



John W. Mangan
Vice President, State Relations

April 16, 2015

Re: HB 2469 - ORSA and Principles-based Reserving - SUPPORT

Dear Chairman Holvey, Vice Chair Barton, Vice Chair Kennemer and Members of the Committee:

I am providing comments from the American Council of Life Insurers (ACLI). The ACLI is a national trade association representing nearly 300 member companies who 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 in force in America and in the State of Oregon.

ACLI strongly **supports HB 2469 as proposed to be amended** by the Insurance Division of DCBS to include both the NAIC Own Risk Solvency Assessment Act and additional NAIC model amendments that would modernize the state's insurance code to allow life insurance companies to conduct "principles-based reserving."

ORSA

The ORSA Model was developed by the NAIC to monitor the adequacy of insurers risk management activities. ACLI worked diligently with the NAIC during the development of the Model Law and we support its uniform adoption provided that its strong protections of confidential enterprise information are intact.

We **support HB 2469 as amended** because it reflects these model provisions. Thus, HB 2469 will enable Oregon regulators to assess current and future solvency through the insurer's self-assessment of reasonably foreseeable material risks. An insurer that is subject to the ORSA requirement will be expected to have a risk management framework and regularly assess its own solvency outlook. An annual high level summary of this information must be provided to the lead state regulator. The ORSA model is an important new tool to strengthen Oregon's regulatory structure and will allow the Insurance Division to maintain its important NAIC financial accreditation.

Principle-based Reserving

We support the Insurance Division's principle-based reserving amendments to HB 2469 because they will help ensure that consumers have access to affordable and needed life insurance coverage. In addition, principle-based reserving will allow life insurance companies to develop and reserve for new products and product features that the current outdated and inflexible system inhibits.

The principle-based reserving initiative has been in the works for nearly ten years. Life insurers, independent actuaries and state insurance regulators have worked to develop the principle-based reserving methodology through a thoughtful and deliberative approach. The American Academy of Actuaries supports principle-based reserving. The principle-based reserving amendments are National Association of Insurance Commissioners (NAIC) Model language.

Currently, twenty eight (28) states have enacted principle-based reserving legislation. In 2015, another sixteen (17) states, including California, Nevada and Washington, have either committed to or are now considering principle-based reserving legislation.

Principle-based reserving is not a new concept. The property/casualty insurance industry has been utilizing principle-based reserving for some time. In addition, principle-based reserving is already in place for life insurers in a number of other countries, including Australia, Canada and the United Kingdom. HB 2469 and the same NAIC Model amendments in other states will simply allow life insurers in the United States to use that modern reserving method on their new business.

How Principle Based Reserving Works

Life insurance companies are required to hold financial reserves in order to support payment of policy owner claims. However, the current method of life insurer reserving dates back more than one hundred years and involves a formulaic, “one size fits all” approach. This outdated reserving method now results in some products being under-reserved and other products being over-reserved. The new, principle-based reserving method modernizes the reserving method and “right sizes” the reserve to ensure that it matches the risk that is actually being assumed by the insurance company.

Principle-based reserving will enhance regulatory oversight of a life insurer’s solvency in three ways:

- 1) Principle-based reserving retains certain elements of the existing reserving system that provides “floors” for the minimum amount of reserves required;
- 2) Principle-based reserving is “self-correcting” in the sense that each year the insurance company must demonstrate that its assumptions underlying its reserve calculations are correct; and
- 3) To the extent those underlying assumptions are not correct, the principle-based reserving system allows the company and the state insurance regulator to identify any concerns and take appropriate corrective action in a timely manner.

Summary

HB 2469 as proposed to be amended represents important improvements to insurance regulation that will benefit consumers, life insurers and regulators. Consumers will benefit from affordable pricing of life insurance products more closely aligned with improving mortality risk. Life insurers will benefit by being able to more accurately reserve for risks and by gaining the flexibility to develop new products and new product features. Regulators will benefit from the enhanced solvency oversight that ORSA and principle-based reserving provide.

We strongly **support HB 2469** as proposed to be amended by the Insurance Division of DCBS and urge the Committee to approve it.

Sincerely yours,



John W. Mangan
(503) 701-7503