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NCOILETTER

inside this issue

NCOIL SPRING MEETING
Washington, DC
March 8 – 10
www.ncoil.org

In Brief: PBR at the NAIC

The National Association of Insurance Commissioners' (NAIC) adoption of PBR has been a two-step process. In 2009, regulators voted to amend an NAIC Standard Valuation Law (SVL)—which sets out life insurer reserve requirements—to allow for use of principles-based reserving. In early December 2012, over staunch opposition from New York and California regulators, the NAIC Plenary adopted corresponding changes to an NAIC Standard Valuation Manual (SVM), which now defines specific methods that regulators and insurers must use to calculate principles-based reserves.

The revised Valuation Law and Manual are being presented to state legislatures for adoption. Once 42 states adopt the Valuation Law, as well as meet certain other criteria regarding how much business is done in the state, PBR will become effective.

The earliest anticipated date for applying PBR to newly written business is 2015. ■

NCOIL TO HIGHLIGHT CONTROVERSIAL PRINCIPLES-BASED RESERVING AT SPRING MEETING

On the heels of a controversial NAIC vote that could transform life insurer solvency rules, a key NCOIL committee on March 8 will explore what the new regime may mean for state legislators and consumer protections. The Life Insurance & Financial Planning Committee's discussion of principles-based reserving (PBR) will feature key stakeholders—voices for and against the approach—and will follow nearly seven years of NCOIL investigation into the issue. Legislators will consider PBR at the NCOIL Spring Meeting in Washington, DC.

The controversial purpose of PBR is to tailor reserve requirements to the size and complexity of individual insurers, rather than require insurers to abide by formulaic rules. The NAIC began its PBR project in 2004 and over the years received significant input from the life insurance industry, the American Academy of Actuaries, consumer advocates, and others—including certain regulators in strong opposition.

Participating in the NCOIL discussion, scheduled during to the Life Committee's 8:15 to 9:15 a.m. meeting, will be Commissioner Julie Mix McPeak (TN), Chair of the NAIC *(cont. on sidebar page 2)*

NCOIL has the honor of welcoming as its Spring Meeting keynote speaker **Senator Ben Nelson**, new CEO of the National Association of Insurance Commissioners (NAIC), who will speak on March 8 regarding state regulatory concerns. Senator Nelson was first elected to the Senate in 2000 and served critical roles during his tenure on committees including Agriculture and Armed Services. In the months following 9/11, he was instrumental in gaining passage of the Terrorism Risk Insurance Act (TRIA).

Prior to the Senate, Senator Nelson was Gov. of Nebraska, Director of the Nebraska Dept. of Insurance, NAIC Chief of Staff and Exec. Vice President, and an insurance company CEO. He began his career in insurance law.

The keynote luncheon will be from 12:45 to 2:15 p.m. on March 8, at the DC Hyatt Regency on Capitol Hill. ■

NCOIL to Highlight…

(cont. from p. 1)

Life Insurance and Annuities Committee; Nancy Bennett, Senior Life Fellow with the American Academy of Actuaries (AAA); Rob Easton, who heads the New York Department of Financial Services' insurance division as the Executive Deputy Superintendent for Insurance; Paul Graham, Senior VP of Insurance Regulation & Chief Actuary with the American Council of Life Insurers (ACLI); Birny Birnbaum, Executive Director of the Center for Economic Justice (CEJ); and Scott Harrison, Executive Director of the Affordable Life Insurance Alliance (ALIA).

Supporters of principles-based reserving say it is **more adaptable to new products** than is the current formulaic approach, that the current system requires some insurers to hold "redundant" reserves, and that consumers could **benefit through lower premiums**. Advocates say also that although some life insurers will need to hold less in reserve, some companies will actually need to hold more.

Speaking in support of PBR, and as reported in a December 2, 2012, Wall Street Journal article, the head of Rhode Island's insurance division, Joseph Torti III, said that the long- *(cont. on p. 3 sidebar)*

Perspectives: Industry Priorities for 2013

As state lawmakers and other industry observers wait (and wait…) on controversial decisions by the Federal Insurance Office (FIO), Financial Stability Oversight Council (FSOC), Federal Reserve, and other U.S. and international entities, we asked key stakeholders about their 2013 priorities. Below are what folks from the health, life, and property-casualty insurance industries have to say.

HEALTH INSURANCE

"Toward A Healthier Tomorrow"

By Dianne Bricker & David Korsh

In 2013, health plans are focused on affordability for consumers and employers, promoting choice and competition in new state-based health insurance exchanges, and advancing delivery system reforms that reward quality and value.

While the Patient Protection and Affordable Care Act (ACA) expands coverage to millions of Americans, major provisions will drive up costs for consumers and employers. Billions in new health insurance taxes will make coverage more expensive, and they should be repealed. The ACA's restrictions on age rating should be modified to avoid significant premium increases for younger individuals. The law also mandates all policies cover a broad range of minimum "essential health benefits," many of which are not included in policies today. Flexibility in benefit design is needed to help mitigate the cost impact these new benefit mandates will have on the affordability of coverage.

As the ACA's health insurance exchanges are implemented, health plans are working with state and federal officials to preserve states' traditional role in regulating insurance, foster choice and competition both inside and outside of exchanges, and streamline operations and reduce regulatory duplication to minimize administrative costs.

Health plans also will continue to lead the way on delivery reforms to improve the quality and safety of patient care and help control soaring medical costs. The care coordination, disease management, and prevention and wellness initiatives pioneered by health plans are helping patients get the care they need. New partnerships with doctors and hospitals are improving patient outcomes and reducing health care cost growth.

America's Health Insurance Plans and Blue Cross and Blue Shield Association are committed to these goals. We look forward to working with state legislators.

Ms. Bricker is AHIP Regional Dir. of State Affairs. Mr. Korsh is BCBSA Dir. of State Services.

LIFE INSURANCE

"Lifetime Financial Security Is Our Business"

By Bill Anderson & Kate Kiernan

Life insurers pay out $1.5 billion every day to American families. Twenty percent of Americans' long-term savings are in life insurance products, like annuities and permanent life insurance, and the life insurance industry supports 2.5 million American jobs.

America is facing a financial security crisis. Each day for the next 17 years, 10,000 baby boomers will retire. They must rely on a strained Social Security system, and their own resources, to provide for a retirement that could last 20 years or more.

Millions of American families rely on life, long-term care and disability income insurance to cope with the financial consequences of the unexpected.

Life insurers face legislative and regulatory challenges at the state and federal level. One of the greatest potential threats is federal tax reform affecting life insurance. Changing the rules and creating a new tax on life insurance and retirement annuities would punish the 75 million American families who responsibly plan for their *(cont. on p. 3)*

LIFE INSURANCE

(cont. from p. 2)

families' financial security.

Our legislative priorities reflect the challenges the life insurance industry is confronting. During 2013 legislative sessions, we will seek uniform adoption of important regulatory initiatives, including oversight of holding companies and state guaranty association coverage as well as uniform adoption of principle-based reserving to allow insurers to deploy capital effectively and to develop innovative products.

We encourage states to work with federal and international regulators to assure that rules under development overseas will be the right fit for American companies and consumers.

State regulation should be efficient, uniform and flexible. Efficiency and uniformity help reduce compliance costs and make products affordable. Flexibility encourages innovation allowing insurers to respond to changing consumer needs. A uniform and efficient regulatory system will benefit both industry and consumers.

Mr. Anderson is Senior VP of the National Assoc. of Insurance & Financial Advisors. Ms. Kiernan is Regional VP of the American Council of Life Insurers.

PROPERTY-CASUALTY INSURANCE

"Threat of Federal Regulation Should Drive Enactment of Existing NCOIL Models"

By agent & insurer representatives

In 2013, the Property and Casualty insurance industry foresees both opportunity and potential challenge in the public policy arena. We see the opportunity to improve and modernize the current system of insurance regulation. We also see an increased likelihood of federal regulation duplicating state regulation of insurance, particularly as a result of the Dodd-Frank Act. Multiple federal agencies now believe that they are empowered to regulate insurance, without regard to the regulatory scheme in the states. Dual regulation can lead to ever-increasing inefficiencies and growing inconsistencies. In 2013, then, NCOIL should reassert its role to help legislators make informed decisions on insurance issues that affect their constituents.

NCOIL's history is marked by leadership in developing and advocating sound public policy for insurance consumers. Our industry supports NCOIL's purpose, and the best way to accomplish that purpose is to enact key NCOIL model legislation in the states. These models can facilitate state and federal governments working together for the common good.

We offer the industry's support of the following NCOIL model laws:

- Property/Casualty Insurance Modernization Act — promotes new entrants into property and casualty insurance market-place and increases consumer choice while matching price to the risk
- Property/Casualty Flex-Rating Regulatory Improvement Model Act — provides an interim step before increasing reliance on the competitive marketplace
- Model State Uniform Building Code — protects the public and state governments from catastrophic losses and assists with viability of the insurance market
- Model Act Regarding the Use of Credit Information in Personal Insurance — pro-consumer model law that is particularly necessary now that HUD has expressed an interest in extending its authority via rulemaking instituting a so-called "disparate impact" test for insurance
- Post-Assessment Property and Liability Insurance Guaranty Association Model Act — provides significant financial solvency regulation

A determined advocacy effort for these models by NCOIL legislators in the states will fulfill NCOIL's purpose more than any particular new model law.

The American Insurance Assoc., Independent Insurance Agents & Brokers of America, Nat.'l Assoc. of Mutual Insurance Cos., Property Casualty Insurers Assoc. of America, and Nat.'l Assoc. of Professional Insurance Agents contributed.

NCOIL to Highlight...

(cont. from p. 2 sidebar)

standing **formulaic approach "is antiquated and inaccurate** and it simply cannot continue to be used." PBR, he reportedly said, would lead to "greater regulatory scrutiny of reserves."

Critics of principles-based reserving, including New York and California regulators and certain consumer representatives, argue that PBR could **threaten insurer solvency**, that small departments may lack resources to implement the new company-specific standards, and that PBR could expose state regulation to criticism. Skeptics claim that **more time is needed** to fully understand PBR impacts.

In a five-page November 26, 2012, opposition letter to fellow commissioners, Benjamin Lawksy, the Superintendent of New York's Financial Services Department, asserted that "If PBR becomes operative, and then is considered even partially responsible for an insolvency, critics will rightly criticize state insurance regulators as failing to do their jobs—and failing to **protect the public**."

"Even if the rules-based approach has its shortcomings," the New York letter said, "it does not necessarily follow that PBR is the answer." ■

NCOILetter

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A special forum to learn what federal directives mean for states —and how states can respond!

March 8 to 10, 2013

Hyatt Regency on Capitol Hill

Visit www.ncoil.org to register and see updated meeting time and agenda details!

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