

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 608
Economic Matters

(Delegate D.E. Davis)

Finance

Insurance - Principle-Based Reserves

This bill repeals the statutory criteria that allow an insurer to be exempt from certain requirements in the National Association of Insurance Commissioners' (NAIC) valuation manual. Instead, an insurer may be exempt from those requirements if it meets the exemption criteria published in the valuation manual itself.

Fiscal Summary

State Effect: The bill's requirements can be handled using existing budgeted resources. Revenues are not affected.

Local Effect: The bill does not directly affect local governmental operations or finances.

Small Business Effect: None.

Analysis

Bill Summary/Current Law: Chapter 367 of 2015 requires insurers in the State to adopt a valuation manual that is published by NAIC. The manual establishes standards and requirements that insurers must use when they value their reserves for life insurance policies, accident and health insurance contracts, and deposit-type contracts. Specifically, insurers are required to use principle-based reserving (PBR), which is a type of reserve valuation established by the manual itself. Insurers have until January 1, 2020, to adopt the manual's requirements into their valuation practices. This date was set for three years after the manual became operative, which took place on January 1, 2017.

Chapter 367 authorized the Insurance Commissioner to grant exemptions for insurers from some of the manual's requirements to regularly submit data to NAIC and to use PBR to value reserves if:

- the insurer has less than \$500 million of ordinary life premiums and, if the insurer is part of an insurance group, the group has combined ordinary life premiums of less than \$1 billion;
- the insurer reported total adjusted capital of at least 450% of the authorized control level risk-based capital in the most recent risk-based capital report and the appointed actuary has provided an unqualified opinion on the reserves for the prior calendar year; and
- any universal life insurance policies with secondary guarantees issued or assumed by the insurer with an issue date on or after the manual became operative (January 1, 2017) do not exceed 5% of the total in-force reserves for the insurer.

Under the bill, these criteria are repealed. Instead, the Commissioner may exempt an insurer if the company meets the life PBR exemption criteria that is published in the valuation manual itself.

Both under the bill and under current law, an insurer that receives an exemption must compute its reserves using assumptions and methods that it used before the valuation manual became operative (January 1, 2017) and in accordance with any requirements established by the Maryland Insurance Administration (MIA) through regulations. The insurer must also file a statement with the Commissioner by July 1 of each year certifying that it continues to qualify for an exemption. By September 1 of each year, the Commissioner may reject this statement and, instead, require the insurer to comply with the valuation manual's requirements.

Background: According to MIA, any insurer that is exempt from the valuation requirements under current law will remain exempt under the bill.

MIA and the Commissioner participate in the activities of NAIC, a national standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories. MIA achieved NAIC accredited status in September 1994 and has maintained its accreditation since that time. The NAIC Accreditation Program is a voluntary program among state insurance regulators that emphasizes the importance of adequate solvency laws, the use of effective and efficient financial analysis and examination procedures, and appropriate organizational and personnel practices. MIA advises that the bill is necessary to ensure MIA's continued NAIC accreditation.

Additional Information

Prior Introductions: None.

Cross File: SB 227 (Senator Kelley) - Finance.

Information Source(s): Maryland Insurance Administration; Department of Legislative Services

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