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beautiful as always.

The House will return to the call of the Calendar.

Will the Clerk please call House Calendar Number 415.

THE CLERK:

Yes. On page 14, House Calendar 415, Favorable Report of the joint standing Committee on Insurance and Real Estate, Senate Bill 140 -- 185, AN ACT CONCERNING CHANGES TO THE STANDARD VALUATION AND NONFORFEITURE LAWS, AND THE USE OF NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS' VALUATION MANUAL.

DEPUTY SPEAKER BERGER:

Chairman Megna.

REP. MEGNA (97th):

Thank you, Mr. Speaker.

Mr. Speaker, I move acceptance of the joint committee's Favorable Report and passage of the bill, in concurrence with the Senate.

DEPUTY SPEAKER BERGER:

Motion before the Chamber is acceptance of the joint committee's Favorable Report and passage of the bill, in concurrence with the Senate.

Please proceed, Representative.

REP. MEGNA (97th):

Thank you, Mr. Speaker.

Mr. Speaker, this is a bill that had originally came before us last year in front of the committee, brought to us by the Department of Insurance. And what it has to do with is changing the reserving methods in statute that we use to require life insurers and -- and insurers of or holders of annuities contracts to set aside an appropriate money commensurate with the risk that they take on.

This is a new, more accurate method for these companies, and it's a -- a method that's being developed on a, on a national scale under the National Association of Insurance Commissioners, and it's a cooperative, working along with all the different insurance commissioners around the country. And it is a dynamic process or manual that gets established, which -- which gives the industry a flexibility in -- in reserving.

When we, when we require these reserving processes by a statute, it -- it really forces the industry to -- to set aside capital. And what this will do is this will free up whatever capital can be freed up for the industry to -- to move on and -- and write more business and do business here in our state, while at the same time protecting the holders of these annuity contracts and -- and life insurance contracts.

A couple of interesting facts, Mr. Speaker, is Connecticut is the, it's probably, is probably the third-largest premium producer of the, of life insurance and -- and annuity contracts in the country. Given the, given our small population that's pretty significant, and it's probably really the essence of what makes us the insurance capital.

Mr. Speaker, the Clerk is in possession of LCO 3542. I ask that it be called and I be permitted to summarize.

DEPUTY SPEAKER BERGER:

Thank you, Representative.

Will the Clerk please call LCO Number 3542, designated Senate Amendment "A."

THE CLERK:

Senate Amendment "A," LCO 3542, introduced by Senator Crisco and Representative Megna.

DEPUTY SPEAKER BERGER:

The Representative seeks leave of the Chamber to summarize the amendment. Is there, is there objection to summarization? Is there objection to summarization?

Seeing none, sir, please proceed with summarization.

REP. MEGNA (97th):

Thank you, Mr. Speaker.

Mr. Speaker, what the amendment does, it really makes qualifying and technical changes to the -- the bill.

And, with that, I would move adoption of the amendment.

DEPUTY SPEAKER BERGER:

Motion before the Chamber is adoption of Senate Amendment "A."

Will you comment on Senate Amendment "A?"

Seeing none, I will try your minds. All those in favor of Senate Amendment "A," signify by saying Aye.

REPRESENTATIVES:

Aye.

DEPUTY SPEAKER BERGER:

Opposed?

The ayes have it. The amendment is adopted.

Will you comment further on the bill as amended?

Representative Sampson, sir, of the 80th, you have the floor.

REP. SAMPSON (80th):

Thank you, Mr. Speaker.

I want to start by saying that I am very impressed with the -- the job my colleague Representative Megna, the Chairman of the Insurance and Real Estate Committee has done this entire session, bringing out these bills, and some of them are very, very technical in nature. And this one is no exception, and I thank him for going through the trouble of giving us a detailed analysis of what the language before us does.

And, with that, I would encourage my colleagues to support the bill before us.

Thank you, Mr. Speaker.

DEPUTY SPEAKER BERGER:

Thank you, sir.

Will you comment further on the bill as amended? Will you comment further on the bill as amended?

If not, will staff and guests please come to the well of the House. Will members please take your seats. The machine will be open.

THE CLERK:

The House of Representatives is voting by roll.

The House of Representatives is voting by roll. Will members please return to the Chamber immediately.

(Speaker Sharkey in the Chair.)

SPEAKER SHARKEY:

Have all the members voted? Have all the members voted?

Will the members please check the board to see if their vote has been properly cast. If all the members voted, the machine will be locked. The Clerk will take the tally.

Will the Clerk please announce the tally.

THE CLERK:

Senate Bill 185 as amended by Senate "A" and in concurrence with the Senate.

Total Number Voting	148
Necessary for Passage	75
Those voting Yea	148
Those voting Nay	0
Those absent and not voting	3

SPEAKER SHARKEY:

The bill, as amended, passes in concurrence with the Senate.

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THE CHAIR:

Mr. Clerk.

THE CLERK:

On page 20, Calendar 270, that is Senate Bill Number 185, AN ACT CONCERNING CHANGES TO THE STANDARD VALUATION AND NONFORFEITURE LAWS, AND THE USE OF THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS' VALUATION MANUAL; Favorable Report of the Committee on Insurance and Real Estate.

THE CHAIR:

Good afternoon, Senator Crisco.

SENATOR CRISCO:

Madam Governor; good afternoon, Madam Governor.

Madam Governor, I move acceptance of the joint committee's Favorable Report and passage of the bill.

THE CHAIR:

Motion is on acceptance and passage. Will you remark, sir?

SENATOR CRISCO:

Yes, Madam Governor. The Clerk has an amendment, LCO 3542. I request it be called and I be given permission to summarize.

And I move its adoption.

THE CHAIR:

Mr. Clerk, will you please call the amendment.

THE CLERK:

LCO Number 3542, Senate "A," offered by Senator Crisco.

THE CHAIR:

The motion is on adoption. Will you remark, Senator Crisco?

SENATOR CRISCO:

Yes, Madam Governor. Madam Governor, this is sort of a semi-technical amendment. It sets up operative dates that will make the legislation function more smoothly.

THE CHAIR:

Will you remark further? Will you remark further?

Seeing none, all in favor of Senate Amendment "A," please say Aye.

SENATORS:

Aye.

THE CHAIR:

Opposed? Senate "A" passes.

Senator Crisco.

SENATOR CRISCO:

Thank you, Madam Governor.

Madam Governor, Raised Bill 185 is being introduced to bring life insurance and annuity reserving techniques from the 19th Century to the 21st Century. You know, as I stated many times, as our role as the number one insurance state in the country, we are, you know, continually challenged to modernize our -- our regulations and legislation to retain that title.

But the language to what's known as the "Standard Evaluation Law" enabled the introduction of a concept developed by state regulators working through the NAIC, the National Association of Insurance Commissioners, and it's known as the "Principle-Base Reserving" of life insurance companies actuarial liabilities. It would ultimately replace a formulaic system of insurance reserves that has been in use since at least 1885, and probably much earlier.

So this particular legislation will bring us right up until the 21st Century and update our -- our regulations and legislation to compete as the number one insurance state.

THE CHAIR:

Will you remark? Will you remark?

Senator Kelly. Senator Kelly.

SENATOR KELLY:

Thank you, Madam President.

I rise in support of the bill. As Senator Crisco just indicated, this will bring the reporting requirements with regards to valuation of life insurance policies into the 21st Century. I think it's something that we need to do, and I fully support the bill.

Thank you.

THE CHAIR:

Thank you.

Will you remark further? Will you remark further?

In not, Senator Crisco.

SENATOR CRISCO:

Thank you, Madam Governor.

Madam Governor, I again, once again want to express my appreciation to Senator Kelly for his leadership as Ranking Member of the Insurance Committee and also to the insurance industry and the department who sat down for a considerable amount of time to work out many technical difficulties in the bill.

Thank you, Madam President.

THE CHAIR:

Thank you. Would you like to --

SENATOR CRISCO:

If there's no objection, Madam President, I ask it be placed on the Consent Calendar.

THE CHAIR:

Seeing no objection, seeing no objection, so ordered, sir.

Senator Looney.

SENATOR LOONEY:

Thank you, Madam President.

Madam President, if the Clerk would call next from Calendar page 42, under Matters Returned from Committee, Calendar 129, Senate Bill 24.

THE CHAIR:

Mr. Clerk.

THE CLERK:

On page 42, Calendar 129, Substitute for Senate Bill Number 24, AN ACT CONCERNING THE GOVERNOR'S RECOMMENDATIONS REGARDING ELECTRONIC NICOTINE DELIVERY SYSTEMS AND YOUTH SMOKING PREVENTION; Favorable Report of the Committee on Kids.

THE CHAIR:

Good afternoon, Senator Bartolomeo.

SENATOR BARTOLOMEO:

Hi. Good afternoon, Madam President.

On page 20, Calendar 270, Senate Bill 185.

Page 38, Calendar 60, Senate Bill Number 181.

And on Page 46, Calendar 222, Senate Bill Number 75.

THE CHAIR:

Thank you.

Mr. Clerk, at this time will you call for a vote on the third Consent Calendar. The machine will be open.

THE CLERK:

Immediate roll call has been ordered in the Senate. Immediate roll call on Consent Calendar Number 3 has been ordered in the Senate.

THE CHAIR:

Okay. We're going to have to -- ladies and gentlemen, there has been a mistake. We will close this down now. Just close it; close the machine. Oh, I'm going to close the machine.

I will vote and then we're going to now again, give a few minutes, change it to the Consent Calendar. Need it on Consent Calendar Number 3.

Now Mr. Clerk, will you call for the Consent Calendar Number 3.

THE CLERK:

Immediate roll call is ordered in the Senate on Consent Calendar Number 3. Immediate roll call ordered in the Senate.

THE CHAIR:

Want -- this is a repeat. Do you want to announce it, though, so everybody knows? Well, let's just make sure everybody is back here.

THE CLERK:

Repeat.

THE CHAIR:

Repeat.

Senator Boucher.

Thank you; I just didn't want you to forget to vote on the Consent Calendar.

We got to get Senator Ayala.

Senator Hartley we have to call; she's coming. Hold on.

If all members have voted, all members have voted. The machine will be closed.

Mr. Clerk, will you please call the tally on the Consent Calendar 3.

THE CLERK:

On the third Consent Calendar for today.

Total Number Voting	34
Those voting Yea	34
Those voting Nay	0
Absent, not voting	2

THE CHAIR:

Consent Calendar is passed.

Senator Looney.

SENATOR LOONEY:

Thank you, Madam President.

Madam President, that --

THE CHAIR:

Can we --

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With that, we'll commence the public hearing. First up will be Legislators, agency heads, then the municipalities.

And I would like to welcome Commissioner Leonardi, and you have the floor, sir.

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COMMISSIONER THOMAS B. LEONARDI:

Thank you, so much.

Senator Crisco and Representative Megna, members of the committee, thank you. It's always a pleasure to be here.

We have a number of bills to be heard this morning or this afternoon, I guess it is now. What I wanted to do was to talk about some of them but not necessarily all of them. I was going to not go beyond our written testimony on the third-party administrators, the bail bonds, and the guaranty association. But I would like to touch on, in some cases, briefly; in other cases, a little bit more in detail, on the other bills in the order that -- that you have them listed.

And if it's okay with the committee, what I'd like to do is maybe talk about each bill separately and leave time for questions at the end of each and then move on. So the first one I'd like to -- and -- and, again, I'm not going to be reading a speech and I'm not going to be rehashing the written; you've already got that. And I'm obviously happy to take any questions to clarify.

Some of these are obviously somewhat complicated, even for people in the insurance industry, so if there, if there are any questions for clarification, please let me process much better than I do, but I get my message is that we -- we cannot as a state afford to do that, because we've already seen some questioning in the marketplace that, jeez, how could that not get done? Everybody supported it and yet it didn't get done.

And so it's up again and the world of the captive world is -- is watching us. So I think it's really, really important that we -- we fulfill that. This -- this bill, by the way, is nearly identical to the one that was passed unanimously last year.

Shall I go on?

REP. MEGNA: Continue on, please.

COMMISSIONER THOMAS B. LEONARDI: Thank you.

The next one is, could make your eyes glaze over, if I, if I went to a more technical thing, but I'm going to try not to do that. This is the, this is -- let's see, it's Act No., Senate Bill No. 185, and it's referred to as "standard valuation, nonforfeiture, and the use of the NAIC's Valuation Manual."

I'm trying to put some perspective on this. The industry, the NAIC, the National Association of Insurance Commissioners a couple years ago passed by 42 votes -- a supermajority, which was required -- this -- this valuation manual. And it is the intent to implement Principle Based Reserving or PBR. And PBR is kind of what it sounds like; it's principle-based, based on a company's actual performance, using the financial model, among other things, as opposed to what's currently in place, which are referred to as "stochastic tables or actuarial tables" of -- of actuarial assumptions over time. The -- the tables have been in business and used by business and regulators for more than a hundred years.

The problem has been that over time companies have -- it was under the tables, reserves. If you're thinking about a line graph, that go like this. And when the companies do their analysis of what they refer to as "economic reserves," they're like this. So their economic reserves are lower than what the table said, and I think there is a wide-spread agreement amongst the regulatory community as well as the industry that there is an overreserving requirement here, based on the tables.

Now you might say, well, why is that a bad thing; more capital, more reserve is good? Yes, to a point. But if you're requiring companies to be overcapitalized, it means their returns on the investment and those products go down, and then you may result in people saying it's not worth selling these products.

So what people and what companies have done has said the difference between economic and table reserves, we're going to reinsure to another vehicle, whether a special-purpose vehicle, a captive, different than the kind of captives we were just talking about. And -- and in many instances, some regulators throughout the country have approved, instead of any cash or investing, invested assets in the, in the special purpose vehicle, a letter of credit from a bank or a parental guaranty, which is like guaranteeing your own obligation. And that has created significant concerns in the regulatory community as -- as well as here in Connecticut; in particular, in states like Rhode Island and New York, some of our neighbors, where there -- there is a concern that there -- there is not uniformity in the way these reserves are being calculated and an uneven playing field and the lack of transparency.

So the idea of Principle Based Reserving is that a company would come in, and there's a certain set of parameters. It's not the rigid tables, but there are certain parameters that the companies have to use when they come up with these models. They then come to the, to the commissioner or the department with a model that -- and -- and there are things like lapse ratios and mortality and assumptions and investment returns, and things like that. And the commissioner, if the department is doing its job, the commissioner and the department look at those assumptions, and if we determine that some of these assumptions are unreasonable, their -- their track record over time doesn't justify this particular lapse ratio, for example, then we can make them go back and redo the model based upon what we believe are appropriate assumptions. And then whatever those numbers are, whatever that model spits out at that point are the assumptions of the reserves that they have to use.

The beauty of this is once we all agree and in the, in the regulatory community on what Principle Based Reserving is and we have that in place, then the need for the captive workaroundings, single-purpose, special-purpose vehicles would go away. This is as to new business; it doesn't affect old business, of course. But on -- on new business, it should eliminate the need for these special-purpose vehicles. It should level the playing field. It should create complete transparency. And so we have been very big supporters of -- of the, of this particular bill; we voted in favor of it. We were one of the 42 states that voted in favor of it. A number of states have already passed it.

We had a bill before the committee last year, and we had spent a lot of time with the industry and LCO, and I think a lot of really good work by all of those parties had gone into what is the current bill. And so I would, I would urge that, that we, that we move this one.

This is -- on a number of these -- this and a couple of the ones I'm going to talk about, I -- I often talk about Connecticut as a leader, as the insurance capital. And what this Legislature did a couple years ago by passing the model Holding Company Act and the Credit for Reinsurance Act resonated throughout the country and throughout the international community. And what it says is, yeah, Connecticut really is, understands this business; its Legislature understands this; its Administration does; this department does, and -- and being a leader, I think, is very, very important for -- for our industry, our -- our domestic industry as well as -- as regulators and as a state. So I would, I would -- and I'm happy to take -- I know this is a rather complicated bill and I'm trying to keep it on a pretty broad-based, hopefully understandable set of -- of principles here.

REP. MEGNA: Commissioner, it's -- I don't know if you -- you finished talking on the bill?

COMMISSIONER THOMAS B. LEONARDI: Yes.

REP. MEGNA: Is it, it's only life premium we're talking? We're talking about just life insurers --

COMMISSIONER THOMAS B. LEONARDI: It's -- it's --

REP. MEGNA: -- that would all under the standard now?

COMMISSIONER THOMAS B. LEONARDI: Right; it's life and annuities. There --

REP. MEGNA: And annuities.

COMMISSIONER THOMAS B. LEONARDI: There is -- their -- their Principle Based Reserving has -- one of the, one of the criticisms that was raised early on was that companies may use Principle Based Reserving to affect their results and therefore impact their stock price. But the Principle Based Reserving has been used in the property casualty side for -- for years, and that has not been an issue and -- and I don't expect that that would be an issue. But, yes, this only applies to life companies and this issue.

REP. MEGNA: And I know that -- and I -- I personally support it, and why -- why laws don't go through the Legislature, there's many, many reasons for them; sometimes we can't even figure them out.

But I know that New York -- was it New York -- had concerns with moving to this model. I know -- I don't know if it was the commissioner or the Governor of New York had some concerns about it, in light of the financial crisis, you know, years ago.

Do you want to make a --

COMMISSIONER THOMAS B. LEONARDI: Yeah, sure.

REP. MEGNA: -- comment?

COMMISSIONER THOMAS B. LEONARDI: I'd be happy to.

There were actually two states that raised issues, and they're big ones. New York -- and I think I actually mentioned this in my testimony last year -- New York and -- and California. But they, they've raised the different issues. And I think that -- I don't want to speak for the Commissioner Jones of California -- but I think the NAIC has gone a long way to solving his concerns. His concerns were this is a very complex way of doing it, and are the regulators up to the task? Do we have the experience? Do we have the staff?

We dealt with this when we moved to Risk-Based Capital, in the -- the early 1990s. It was a whole new way of doing regulation and -- and calculating reserves. So we've proven the ability to rise to the occasion. I -- I fully expect that we will.

The NAIC has done a number of things that are in moving towards training the departments, and we -- we have several years. This won't actually take effect, even -- even though we're passing it, hopefully this year, it won't take effect until 42 state Legislatures and Governors have signed off on it. So that gives a company, the -- the states, particularly large states, regulatory states like Connecticut, New York, and -- and Massachusetts, and Iowa, who have large life insurance industries that they regulate -- New Jersey -- gives us plenty of time to fill in the gaps to the extent that we feel that we need them. And we use the NAIC as a great resource from an education standpoint and training standpoint, so as they're ramping that up and we're ramping our needs up, I'm not concerned about that. And I think Commissioner Jones is -- is pretty comfortable with that.

The New York issue was the superintendent, Superintendent Lawsky, who -- who raised an issue about these special-purpose vehicles, the captives. There's a concern that they have that -- that the reserving levels can, people could play around with the reserving levels. Many of the comments I've made here, I think address the issues that he has raised. And, you know, Superintendent Lawsky is very bright, very engaged. We just disagree on this issue.

My feeling is the best way to get rid of the workarounds and the uneven playing field is to make sure we have commissioners and -- and their departments doing rigorous work with models that make sense, with industry being held to task, and then right-sizing those reserves and using these Principle Based Reserves and the valuation manual to get to that spot, because there isn't an alternative that's been the suggestions.

It's one thing to say we should eliminate captives, which is one of the things that New York has suggested, have a moratorium on captives; t. That really doesn't solve the problem. We have an issue going forward here. We as an industry and as regulators have a responsibility to try to fix it, and I think this goes a long way to doing that.

It's also something that's been worked on for the last eight or ten years at the NAIC, with commissioners like myself and those who preceded us, and the fact that you could get to 42 states agreeing on this language at this point, after all of those years I think suggests that there's a, there's a lot here that, that's good to talk about.

REP. MEGNA: Okay; thank you.

Any questions? No?

Continue on, Commissioner, please.

COMMISSIONER THOMAS B. LEONARDI: Thank you.

The next two, I think they're the last two I'm going to speak about, so I'll be very brief. One is ORSA and the other is group-wide supervision, which is kind of a, an amendment to the model Holding Company Act that you passed a couple years ago. The ORSA stands for Own Risk Solvency Assessment, and basically it's, both of these bills come out of the outcome of dealing with the financial crisis.

SB194
HB5254

SB194

And -- and AIG is a very different company today than it was back in 2008, so I -- I hate to use it as an example because the company is doing some very good things today, but back in 2008, as we all know, they had a financial products group in London that wasn't regulated by any insurance regulator here or in the UK. The Office of Thrift Supervision, a federal entity, was regulating it or not regulating it, as the case may be, and it created all of these credit default swaps that ultimately helped to bring the company down.

So group-wide supervision and ORSA are two ways of getting to how do you see a full picture of this conglomerate and make sure you're watching all the different parts that are going on or at least some regulator is watching all those pieces and that the regulators are twice.

Representative Altobello.

REP. ALTOBELLO: Yes. Thank you, Mr. Chairman.

You have quite a few bills and they all seem very important, and I don't think they're going to garner a lot of -- I think they'll garner a lot of support -- let me put it in a positive. Being a short session and having been shut out at the gate several times myself, and I'm sure you have, and so to speak, to use a horse-racing term, I mean a betting term, any objection if we combine some of these together?

COMMISSIONER THOMAS B. LEONARDI: I don't think so; right?

A VOICE: No, not at all.

COMMISSIONER THOMAS B. LEONARDI: If you tell me you'll pass it, we can combine them all into one bill.

REP. ALTOBELLO: I can tell you that, but then you're betting that my word is good, sir.

COMMISSIONER THOMAS B. LEONARDI: Actually, I'm sure it is.

REP. ALTOBELLO: Thank you.

Thank you, Mr. Chairman.

REP. MEGNA: Representative Altobello, actually, I got the world "implementer" written down here. All right?

Are there, are there any other questions of the commissioner? No?

Well, thank you, very much, Commissioner.

COMMISSIONER THOMAS B. LEONARDI: Well, I want to thank you and the committee for your time and attention and -- and for your support for us at the department. It's very much appreciated.

Thank you.

REP. MEGNA: Okay; we're going to continue on to the public portion of the public hearing.

Nobody signed up for 5053, so we'll move on to 199.

Bob Kehmna.

ROBERT A. KEHMNA: Thank you, Mr. Chairman, members of the committee.

For the record, by name is Bob Kehmna, from the Insurance Association of Connecticut. I'm here to offer some comments today on Senate Bill 199, AN ACT CONCERNING LONG-TERM CARE INSURANCE PREMIUM RATE INCREASES.

This committee has looked over the past couple years at the issue of the size of recent, some recent filings, rate filings concerning long-term rate insurance and expressed some concern about them. Ultimately, the Legislature has rejected legislative initiatives that would have compromised the actuarial basis of that review. We argue and continue to argue that the process should be actuarial in its basis and not be subjected to subjective information that would be counterproductive to the fair and complete review of the filing.

We don't believe any change is necessarily due

But in addition, I met, in fact just yesterday, with a chairman of the board of a -- a large hospital in Connecticut who had heard that some of the other hospitals in Connecticut did have captives writing their medical malpractice coverage and is very interested in establishing a captive in Connecticut. So there is, there is some momentum for that. I think S.B. 188 will just help increase that momentum.

REP. MEGNA: Thank you, Senator.

Are there any questions of Mr. Hodson? No.

Thank you, very much.

THOMAS F.X. HODSON: Thank you, for the opportunity.

REP. MEGNA: You're welcome.

We're going to move on to 185.

Susan Giacalone.

SUSAN D. GIACALONE: Good afternoon, Representative Megna, Senator Crisco, and members of the Real Estate Insurance -- Insurance and Real Estate Committee.

For the record, my name is Susan Giacalone; I'm here on behalf of the Insurance Association of Connecticut, and I'm actually here in a role supporting a bill. We're supporting Senate Bill 185, and no, it's not snowing out today.

I, first the industry would appreciate the Insurance Department and also its hard work on this bill. This is a bill you did see last year, and there's a lot of hard work put into this bill to prepare it for this session. And we -- we thank the department and LCO for making the model conform better or the bill conform better to the model.

There are a couple tweaks that some, we would like to be captured in the version that's before you, that I've included at the end of my testimony. They're just cleanups that would actually make it clear that the standards that are being adopted apply to the opinion. This deals with the actuarial opinion, and the way it's worded, it -- it actually does make it look it like applies to something other than the opinion.

This is -- we talked to the department, and they do support the changes. If they could be made this year, we would appreciate it. But other than that, we -- we support this bill and the expanded version of this year and ask, support it through the adoption.

Thank you.

REP. MEGNA: Thank you.

You're going to get those tweaks to us?

SUSAN D. GIACALONE: Yes.

REP. MEGNA: Okay. Thank you.

Any questions of Miss Giacalone? No?

Thank you, very much, Susan.

Moving on over to 5253.

Bob Kehmna or did --

ROBERT A. KEHMNA: Thank you, Mr. Chairman, Senator

Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

February 25, 2014

SB 185, An Act Concerning Changes To The Standard Valuation And Nonforfeiture Laws, And The Use Of The National Association Of Insurance Commissioners' Valuation Manual

The Insurance Association of Connecticut, IAC, strongly supports the adoption of SB 185, An Act Concerning Changes To The Standard Valuation Law And Nonforfeiture Laws And The Use of The National Association of Insurance Commissioners' Valuation Manual, which seeks to incorporate the provisions of the National Association of Insurance Commissioners (NAIC) Standard Valuation and Nonforfeiture laws and valuation manuals.

The industry appreciates the Insurance Department and LCO's hard work to produce a bill that conforms to the model which will permit Connecticut to modernize laws as they relate to the methodology "principle-base" reserving for life insurance companies.

As new, more complex products are introduced to satisfy the needs of consumers, many insurance regulators and life insurance companies believe that reserve requirements need to evolve in order to keep pace with new product designs and the risks associated with the new designs.

State regulators, with the support of life insurers and the actuarial profession, have been working since 2004 to enhance the current formulaic approach with an approach that is more principle-based. The new methodology allows reserves to be tailor-made for every company and product, adjusting for the current economic environment and each company's experience, while maintaining an appropriate level of conservatism for solvency oversight purposes.

Under the new system, regulators will have access to more tools to properly monitor reserve levels. Life insurers will be required to compare a formulaic reserve calculation (similar, if not identical to current reserve calculation) with a calculation based on a company's actual experience factors—such as mortality, policyholder behavior and expenses—under a variety of economic conditions. Companies would then hold the higher of the two reserve levels. The new methodology will result in reserve calculations that more accurately reflect risks assumed by life insurers for the policies they underwrite, without eliminating statutory guardrails. This system is designed to be a "living process" where adjustments will be made as experience with the new approach becomes commonplace.

There are two tweaks to the draft the industry recommends.

- Lines 93-97 should be amended as follows:

  (b) (1) The provisions of this subsection shall apply, unless otherwise provided in title 38a, to opinions submitted by and supporting memoranda prepared and provided by qualified actuaries prior to the operative date of the Valuation Manual for policies and contracts issued prior to the operative date of the Valuation Manual, as set forth in section 2 of this act.

- Lines 299-306 should be amended as follows:

  (c)(1) The provisions of this subsection shall apply to opinions submitted by and supporting memoranda prepared by appointed actuaries [for policies and contracts issued] on or after the operative date of the Valuation Manual for all policies and contracts in force, as set forth in section 2 of this act.

These suggested changes make it clear that the standards apply to the opinions that are filed in accordance with the provisions of SB 185. Without the above referenced changes, that do not become operative to some in the future when forty-two jurisdictions adopt the model, these two provisions create inherent conflict that will have to be resolved at a future date.

The IAC respectfully requests your support for SB 185.

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony of Thomas B. Leonardi, Insurance Commissioner
to
Insurance and Real Estate Committee

February 25, 2014

Raised Bill 185 AN ACT CONCERNING CHANGES TO THE STANDARD VALUATION AND NONFORFEITURE LAWS, AND THE USE OF THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS' VALUATION MANUAL

Senator Crisco, Representative Megna, and members of the Insurance and Real Estate Committee, The Insurance Department thanks the Committee for raising S.B. 185, An Act Concerning Changes To The Standard Valuation And Nonforfeiture Laws, And The Use Of The National Association Of Insurance Commissioners' Valuation Manual, at the Department's request, and appreciates the opportunity to provide written testimony.

Senate Bill 185 is being introduced to bring life insurance and annuity reserving techniques from the 19th Century to the 21st Century.

These amendments to the Standard Valuation Law enable the introduction of a concept known as Principle Based Reserving ("PBR") of life insurance companies' actuarial liabilities. That concept has been developed by state insurance regulators working through the National Association of Insurance Commissioners, and is being introduced in state legislatures throughout the nation. It will ultimately replace a formulaic system of insurance reserves that has been in use since at least 1885 and possibly much earlier.

The formulaic reserve approach worked well for over a century as insurers sold similar life and annuity products with relatively standard basic features. That approach has become overly static, however, as insurance companies have developed increasingly sophisticated life and annuity products. Those formulas do not always work without modification or clarification as new product designs and innovations are introduced. Regulators and insurers now find that use of those formulaic reserves can result in reserves being redundant in some cases and inadequate in others.

Principle based reserving uses risk analysis techniques such as modeling and simulation to better capture and evaluate various risks inherent in modern life insurance policies and annuity contracts. It sets up a regulatory system so that these reserves can be established to be consistent with the unique characteristics of the different products of different companies. The purpose is to establish reserves at a better level so they are neither under reserved -- with a risk to solvency -- nor over reserved -- which can lead to unnecessarily expensive policies and contracts. It is based on company-specific and product-specific actuarial data.

The bill requires life insurance companies to submit to regulators mortality, morbidity, policyholder behavior experience and other data as prescribed in the Valuation Manual. It also protects confidentiality of sensitive financial and actuarial data provided to the Insurance Department so that the Department can have uninhibited access to this data. This makes for effective monitoring of reserves, and ultimately solvency.

The SVL revisions under consideration provide for life and health reserve requirements to be consolidated in a Valuation Manual to support state uniformity along with the PBR method for determining life insurance reserves. The initial version of the Valuation Manual was recently adopted by the NAIC. However, the manual will not go into effect until a supermajority of states enacts both the manual and revisions to state Standard Valuation Laws. Specifically the supermajority calls for approval of the SVL amendments or substantially similar legislation by legislative approval in 42 jurisdictions and in states representing greater than 75% of direct written premium for life, accident and health business. As mentioned, one trigger has already been met, namely approval of the Valuation Manual by a supermajority of jurisdictions at the NAIC. This is an admittedly unusual provision, but it is intended to allow a uniform transition to PBR and to prevent differing reserving practices and standards being used in different states. Reserving standards in life insurance and annuity products is one of those regulatory functions where national uniformity is critically important to the state-based system of insurance regulation and the maintenance of a financially sound life insurance industry. The reserving requirements for life insurance and annuity business written before the effective date of the Valuation Manual will remain unchanged.

The changes to the Standard Nonforfeiture Law establish minimum benefit values if policies are surrendered or lapsed and for consistency, would align the Nonforfeiture Law with the SVL and Valuation Manual as the source for mortality and interest rates used in nonforfeiture calculations.

While uniformity is important to establish uniform reserve methodologies, the amendments to the SVL and Nonforfeiture Law preserve my authority and the authority of individual insurance commissioners to require 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.

The Valuation Manual is intended to be dynamic to allow consideration of ongoing changes of products offered in the marketplace, much as the NAIC Accounting and Procedures Manual -- which sets out the details of statutory accounting -- works now. Future changes in the manual will require approval by a supermajority of 42 NAIC jurisdictions so that they will be implanted uniformly and with appropriate controls.

The SVL proposal is a product of more than a year's collaboration with the insurance industry. Connecticut is the number one state in the country for life insurance premium, making our adoption of SVL a show of leadership in the oversight of the industry. As you consider the legislative proposal, regulators and the industry are working to develop outreach and training programs to assist in the implementation of principle based reserving, including the use of pilot studies to test and resolve issues that may arise during rollout.

The Department appreciates the opportunity to submit these comments today. We strongly urge passage of Raised Bill 185. Thank you.

About the Connecticut Insurance Department: The mission of the Connecticut Insurance Department is to protect consumers through regulation of the industry, outreach, education and advocacy. The Department recovers an average of more than $4 million yearly on behalf of consumers and regulates the industry by ensuring carriers adhere to state insurance laws and regulations and are financially solvent to pay claims. The Department's annual budget is funded through assessments from the insurance industry. Each year, the Department returns an average of $100 million a year to the state General Fund in license fees, premium taxes, fines and other revenue sources to support various state programs, including childhood immunization.