

ADMINISTRATIVE RULES Fiscal Estimate & Economic Impact Analysis

1. Type of Estimate and Analysis

Original Updated Corrected

2. Administrative Rule Chapter, Title and Number

Ch. Ins. 2 Table; Ins 2.80 (4) (b) 3; Ins 50.79 (3) (a) 4.

3. Subject

Reserve Requirements for Life and Fraternal Insurers and Affecting Small Business

4. Fund Sources Affected

GPR FED PRO PRS SEG SEG-S

5. Chapter 20, Stats. Appropriations Affected

None

6. Fiscal Effect of Implementing the Rule

No Fiscal Effect Increase Existing Revenues Increase Costs
 Indeterminate Decrease Existing Revenues Could Absorb Within Agency's Budget
 Decrease Cost

7. The Rule Will Impact the Following (Check All That Apply)

State's Economy Specific Businesses/Sectors
 Local Government Units Public Utility Rate Payers
 Small Businesses (if checked, complete Attachment A)

8. Would Implementation and Compliance Costs Be Greater Than \$20 million?

Yes No

9. Policy Problem Addressed by the Rule

The proposed rule is intended to make four changes to the current regulations regarding reserve and reporting requirements for life and fraternal insurers that will modify outdated and unnecessary requirements as well as clarify ambiguous language contained in the current regulations.

First, Section Ins 2.80, Wis. Admin. Code, establishes the minimum standards for life insurance policy reserves and the method for calculating the reserves. The existing rule includes requirements for a premium deficiency reserve, under which the company can incorporate "X" factors to adjust the mortality factor to a level that is based on the company's own mortality experience. Currently, under s. Ins 2.80 (4), Wis. Admin. Code, the X factors used in the calculation of deficiency reserves are subject to a minimum of 20% and cannot be decreased in any successive policy years. The changes contemplated for the proposed rule would remove these limits on the X factors, which the industry has demonstrated are no longer needed.

Second, under sections Ins. 50.79 (3) (a) and s. Ins 2.80 (4) (b) 3., Wis. Admin. Code, insurers are required to file an annual Regulatory Asset Adequacy Issues Summary in which they must disclose the impact of cash flow insufficiencies projected to occur during the interim periods prior to the end of the test period. The current wording is somewhat ambiguous regarding the reporting requirements with respect to deficiencies in the interim periods. The anticipated changes add clarifying language that would improve the rule by eliminating reporting inconsistencies.

Third, all licensed life and fraternal insurers must submit a confidential Regulatory Asset Adequacy Issues Summary annually to the Commissioner. Proposed changes to the language of s. Ins 50.79, Wis. Admin. Code, would not require foreign insurers (approximately 450 companies) to submit the Summary unless specifically requested by the Commissioner. This change would ease an unnecessary administrative burden on both OCI and foreign insurers.

Finally, the proposed rule would repeal the table of select mortality factors at the end of ch. Ins 2, Wis. Admin. Code, which is outdated and unnecessary. Since the original rule was adopted a more accurate table contained in a NAIC model

ADMINISTRATIVE RULES Fiscal Estimate & Economic Impact Analysis

rule has been released, and is referenced in two places in s. Ins 2.80 (4), Wis. Admin. Code, pursuant to s. 601.41 (3)(b), Wis. Stats., which specifically grants OCI the authority to cross-reference NAIC tables. The mortality factors for calculating reserves contained within sub. (4) are more accurate, and are the correct factors insurers should use for their reserve calculations. Therefore the table at the end of ch. Ins. 2, Wis. Admin. Code, should be removed as it is outdated and unnecessary, and is likely to cause confusion and incorrect reserve calculations.

10. Summary of the businesses, business sectors, associations representing business, local governmental units, and individuals that may be affected by the proposed rule that were contacted for comments.

OCI solicited comments generally through publication requesting comments from the public utilizing the OCI website. In addition, OCI solicited comments from the following businesses and associations:

American Family Insurance Group; Farmers Insurance Group; Humana, Inc.; Independent Insurance Agents of Wisconsin; National Association of Insurance & Financial Advisors Wisconsin (NAIFA); Northwestern Mutual Insurance; Professional Insurance Agents of Wisconsin; Sentry Insurance; WEA Insurance; Wisconsin Association of Health Underwriters; Wisconsin Council of Life Insurers; Wisconsin Fraternal Alliance; Wisconsin Insurance Alliance; WPS Health Insurance.

No comments were received by OCI.

11. Identify the local governmental units that participated in the development of this EIA.

None

12. Summary of Rule's Economic and Fiscal Impact on Specific Businesses, Business Sectors, Public Utility Rate Payers, Local Governmental Units and the State's Economy as a Whole (Include Implementation and Compliance Costs Expected to be Incurred)

The proposed rule changes would have no fiscal effect on the state or local governments, nor would they have any significant effect on the private sector. Although the rule changes may potentially affect licensed life and fraternal insurers, any such effect would likely be beneficial due to the more uniform, less-stringent reserve and reporting requirements. Furthermore, any effect on non-insurance businesses would be beneficial, in that the insurance regulations would be more understandable, accurate, and uniform.

13. Benefits of Implementing the Rule and Alternative(s) to Implementing the Rule

The proposed rule changes modify the reserve requirements for life and fraternal insurers, and revise and clarify the reporting requirements related to life reserves. The proposed rule changes also repeal a table that is outdated and unnecessary.

Specifically, the proposed change under Item (a) eliminates conservative limitations on factors used to calculate deficiency reserves that the industry has demonstrated are no longer needed. Under Item (b), the clarifying language added to the provision requiring the "Regulatory Asset Adequacy Issues Summary" would eliminate reporting inconsistencies. These changes would also allow Wisconsin regulations to align with the model regulations of the National Association of Insurance Commissioners (NAIC) and the regulations of 18 other states. This consistency would assist domestic insurers specifically, as a significant number of life insurers are doing business in several of the states that have implemented the NAIC model regulations.

Additionally, the changes contemplated Item (c) regarding the filing requirement under s. Ins 50.79, Wis. Admin. Code,

ADMINISTRATIVE RULES Fiscal Estimate & Economic Impact Analysis

would ease the administrative burden on the Office of the Commissioner of Insurance (OCI) and foreign insurers doing business in Wisconsin by eliminating an unnecessary filing requirement. Finally, the proposed change under Item (d) repealing the table of select mortality factors at the end of ch. Ins 2, Wis. Admin. Code, would clarify the correct mortality factors to be used in calculating reserves by removing an outdated table contained in the existing regulation.

14. Long Range Implications of Implementing the Rule
None

15. Compare With Approaches Being Used by Federal Government

The OCI is not aware of any existing or proposed federal regulations intended to address the activities to be regulated by the proposed rule changes.

16. Compare With Approaches Being Used by Neighboring States (Illinois, Iowa, Michigan and Minnesota)

Illinois: 215 ILCS 5/223 (1a) (B) contains reserve and reporting provisions comparable to Wisconsin's existing rules.

Iowa: IAC § 508.36 and § 512B.23; § 191-47.4 (508), IA Admin. Code contain reserve provisions more stringent than Wisconsin's existing rules and reporting requirements comparable to the proposed rule change.

Michigan: MCLS § 500.837 (2013) and § 500.8186 (2013), and R. 500.853, Rule 13, Mich. Admin. Code and R. 500.995, Rule 5, Mich. Admin. Code, contain reserve and reporting provisions comparable to Wisconsin's existing rules—is considering the adoption of NAIC Model Law 530 with the 2009 revisions comparable to the proposed Wisconsin rule changes.

Minnesota: Minn. R. 2747.0030 Subp. 2., Admin. Code and § 61A.258 Subd. (1), Minn. Stat. (2013) address the use of minimum standards for life insurance policy reserves, the method for calculating the reserves, and the select mortality factor tables for both basic and deficiency reserves using the 2001 CSO mortality table, comparable to Wisconsin's current law, and Minn. R. 2711.0070, Admin. Code contains reporting requirements comparable to the proposed rule change.

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ADMINISTRATIVE RULES Fiscal Estimate & Economic Impact Analysis

ATTACHMENT A

1. Summary of Rule's Economic and Fiscal Impact on Small Businesses (Separately for each Small Business Sector, Include Implementation and Compliance Costs Expected to be Incurred)

The proposed rule could have an impact on small businesses, specifically life and fraternal insurers, however any impact would be minimal because few, if any, insurers meet the definition of a small business. Moreover, any impact on these small businesses would likely be beneficial since the proposed rule creates more uniform, less-stringent reserve and reporting requirements. Accordingly, OCI does not anticipate any implementation costs or additional compliance costs since the proposed rule would eliminate current reporting and reserve requirements rather than add new ones. Finally, any affect on non-insurance small businesses would be beneficial, in that the insurance regulations would be more understandable, accurate, and uniform.

2. Summary of the data sources used to measure the Rule's impact on Small Businesses

OCI reviewed the revenue and ownership structure of life and fraternal insurers and determined that the proposed rule could have an effect on small businesses, however any such effect would be minimal and likely positive. Very few, if any, insurers meet the definition of a small business, and those that might would be assisted by the more uniform, less-stringent reserve and reporting requirements. In addition, any effect on non-insurance small businesses would be beneficial, in that the insurance regulations would be more understandable, accurate, and uniform.

3. Did the agency consider the following methods to reduce the impact of the Rule on Small Businesses?

- Less Stringent Compliance or Reporting Requirements
- Less Stringent Schedules or Deadlines for Compliance or Reporting
- Consolidation or Simplification of Reporting Requirements
- Establishment of performance standards in lieu of Design or Operational Standards
- Exemption of Small Businesses from some or all requirements
- Other, describe:

N/A. Any impact of the proposed rule on small businesses would be minimal, moreover the impact would likely be beneficial since it is eliminating unnecessary reserve and reporting requirements.

4. Describe the methods incorporated into the Rule that will reduce its impact on Small Businesses

N/A. Any impact would likely be beneficial.

5. Describe the Rule's Enforcement Provisions

The proposed changes do not add any new requirements to be enforced. However, insurers are still subject to the current reserve and reporting requirements, failure to comply with those requirements may be enforced by the Commissioner pursuant to ss. 601.41(1) and 601.64, Wis. Stat.

6. Did the Agency prepare a Cost Benefit Analysis (if Yes, attach to form)

- Yes No

ADMINISTRATIVE RULES
Fiscal Estimate & Economic Impact Analysis