

TESTIMONY OF THE AMERICAN COUNCIL OF LIFE INSURERS IN SUPPORT OF
SENATE BILL 2821, HD 1, WITH RESERVATIONS, RELATING TO INSURANCE

March 27, 2014

Via e mail: fintestimony@capitol.hawaii.gov

Honorable Representative Sylvia Luke, Chair
Committee on Finance
State House of Representatives
Hawaii State Capitol, Conference Room 308
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Luke and Committee Members:

Thank you for the opportunity to testify in support of SB 2821, HD 1, with reservations, relating to Insurance.

Our firm represents the American Council of Life Insurers (“ACLI”), a Washington, D.C., based trade association with approximately 300 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers’ products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums. Two hundred twenty-five (225) ACLI member companies currently do business in the State of Hawaii; and they represent 92% of the life insurance premiums and 90% of the annuity considerations in this State.

SB 2821, HD 1, adopts updated revisions to the National Association of Insurance Commissioners’ model laws relating to Credit for Reinsurance, Standard Valuation Law, Standard Nonforfeiture for Life Insurance and Insurance Holding Company System Regulatory Act.

SB 2821, HD 1, as it applies to the revision of Hawaii’s Credit for Reinsurance, Standard Valuation Law, Standard Nonforfeiture laws for Life Insurance would allow the insurance commissioner to implement new reserve methods and requirements for life insurers to calculate and report reserves held to pay future claims on life insurance, annuities, and accident and health policies.

Currently, life insurance reserves are calculated based on fixed formulas prescribed by state insurance laws and regulations.

This formulaic approach embedded in statute hampers regulators’ ability to update reserve rules as new designs in insurance products are introduced. The current system also locks in certain assumptions used to calculate reserves when a policy is first approved by the insurance regulator, allowing no flexibility to adjust for future changes.

For some products, the formulaic approach requires companies to hold higher reserves than necessary to pay future claims. This results in higher costs for consumers.

Over the past seven years, state regulators, with the support of the life insurers and actuaries, have developed a new method for calculating life insurance policy reserves. The new law would authorize implementation of this new, principle-based reserves (PBR) method that would enhance the current system for calculating policy reserves. As a result, reserve levels will more accurately reflect the risks assumed by life insurers for the policies they underwrite. Reserves under PBR will more accurately and appropriately reflect life insurers' risks but will be held at levels necessary to pay future claims.

The PBR approach has been designed to enhance regulatory oversight and provide regulators with more tools to properly monitor reserve levels. Under PBR, life insurers will be required to compare a formulaic reserve calculation with a calculation based on actual experience factors—like mortality, policyholder behavior, and expenses under a variety of economic conditions. Companies would then hold the higher of the two reserve levels. Additionally, policy assumptions that are locked in under the formulaic approach will be updated annually under PBR providing greater flexibility to account for future changes.

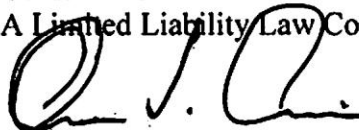
For these reasons, ACLI supports passage of SB 2821, HD 1.

However, the prior committee revised Part IV of the bill relating to Hawaii's Insurance Holding Company Act. As revised, SB 2821, HD 1, now contains many provisions which deviate from the NAIC Insurance Holding Company System Regulatory Act. These deviations may be of concern to ACLI.

ACLI is currently reviewing those revisions with its member companies. Accordingly, ACLI may be offering further revisions to this bill for law makers' consideration.

Again, thank you for the opportunity to testify in support of SB 2821, HD 1, with reservations, relating to Insurance.

LAW OFFICES OF
OREN T. CHIKAMOTO
A Limited Liability Law Company



Oren T. Chikamoto
1001 Bishop Street, Suite 1750
Honolulu, Hawaii 96813
Telephone: (808) 531-1500
Facsimile: (808) 531-1600
E mail: otc@chikamotolaw.com

**Testimony of
Gary M. Slovin / Mihoko E. Ito
on behalf of
USAA**

DATE: March 26, 2014

TO: Representative Sylvia Luke
Chair, Committee on Finance
Submitted Via FINTestimony@capitol.hawaii.gov

RE: **S.B. 2821 S.D.2 H.D.1– Relating to Insurance**
Hearing Date: Thursday March 27, 2014 at 4:00pm
Conference Room: 308

Dear Chair Luke and Members of the Committee Finance,

We submit this testimony on behalf of USAA, a diversified financial services company. USAA is the leading provider of competitively priced financial planning, insurance, investments, and banking products to members of the U.S. military and their families. USAA has over 82,000 members in Hawaii, the vast majority of which are military-based members.

USAA **strongly supports** S.B. 2821, S.D.2 H.D.1, which adopts revisions to the National Association of Insurance Commissioners' model laws on Credit for Reinsurance Model Act, Standard Valuation Law, Standard Nonforfeiture for Life Insurance, and Insurance Holding Company System Regulatory Act. USAA particularly supports Parts II and III of the bill, which propose to implement the NAIC model law for Hawaii's standard valuation law and standard nonforfeiture law. Updating these sections of the law would modernize Hawaii's procedure for setting reserves for life insurance.

USAA notes that this measure was amended in the S.D. 2 to make technical and other clarifying amendments. USAA supports these amendments and respectfully asks that the Committee move this bill forward.

Thank you very much for the opportunity to testify.

Gary M. Slovin
Mihoko E. Ito
Tiffany N. Yajima
Jennifer C. Taylor

1099 Alakea Street, Suite 1400
Honolulu, HI 96813
(808) 539-0840