



James D. Hall JD
Regional Vice President, State Relations

March 11, 2015

The Honorable Scott Schwab
Chairman, Insurance Committee
Kansas House of Representatives
State Capitol, Room 151-S
Topeka, Kansas 66612

Re: SB 47 Principle-Based Reserving

Dear Chairman Schwab 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 the life insurance industry. ACLI has nearly 300 member companies who hold more than 90% of the life insurance in force in America today. There are 474 life insurance companies licensed to do business in Kansas and 12 are domiciled here.

ACLI strongly supports SB 47. If enacted, the bill would adopt National Association of Insurance Commissioners Model amendments to modernize the state's insurance code to allow life insurance companies to conduct "principle-based reserving."

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 This outdated reserving method now results in some products being under-reserved and other products being over-reserved.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 help ensure that consumers are paying the appropriate price for the risk coverage being provided. 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will allow life insurance companies to develop and reserve for new products and product features that the current outdated and inflexible system inhibits.

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. Senate Bill 47 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.

Principle-based reserving will enhance regulatory oversight of a life insurer's solvency. This is achieved 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 more timely manner.

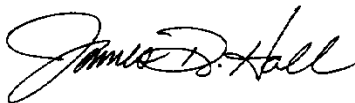
The principle-based reserving initiative has been in the works for nearly ten years. Life insurers, actuaries and state insurance regulators have worked to develop the principle-based reserving methodology through a thoughtful and deliberative approach. The American Academy of Actuaries supports principle-based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

Currently, twenty states have enacted principle-based reserving legislation. In 2015, twenty-four states have either committed to or are now in the process of introducing principle-based reserving legislation.

In summary, SB 47's enactment of principle-based reserving will benefit consumers, life insurers and regulators. Consumers will benefit from having the price of the products more closely aligned with the risk being assumed by the company. 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 principle-based reserving provides.

ACLI strongly supports enactment of SB 47 and we urge the Committee's favorable recommendation of this bill.

Respectfully,

A handwritten signature in black ink, appearing to read "James D. Hall". The signature is fluid and cursive, with the first name "James" being more prominent.

James D. Hall