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BULLETIN 2016-12

TO: All Life, Health and Annuity Companies Transacting the Business of Insurance in South Carolina

FROM: Raymond G. Farmer
Director of Insurance 

RE: Operative Date of the Principle-Based Valuation Manual

DATE: December 16, 2016

I. PURPOSE

The purpose of this bulletin is to set forth the operative date of the Principle-Based Valuation Manual. South Carolina enacted legislation to implement Principle-Based Reserving (PBR) via 2016 S.C. Act No. 148 (Act 148). This legislation revised South Carolina's Standard Valuation Law and the Standard Nonforfeiture Law for Life Insurance. The new Standard Valuation Law, codified at S.C. Code Ann. § 38-9-180 (2016), establishes a principle-based valuation methodology that is applicable, subject to specified exceptions, to life, health, and annuity business written after the "operative date" of the uniform valuation manual adopted by the National Association of Insurance Commissioners (NAIC).

II. DISCUSSION

To enable uniform and simultaneous implementation by participating states, the Standard Valuation Law provides that the valuation manual will only become operative when certain statutory prerequisites are met. Specifically, the operative date is established as of January 1 of the first calendar year following the first July 1 as of which all of the following have occurred:

- (1) The valuation manual has been adopted by the NAIC by an affirmative vote of at least forty-two (42) members, or three-fourths (3/4) of the members voting, whichever is greater.
- (2) The model Standard Valuation Law, as amended by the NAIC in 2009, or legislation including substantially similar terms and provisions, has been enacted by States representing greater than seventy-five percent (75%) of the direct premiums written as reported in the following annual statements submitted for 2008: life, accident and health; health; or fraternal insurance business.

- (3) The model Standard Valuation Law, as amended by the NAIC in 2009, or legislation including substantially similar terms and provisions, has been enacted by forty-two (42) of the following fifty-five (55) jurisdictions: “the fifty States of the United States, American Samoa, the American Virgin Islands, the District of Columbia, Guam, and Puerto Rico.”

The valuation manual was adopted by the NAIC on December 2, 2012, with forty-three (43) members voting in the affirmative. This year, the number of states adopting principle-based valuation at the state level has also reached the specified majority. More than forty-five (45) states, including South Carolina, have advised the NAIC that they have enacted laws substantially similar to the NAIC model, including language using the same three triggers to define the operative date, and these states represent more than seventy-five percent (75%) of the applicable premium volume. Moreover, the NAIC has acknowledged that the three necessary triggers have been satisfied.

Act 148 defines the term “*operative date of the valuation manual*” as the January first of the first calendar year that the valuation manual, as defined in S.C. Code Ann. § 38-9-180, is effective.” Accordingly, the operative date of the uniform valuation manual, for purposes of the Standard Valuation Law, is January 1, 2017.

III. APPLICABILITY

PBR will apply to direct ordinary business issued on or after January 1, 2017. All other business issued through December 31, 2016 will be reserved according to current methods. PBR does not apply to certain small companies.

Insurers that write life products subject to the valuation manual included in the revised Standard Valuation Law can elect to apply a PBR methodology to new policies and contracts issued in those states on or after January 1, 2017. However, the provisions of the valuation include a three-year transition period during which the application of PBR is optional (i.e., required implementation no later than January 1, 2020). An insurer that writes life products may assess whether it meets the PBR small company exemption provided by the valuation manual and request approval from the insurance commissioner of its state of domicile each year to be exempt from its application. If it does not, it must comply with the PBR requirements set forth in South Carolina law.

IV. QUESTIONS

Questions concerning this bulletin should be directed to the attention of Michael Shull via email at mshull@doi.sc.gov or by telephone at (803) 737-6188.

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