



Wisconsin Council of Life Insurers

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Allianz Life Insurance Company of North America
American Family Life Insurance Company
Catholic Financial
CUNA Mutual Insurance
Genworth Financial
MetLife
National Guardian Life Insurance Company
Northwestern Mutual
Prudential Life Insurance
State Farm
Thrivent Financial for Lutherans
WEA Trust

To: Members, Assembly Insurance Committee

From: Connie L. O'Connell

Date: October 22, 2015

Re: AB 420 - relating to various miscellaneous changes to the insurance statutes and granting rule-making authority.

The Wisconsin Council of Life Insurers (WCLI), an organization representing both domestic and nondomestic life insurance companies licensed in Wisconsin, encourage you to support Assembly Bill 420 (AB 420) and the items below within this legislation, which largely seek to modernize Wisconsin insurance statutes and provide more uniform regulation of life insurance products among states.

Most of the issues effecting life insurance in AB 420 are model laws adopted by the National Association of Insurance Commissioners (NAIC), which is an organization comprised of each state's chief insurance regulator. Wisconsin's Commissioner of Insurance Ted Nickel serves as the NAIC's Secretary-Treasurer.

Principles-Based Reserves (PBR)

AB 420 implements NAIC Model Laws governing the methodology life insurers use to determine the amount of capital set aside to pay future expected claims. Currently, reserves are determined based on a formulaic approach. Under PBR, insurers establish reserves based on the actual expected risks of a particular product being sold by a particular company. Regulators will also have more tools to properly monitor reserve levels and ensure that companies are able to meet their commitments to policyholders.

Uniform Treatment of Qualified Financial Contracts (QFCs)

AB 420 also adopts the NAIC's Insurer Receivership Model Act, Section 711, which provides for uniform treatment of QFCs. Because of the typical long delay between the time life insurers initially collect premiums and the time they pay out claims, companies are particularly

susceptible to economic changes such as interest or currency rate fluctuations. Some insurers enter into QFCs with banks and other financial institutions to manage these fluctuations. To facilitate the ability of insurers to manage investment and product risks, the NAIC adopted Section 711. This provision standardizes the treatment QFCs receive in the event of an insurance company insolvency by providing for the same treatment the contracts would receive under other laws such as the Federal bankruptcy code, the Federal Deposit Insurance Act and foreign bankruptcy laws.

Wisconsin is the only state with a large domestic life insurance presence that has not adopted this approach. As a result, financial partners are either unwilling to enter into QFCs with Wisconsin insurers or, if willing, impose unfavorable terms on the Wisconsin companies to offset what they view as unclear treatment in the event of insolvency. In December of 2013, the Federal Insurance Office urged states to adopt Section 711 stating, "...the absence of these QFC protections in many state laws could have negative implications for financial stability...states should adopt a uniform approach to address the closing of and netting of QFCs with counterparties."

Dividends

AB 420 modifies statutes governing the distribution of policyholder dividends by life insurers in order to make the statutory language more consistent with the laws governing other lines of insurance. The changes would not impact the amount of dividends paid out. Instead, the role of the Board of Directors in determining the amount of distributable surplus and how policyholder dividends are apportioned would be clarified.

Definition of Annuity

AB 420 replaces statutory references to "fixed or variable annuities" with "annuities." By removing the qualifying terms, the scope of the statute is broader and will cover new types of annuity products as the market evolves.

The Wisconsin Council of Life Insurers respectfully requests your support of AB 420.