

BILL ANALYSIS

H.B. 1590
By: Smithee
Insurance
Committee Report (Unamended)

BACKGROUND AND PURPOSE

For many years, life insurance companies have been required by the standard valuation laws to establish and maintain policy reserve liabilities in order to have funds available for the payment of policy obligations when called upon. These reserves have largely been determined by actuarial mortality tables, rates of interest, and actuarial methods used in computing those reserves.

In recognition that certain parts of the reserve requirements for life insurance had become outdated, the National Association of Insurance Commissioners recently adopted recommended changes to those reserve standards. These changes involve the availability of a new mortality standard and a change in the method of computing reserves related to a specific class of products. While the mortality change will be implemented through a regulation adopted by the Texas Department of Insurance, under the Texas Standard Valuation Law {Subchapter B, Chapter 425, Texas Insurance Code}, the change in method requires a legislative modification to the law.

H.B. 1590 will allow recognition of “lapse of policies” when valuing certain guarantees in some Universal Life insurance contracts. Texas law currently does not recognize lapse as a factor to be used in valuation. This change will result in somewhat lower reserve requirements for companies, the values being more in line with the underlying economics of the business. These lower reserves will result in more efficient use of capital by the insurance companies. On a company by company basis, this could result in lower prices to consumers, less use of reinsurance or other financial tools, perhaps higher profits, or some combination.

RULEMAKING AUTHORITY

Rulemaking authority is expressly granted to the Commissioner of the Texas Department of Insurance in SECTION 1 (Section 425.071, Insurance Code) of this bill.

ANALYSIS

H.B. 1590 relates to Chapter 425, Subchapter B of the Texas Insurance Code, the Standard Valuation Law. H.B. 1590 amends Subchapter B, Section 425 of the Insurance Code by adding Section 425.071 to include lapse rates in the calculation of reserves for secondary guarantees in universal life contracts.

The bill adds Section 425.071 which discusses lapse rates in minimum standard of valuation. The minimum standard of valuation under this Subchapter may include lapse rates in the calculation of reserves for a secondary guarantee in universal life contracts issued after December 31, 2006. Also, for purposes of this section, a secondary guarantee refers to specified conditions in a universal life contract that, if satisfied, provide for death benefits to remain in effect regardless of the accumulation value in the contract. Lapse rates authorized by this section may not exceed 2% per year. The commissioner is authorized to adopt rules to implement this section.

EFFECTIVE DATE

This Act takes effect June 1, 2007 or, if the Act does not receive the necessary votes for effect on that date, the Act takes effect September 1, 2007.