracts. Makes technical changes.

Subd. 3b. Computation of minimum standard by calendar year of issue. Makes technical changes.

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Subd. 4. Reserve valuation of life insurance and endowment benefits; modified premiums. Makes technical changes.

Subd. 5. Minimum aggregate reserves. Makes technical changes.

Subd. 6. Calculation of reserves. Makes technical changes.

Subd. 7. Reserve calculation; valuation net premium exceeding the gross premium charged. Makes grammatical changes.

Subd. 9. Minimum standards for accident and health insurance contracts. Provides that the commissioner determines the minimum standard of valuation for accident and health insurance contracts issued on or after the operative date of Laws 1947, chapter 182 (generally, January 1, 1948) and until the VME. Provides that, for contracts issued on or after the VME, the valuation manual prescribes the minimum standard of valuation, pursuant to subdivision 2c.

Subd. 10. Valuation manual for policies issued on or after the operative date of the valuation manual.

Paragraph (a) Provides that, for policies issued on or after the VME, the valuation manual provides the minimum standard of valuation, pursuant to subdivision 2c, with exceptions.

Paragraph (b) Provides that the operative date of the valuation manual is January 1 of the year following the first July 1 by which certain events have occurred.

Paragraph (c) Provides that changes to the valuation manual, unless otherwise specified in the change, occur on January 1, if certain events have occurred.

Paragraph (d) Requires the valuation manual to include certain information about valuation methods, the applicability of valuation methods to policies, and the format and information which must be included in reports.

Paragraph (e) Provides that the commissioner can promulgate rules providing minimum valuation standards, if no specific valuation standard is otherwise provided.

Paragraph (f) Allows the commissioner to engage an actuary at the expense of the insurer to perform an examination or review of certain aspects of the insurer.

Paragraph (g) Allows the commissioner to require an insurer to change an assumption or method the commissioner believes is necessary in order for the insurer to comply with the valuation manual and this section. Provides a system for discipline and hearings to resolve disputes between the commissioner and the insurer.

Subd. 11. Requirements of a principle-based valuation. Requires insurers to use a principle-based valuation method for establishing reserves. Provides the general methodology insurers must use to determine reserves, subject to specific information in the valuation manual. Requires insurers to have certain governance and oversight over actuarial functions, and certify annually to the commissioner about the governance and oversight.

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Subd. 12. Experience reporting for policies in force on or after the operative date of the valuation manual. Requires insurers to submit certain data to the commissioner.

Subd. 13. Data practices. Classifies certain data submitted by the insurer to the commissioner as private or nonpublic. Classifies certain data as subject, or not subject, to subpoena.

Subd. 14. Single state exemption. Allows the commissioner to exempt certain product forms or lines from the principle-based reserve requirements in subdivision 10.