POLICY INSIGHT

A Policy Newsletter on Life and Health Insurance and Financial Security Issues

Spring 2015

Insurers: Silent Partners in Texas' Economic Success

Life and health insurers are quiet but significant contributors to Texas' robust economy, providing financial security to Texas families while investing billions in the state's economy and its communities.

Insurance is a bellwether industry for Texas, providing jobs to 247,032 workers and an annual payroll of $15.8 billion in 2013, according to a recent study. It is also a major source of revenue for the state: insurance taxes are the sixth largest source of tax revenue for the state, generating an estimated $3.5 billion for the 2014-2015 biennium, an increase of 6.3 percent from 2012-2013.

Money from life and health insurers is invested in Texas mortgages, hospitals, schools, bridges and much more. Life insurers also help backstop families in challenging times, whether it is the death of a loved one or a business partner, a health crisis, or the uncertainty of retirement. Health insurers help Texans through medical uncertainty, paying $12.7 billion in 2013 alone while providing private coverage for 17.4 million Texans.

Jennifer Cawley, executive director of the Texas Association of Life and Health Insurers, commented, "Insurers take pride in being able to offer Texas families financial security through life, health and other financial products, but they are equally committed to being strong partners in supporting the state's economy."

IN 2013, INSURANCE COMPANIES WERE RESPONSIBLE FOR **247,032 JOBS** IN TEXAS WITH A PAYROLL OF **$15.8 BILLION**

The study, "The Insurance Industry's Impact on the Texas Economy 2015," was commissioned by several state and national insurance trade associations, including TALHI. Information for the report was gathered from the Insurance Information Institute, the Texas Department of Insurance, the U.S. Bureau of Labor Statistics, and A.M. Best. The study details the significant contributions life and health insurers have in Texas. Among the highlights:

Life insurers invest approximately $428 billion in the Texas economy. About $353 billion of this is invested in stocks and bonds. Life insurers provide $32 billion in mortgage loans on farms, residential and commercial properties, and own $2 billion in real estate. Life insurers also paid $25 billion in life insurance and annuity benefits in 2012.

Texans own individual, group and credit life insurance policies valued at $2.2 trillion, including $871 billion in group coverage and 10 million individual life insurance policies with coverage averaging $126,000 per policy. Insurers paid almost $27 billion in death benefits, annuities and other payments in 2013.

Approximately 17.4 million Texans are protected by private health insurance. The majority of those — 13.3 million people — are covered by plans self-funded by employers and administered by insurance companies or other third-party administrators. More than 4.1 million Texans have private health

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Legislation Aimed at Providing Relief to Insurance Agent Licensure Delays

A proposal being considered by the Texas Legislature could help ease a backlog of applications and renewals from prospective insurance agents, helping more Texas families protect their financial future while boosting commerce in the state.

The legislation, **HB 2145 by Smithee/ SB 1765 by Creighton**, would create an optional 90-day provisional work authority for individuals who have passed the state's licensing exam, submitted fingerprints for criminal background reviews, and who are supervised by an appointed insurer or licensed agent. It would allow applicants to begin work immediately, instead of waiting sometimes more than 90 days for their applications to be processed.

The proposal would also help stem the increase in the number of families who do not have life insurance and are one accident or terminal illness away from financial catastrophe. According to a study from the Life Insurance and Market Research Association (LIMRA), life insurance is the number one source of financial assets or income that Americans expect to use to help pay bills and to maintain their lifestyle in the event of the primary wage-earner's death. However, the study points out that a majority of families either have no life insurance or not enough.

According to LIMRA, fewer than one-half (44%) of U.S. households have individual life insurance, down from 72% in 1960 and 55% in 1992, resulting in 11 million fewer American households covered by life insurance compared to six years ago. Although the majority of Americans say they prefer to buy insurance from an agent, almost 80% of households currently do not have a personal life insurance agent or broker. The proposed legislation would help families connect with help.

Texas businesses and consumers paid more than $123.4 billion in insurance premiums in 2013, making Texas the 12th largest insurance market in the world, but it is struggling to keep pace with a 54 percent increase in the number of applications it processes in less than a decade. Filings for agent and adjuster licenses have increased from 699,971 in FY 2004 to 1,076,325 in FY 2013.

Although the Texas Department of Insurance (TDI) has increased its effort to meet demand, long wait times for approval prevent many applicants from beginning work. For the past two years TDI has struggled to keep up with insurance agent license applications in Texas. TDI strives for a 27-day turn-around on license applications, but some applicants have had to wait nearly 90 days after successfully completing an exam to receive their full license. These long delays mean applicants are unable to work as insurance agents, which is a loss of income for the applicant and a loss for the Texas economy. The proposal would allow qualified applicants to begin working sooner, easing financial burdens on the applicants and their families and allowing the businesses that have invested money in them to see a faster return.

This proposed legislation would permit applicants for general life or health agent licenses, general property and casualty agent licenses, stipulated premium agent licenses, county mutual agent licenses and pre-need funeral arrangement licensure to obtain a 90-day provisional work permit if they have passed an examination and met the other requirements for the permit.

If a background check reveals information was not disclosed by the applicant on a certification for provisional work authority and the agent license application, safeguards are provided in this legislation to prohibit a person from ever receiving a PWA again. The prohibition is in addition to 5-year waiting period for re-applying for a license in current law if the applicant misrepresents his or her background during the application process.

Average Time for License Approval (in days)

	2012	2013	2014
Arizona	10.24	11.20	6.69
Colorado	2.94	3.88	3.36
Florida	11.14	4.19	5.56
Ohio	18.06	13.35	4.92
Texas	18.46	31.33	32.20
Average	**12.77**	**12.32**	**8.26**

Texas law currently allows the issuance of a temporary license, however that option is not available for all applicants. The temporary license was not designed to be used in this manner and has certain restrictions that create barriers for many license applicants. A provisional work authority would be different than a temporary license because it is designed specifically to allow qualified persons who have committed to becoming insurance agents to begin work while waiting for the Department to process their application.

In addition to the Texas Association of Life and Health Insurers, this legislation is supported by NAIFA-Texas, the Independent Insurance Agents of Texas and the American Council of Life Insurers.

State Can Adopt Model Legislation to Strengthen Insurance Solvency Standards

Two separate reforms proposed by the National Association of Insurance Commissioners (NAIC) would enable insurers to better assess their solvency and financial reserves while providing more protection for consumers and increasing accountability.

The proposals, the ORSA (Own Risk and Solvency Assessment Model Act) and a switch to a Principle-Based Reserving (PBR) method of determining if an insurer has adequate reserves available to pay future claims, have the backing of industry groups and the Texas Department of Insurance.

Texas lawmakers will be asked this session to approve model legislation from the NAIC that would ratify each of the proposals.

The Own Risk and Solvency Assessment Model Act, **SB 655 by Eltife/HB 1730 by Smithee**, has been recommended for approval by the Texas Department of Insurance and would enhance TDI's ability to participate in the supervision of insurers and insurance groups domiciled in multiple jurisdictions and improve regulatory coordination at the national and international levels. Industry groups supporting the measure include the Texas Association of Life and Health Insurers (TALHI), the American Council of Life Insurers (ACLI), America's Health Insurance Plans (AHIP), the American Insurance Association (AIA), and Property Casualty Insurance Association of America (PCIAA).

Life insurers invest
$428 BILLION
in Texas' economy

An ORSA requires certain insurers to annually perform and report to the state their own internal assessments of current and future risks associated with their business plan and the sufficiency of their capital resources during normal and severe stress scenarios. This is intended to encourage management to anticipate potential capital needs and to take action before it's too late. ORSA summary reports will strengthen TDI's ability to evaluate the financial condition of the largest insurance companies including those domiciled in multiple jurisdictions.

The ORSA would apply to any individual U.S. insurer that writes more than $500 million of annual direct written and assumed premium, and/or insurance groups that collectively write more than $1 billion of annual direct written and assumed premium. An insurer that is subject to the ORSA requirements will be expected to: 1) regularly, no less than annually, conduct an ORSA to assess the adequacy of its risk management framework, and current and estimated projected future solvency position; 2) internally document the process and results of the assessment; and 3) provide a confidential high-level ORSA Summary Report annually to the lead state commissioner if the insurer is a member of an insurance group and, upon request, to the domiciliary state regulator.

LIFE INSURERS IN TEXAS PAID
$21 BILLION
in life benefits to Texans in 2012

The second piece of model legislation affects the way life insurers calculate capital reserves. The current system dates to the Civil War era and uses a one-size-fits-all approach to calculate reserves that has failed to keep pace with the increasingly sophisticated and evolving products in today's insurance market. As a result, regulators have worked with industry leaders including actuaries to develop Principle-Based Reserving (PBR) as a replacement to the current outmoded formula-based methods. PBR allows reserves to more accurately reflect the risk assumed by life insurers, making reserves higher for some products and lower for others. Principle-based reserving was approved by the NAIC in 2012, as a way of trying to "right-size" life insurer reserves, free up capital and reduce consumer prices.

With PBR, states would establish principles upon which reserve requirements would be determined, eliminating the need for frequent revising of formulas as new products are introduced and providing for adjustments in reserves as economic conditions and insurers' experiences change.

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insurance with licensed insurance companies that bear the risk of loss and are regulated by the Texas Department of Insurance.

Additionally, private insurers also pay long-term care insurance that pays for assisted living and nursing home care for those who are unable to perform certain activities of daily living without help. Two-thirds of adults over age 65 will need help with bathing, eating or dressing over an extended period, but fewer than ten percent of seniors have long-term care insurance to pay for these services.

Cawley added, “Whether they’re offering assistance by paying an insurance claim, creating jobs or investing in mortgages, schools or our state’s infrastructure, the role of insurers is often unnoticed, but it is real and is a significant contributor to the security of Texas families and our state’s economic health.”

Insurers have also been significantly involved in more than 50 charitable causes in the state of Texas in 2014, including contributions of more than $600,000 since 2012 to support community nonprofits focused on helping children, education and veterans. Scholarships valued at more than $700,000 have been provided to students in insurance and risk management at 10 Texas universities.

Insurance companies pay a percentage of their gross premiums as taxes to the states in which they do business. In Texas, health and life insurance companies pay 1.75 percent of gross premiums. Insurers also pay insurance maintenance taxes and fees to support the cost of regulating insurance companies, primarily through the Texas Department of Insurance.

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For most small companies, however, the switch to PBR will not have the same advantages as it will for larger insurance companies. TALHI is currently working with its members and the Department of Insurance to come up with language that will exempt smaller companies from the requirements of PBR. The NAIC PBR Implementation Task Force recently adopted small company exemption language to add to the valuation manual that defines a “small company” as having less than $300 million of ordinary life premiums. In addition, if the company is a member of an NAIC group of life insurers, it can be exempted if the group has combined ordinary life premiums of less than $600 million.This smaller company exemption language will allow these companies to continue to operate as they have been under the current regulatory scheme.

17.4 MILLION

TEXANS ARE COVERED BY PRIVATE HEALTH PLANS

To implement PBR, state legislatures must adopt both the Standard Valuation Model Law that was approved by the National Association of Insurance Commissioners (NAIC) in 2009, and the 2012 revisions to the NAIC Standard Nonforfeiture Law. PBR will only be operational once it has been adopted in at least 42 U.S. jurisdictions, accounting for 75 percent of U.S. life insurance premiums combined.

According to information from the ACLI, 20 states to date have enacted legislation to implement Principle-Based Reserving. Texas has enacted the amendments to the Standard Nonforfeiture Law required for PBR implementation, but will still need to adopt the Standard Valuation Model Law, **HB 1379 by Sheets**, before becoming fully operational.

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