Testimony on SB 287

Thank you Chairman Lasee and members of the Insurance Committee for the opportunity to testify on Senate Bill 287.

This bill contains a number of important technical changes in the insurance statutes. We have worked with a large number of interested parties as well as our staff to understand the implications of all of the proposals. Many of you may recall meeting with me on this bill back in February. While much of the substance of the bill has not changed, many of these provisions are national models and needed tweaks to reflect our statutes and the Wisconsin model.

1. Town Mutual Modernization

   Wisconsin's town mutual system is unique. In Wisconsin, we recognize the important role these small insurers play in their local community. This bill includes a number of changes that will help modernize the regulation of town mutual insurers. These include changes that will assist the town mutual in better managing their finances and financial reporting, removing some sections of the statutes that shouldn't apply (i.e. writing reinsurance), and assisting them in writing risks (property crossing county lines)

2. Principle Based Reserving (PBR)

   This long section implements the National Association of Insurance Commissioner's (NAIC) Principal Based Reserving model. The language changes the way life insurance reserves are calculated from a formula to an actuarial analysis that reflects the actual risk. The proposed language reflects the NAIC model. It is important to note that PBR will not go into effect until 42 states have passed it.

3. Insurer Receivership Model Act

   This is also based on an NAIC model, this section creates a legal framework for contracts in life insurance business. It has been adopted by more than 20 states. Wisconsin is one of the only states with a significant life insurance presence that has not adopted the model.

4. International Association of Insurance Supervisors

   Several Wisconsin companies have an international presence, and we do share information with international regulators in OCI's financial reviews of insurers. International regulators have a similar association to the NAIC, and this bill would allow OCI to share information with that international regulatory association.

5. Report deletion

   The bill deletes a number of statutory reports from insurers that are not requested by the public or industry, and have no regulatory value.

6. Passive review of Patient Compensation Fund Rates

   Currently OCI issues the fund rate rule on an emergency basis with the maximum number of extensions because of timing issues. The permanent rule is typically issued after the new rates are proposed. OCI is proposing a passive review process which will allow us to issue rates on a timely basis, and preserve the legislature's right to object to the rule.

7. Mental health managed care organizations

   DHS is looking to issue family care contracts to cover mental health issues, and this is the change in our statute that is required.

8. Agent licensing changes

   The proposed changes reflect national standards that have been implemented by most states to ensure reciprocity.

9. Stock company informal meeting changes

   Statutes were changes several years ago to allow some meetings to take place by electronic means. These changes clarify those that stock companies may also use the same procedures.

10. Dividend Calculation

    These changes in the statutes do not change OCI or the industry's interpretation of dividend calculations but rather clean up the statutes to make their meaning more clear.

11. Guarantee Fund Changes

    These changes, proposed on behalf of the Wisconsin Insurance Security Fund, clarify assessments on health insurers (including HMOs) as well as clarifying the assessments when an insurer's license status changes.

WCLI

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To: Members, Senate Committee on Insurance, Housing, and Trade

From: Connie L. O'Connell

Date: October 5, 2015

Re: SB 287 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 Senate Bill 287 (SB 287) 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 SB 287 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)

SB 287 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)

SB 287 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

SB 287 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

SB 287 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 SB 287.