

BILL ANALYSIS

C.S.S.B. 1386
By: Hancock
Insurance
Committee Report (Substituted)

BACKGROUND AND PURPOSE

In order to sell life insurance policies, insurers are required to maintain and incorporate statutory reserves with respect to their future obligations. Interested parties note that the current process for setting life insurance reserves has remained essentially the same for more than 30 years, and the parties contend that the current law relies on a one-size-fits-all approach that does not appropriately take into account differences in companies and the life insurance products they write. The assumptions used to set current reserves are mostly prescribed by statute even if individual company experience is materially different, resulting in statutory reserves that observers say are either too high or too low when compared to the amount reasonably necessary to pay future obligations. The interested parties contend that, given these inefficiencies, some life insurers have been forced to utilize reinsurance or other alternative mechanisms, such as captive insurance programs, in order to maintain reserves.

The National Association of Insurance Commissioners (NAIC) has adopted a revised Standard Valuation Law model for passage by state legislatures, which allows a state's insurance commissioner to permit companies to set life insurance reserves using a principles-based reserving approach. The new model also requires companies to create various economic scenarios to ensure the appropriate level of reserves are maintained to meet their future obligations.

C.S.S.B. 1386 seeks to update the state's standard nonforfeiture law, which will provide the requirements for minimum benefit values for certain policies that are surrendered or lapse. These updates are based on the NAIC model law and refer to the expected adoption of the new valuation manual.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the commissioner of insurance in SECTIONS 2 and 3 of this bill.

ANALYSIS

C.S.S.B. 1386 amends the Insurance Code to define the "operative date of the valuation manual" to mean the date, if any, on which the valuation manual described by the Standard Valuation Law becomes operative.

C.S.S.B. 1386 restricts to a life insurance policy issued before the operative date of the valuation manual the application of statutory provisions that authorize any ordinary mortality table adopted after 1980 by the National Association of Insurance Commissioners (NAIC) that is approved by rules adopted by the commissioner of insurance for use in determining the minimum nonforfeiture standard for the policy to be substituted for the Commissioners 1980 Standard Ordinary Mortality Table with or without Ten-Year Select Mortality Factors or the Commissioners 1980 Extended Term Insurance Table. The bill requires the valuation manual for a policy issued on or after the manual's operative date to provide the commissioners' standard

ordinary mortality table for use in determining the minimum nonforfeiture standard that may be substituted for the aforementioned mortality and insurance tables. The bill establishes that, if the commissioner by rule adopts a commissioners' standard ordinary mortality table adopted by the NAIC for use in determining the minimum nonforfeiture standard for policies issued on or after the operative date of the valuation manual, the minimum nonforfeiture standard determined in accordance with that table supersedes the standard provided by the valuation manual.

C.S.S.B. 1386 restricts to a life insurance policy issued before the operative date of the valuation manual the application of statutory provisions that authorize any industrial mortality table adopted after 1980 by the NAIC that is approved by rules adopted by the commissioner for use in determining the minimum nonforfeiture standard for the policy to be substituted for the Commissioners 1961 Standard Industrial Mortality Table or the Commissioners 1961 Industrial Extended Term Insurance Table. The bill requires the valuation manual for a policy issued on or after the manual's operative date to include the commissioners' standard industrial mortality table for use in determining the minimum nonforfeiture standard that may be substituted for the aforementioned mortality and insurance tables. The bill establishes that, if the commissioner by rule adopts a commissioners' standard industrial mortality table adopted by the NAIC for use in determining the minimum nonforfeiture standard for policies issued on or after the operative date of the valuation manual, the minimum nonforfeiture standard determined in accordance with that table supersedes the standard provided by the valuation manual.

C.S.S.B. 1386 applies provisions establishing the annual nonforfeiture interest rate for a policy issued in a particular calendar year as equal to 125 percent of the calendar year statutory valuation interest rate for that policy, rounded to the nearest one-fourth of one percent, to a policy issued before the operative date of the valuation manual, but authorizes the commissioner by rule to adopt a different nonforfeiture interest rate. The bill establishes that for a policy issued on or after the operative date of the valuation manual, the annual nonforfeiture interest rate for any policy issued in a particular calendar year is provided by the valuation manual.

C.S.S.B. 1386 prohibits the commissioner from implementing the bill's provisions before the operative date of the valuation manual. The bill takes effect only if an Act of the 83rd Legislature, Regular Session, 2013, amending Chapter 425, Insurance Code, to authorize the commissioner of insurance to adopt a standard valuation manual and provide an operative date for that manual is enacted and becomes law.

EFFECTIVE DATE

January 1, 2014.

COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.S.B. 1386 may differ from the engrossed version in minor or nonsubstantive ways, the following comparison is organized and highlighted in a manner that indicates the substantial differences between the engrossed and committee substitute versions of the bill.

SENATE ENGROSSED	HOUSE COMMITTEE SUBSTITUTE
SECTION 1. Subchapter A, Chapter 1105, Insurance Code, is amended.	SECTION 1. Same as engrossed version.
SECTION 2. Section 1105.055, Insurance Code, is amended.	SECTION 2. Same as engrossed version.

SECTION 3. Section 1105.056, Insurance Code, is amended to read as follows:

Sec. 1105.056. NONFORFEITURE INTEREST RATE. (a) For a policy issued before the operative date of the valuation manual, the [The] annual nonforfeiture interest rate for a policy issued in a particular calendar year is equal to 125 percent of the calendar year statutory valuation interest rate for that policy as defined by Subchapter B, Chapter 425, rounded to the nearest one-fourth of one percent, except that the rate may not be less than four percent.

(b) For a policy issued on or after the operative date of the valuation manual, the annual nonforfeiture interest rate for any policy issued in a particular calendar year is provided by the valuation manual.

SECTION 4. The commissioner of insurance may not implement this Act before the operative date of the valuation manual described by Section 1105.0015, Insurance Code, as added by this Act.

SECTION 5. This Act takes effect only if an Act of the 83rd Legislature, Regular Session, 2013, that amends Chapter 425, Insurance Code, to authorize the commissioner of insurance to adopt a standard valuation manual and provide an operative date for that manual is enacted and becomes law. If an Act of the 83rd Legislature, Regular Session, 2013, amending Chapter 425, Insurance Code, to authorize the commissioner of insurance to adopt a standard valuation manual and provide an operative date for that manual does not become law, this Act has no effect.

SECTION 6. This Act takes effect January 1, 2014.

SECTION 3. Section 1105.056, Insurance Code, is amended to read as follows:

Sec. 1105.056. NONFORFEITURE INTEREST RATE. (a) For a policy issued before the operative date of the valuation manual, the [The] annual nonforfeiture interest rate for a policy issued in a particular calendar year is equal to 125 percent of the calendar year statutory valuation interest rate for that policy as defined by Subchapter B, Chapter 425, rounded to the nearest one-fourth of one percent, except that the commissioner by rule may adopt a different nonforfeiture interest rate.

(b) For a policy issued on or after the operative date of the valuation manual, the annual nonforfeiture interest rate for any policy issued in a particular calendar year is provided by the valuation manual.

SECTION 4. Same as engrossed version.

SECTION 5. Same as engrossed version.

SECTION 6. Same as engrossed version.