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Testimony of the American Council of Life Insurers before the Insurance & Real Estate Committee
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House Bill 6613 - An Act Concerning the Standard Valuation Law

Senator Crisco, Representative Megna and members of the Insurance and Real Estate Committee, the American Council of Life Insurers ("ACLI") appreciates the opportunity to offer the following comments in support of **House Bill 6613 - An Act Concerning the Standard Valuation Law**. This legislation is the first in a two-step process that will allow Connecticut to implement a new "principle-based reserves" (PBR) method for calculating life insurance policy reserves.

ACLI appreciates the Insurance Department's leadership in promoting the revamping of the Standard Valuation Law (SVL), C.G.S. §38a-78. Today, life insurance reserves are calculated based on fixed formulas and assumptions prescribed by state insurance laws and regulations. Assumptions are locked in on the date the policy is issued and not based on the insurance company's own experience.

For some products, these fixed formulas can lead to excessive conservatism in reserve calculations. When companies have to hold higher reserves than necessary to meet their obligations, the result is higher costs for consumers. For some policies, this requirement to lock assumptions at issue can lead to inadequate flexibility in the reserves.

As new, more complex products are introduced to satisfy the needs of consumers, many insurance regulators and life insurance companies believe that reserve requirements need to evolve in order to keep pace with new product designs and the risks associated with the new designs.

State regulators, with the support of life insurers and the actuarial profession, have been working since 2004 to enhance the current formulaic approach with an approach that is more principle-based. The new methodology allows reserves to be tailor-made for every company and product, adjusting for the current economic environment and each company's experience, while maintaining an appropriate level of conservatism for solvency oversight purposes.

Under the new system, regulators will have access to more tools to properly monitor reserve levels. Life insurers will be required to compare a formulaic reserve calculation (similar, if not identical to current reserve calculation) with a calculation based on a company's actual experience factors—such as mortality, policyholder behavior and expenses—under a variety of economic conditions. Companies would then hold the higher of the two reserve levels. The new methodology will result in reserve calculations that more accurately reflect risks assumed by life insurers for the policies they underwrite, without eliminating statutory guardrails. This system is designed to be a "living process" where adjustments will be made as experience with the new approach becomes commonplace.

Thank you for your consideration of our position in support of **Senate Bill 6613 - An Act Concerning the Standard Valuation Law**. Please contact John Larkin at (860) 508-9924 or Kate Kiernan at (202) 624-2463 with any questions.

ACLI is a trade association with more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. ACLI members represent more than 90 percent of the assets and premiums of the life insurance and annuity industry. There are 233 ACLI member companies licensed to do business in Connecticut, accounting for 90 percent of the ordinary life insurance in force in the state.