

**1999 SENATE INDUSTRY, BUSINESS AND LABOR**

**SB 2156**

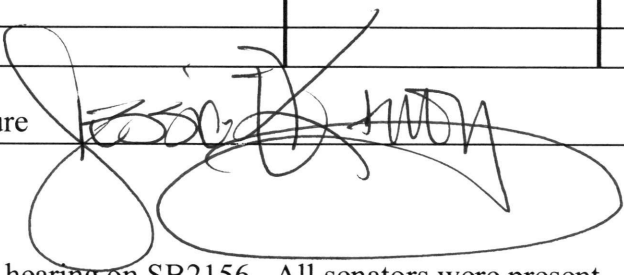
1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2156

Senate Industry, Business and Labor Committee

Conference Committee

Hearing Date January 20, 1999

Tape Number	Side A	Side B	Meter #
1		x	200-2270
Committee Clerk Signature 			

Minutes:

Senator Mutch opened the hearing on SB2156. All senators were present.

Trent Heinemeyer testified in support of SB2156. His testimony is included.

Senator Mutch asked him if they had been publishing the manuals already. he said that they have been printing some manuals.

Senator Krebsbach asked him if there will be a big difference in the way that they will be working. His reply was that he didn't believe that this would change anything in a negative way. He said that the manuals will manuals will give better guidance.

Senator Mutch asked what the projections were for the cost of printing the manuals. He said that he didn't know what the additional cost would be. He said that it would not cost the state anymore but it would cost the insurance companies.

Senator Mutch asked how many states have adopted these accounting practices. He said that he believed that all the states have the old manuals, but a number of the legislatures are taking up the new one.

Senator Krebsbach asked if there was anything that we currently have that would not be covered by using this new examining feature. He said that this would not change any examining features that we have.

Tom Smith testified in support of SB2156. His testimony is included.

Senator Mutch concluded the hearing on SB2156.

Committee discussion took place on January 20, 1999.

Senator Heitkamp made a motion to adopt the amendments on SB2156. Senator Mathern seconded his motion. The motion carries with a 7-0-0 vote.

Senator Mathern motion for a do pass as amended action on the bill. Senator Thompson seconded her motion. The motion carried with a 7-0-0 vote.

Senator Mutch will carry the bill.

Date:  
Roll Call Vote #: 2156 #1

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO.

Senate INDUSTRY, BUSINESS AND LABOR COMMITTEE Committee

Subcommittee on \_\_\_\_\_  
or  
 Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken AMEND

Motion Made By HEITKAMP Seconded By MATHELN

Senators	Yes	No	Senators	Yes	No
Senator Mutch	X				
Senator Sand	X				
Senator Klein	X				
Senator Krebsbach	X				
Senator Heitkamp	X				
Senator Mathern	X				
Senator Thompson	X				

Total (Yes) 7 No 0

Absent 0

Floor Assignment \_\_\_\_\_

If the vote is on an amendment, briefly indicate intent:



Date: 1/20/99  
Roll Call Vote #: 2156 #2

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO.

Senate INDUSTRY, BUSINESS AND LABOR COMMITTEE Committee

Subcommittee on \_\_\_\_\_  
or  
 Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken DO PASS

Motion Made By MATHELN Seconded By THOMPSON

Senators	Yes	No	Senators	Yes	No
Senator Mutch	X				
Senator Sand	X				
Senator Klein	X				
Senator Krebsbach	X				
Senator Heitkamp	X				
Senator Mathern	X				
Senator Thompson	X				

Total (Yes) 7 No 0

Absent 0

Floor Assignment ~~THOMPSON~~ MATHELN

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE**

**SB 2156: Industry, Business and Labor Committee (Sen. Mutch, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2156 was placed on the Sixth order on the calendar.

Page 1, line 8, remove "a version of"

Page 1, line 10, replace "model" with "manual" and replace "conduct" with "statutory accounting practices"

Page 1, line 12, replace "model" with "manual" and replace "that version" with "the manual"

Renumber accordingly

**1999 HOUSE INDUSTRY, BUSINESS AND LABOR**

**SB 2156**

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2156

House Industry, Business and Labor Committee

Conference Committee

Hearing Date 2-9-99

Tape Number	Side A	Side B	Meter #
1	x		0 - 1781
2	x		212 - 745
Committee Clerk Signature <i>Lisa Horner</i>			

Minutes: **SB 2156** Relating to adoption of the national association of insurance commissioners accounting practices and procedures manual.

Trent Heinemeyer, Deputy Insurance Commissioner testified in favor of SB 2156. Commented on problem of analysts not having same accounting practices and procedures comparability problem with other states. Another problem is only having limited guidance for insurance companies. (See written testimony)

Chairman Berg asked if the rules are going to be standardized with other states?

Trent Heinemeyer replied a number of states are in the process of getting the project adopted.

Rep. Stefonowicz asked if the language is clear and specific enough?

Trent Heinemeyer replied he felt it was sufficient enough and would address the issue.

Page 2  
House Industry, Business and Labor Committee  
Bill/Resolution Number Sb 2156  
Hearing Date 2-9-99

Tom Smith for Domestic Insurance Companies testified in favor of SB 2156. Does not feel the standardized documents? manuals would be dictating and feels the concept would be helpful.

(See written testimony)

Chairman Berg closed the hearing.

**Tape 2 side A, meter No. 212.**

**Committee Action** on SB 2156.

Rep. Ekstrom made a motion for a Do Pass.

Rep. Klein second the motion.

The roll call vote was 15 yea, 0 nay. The motion carries.

Rep. Johnson will carry the bill.

Date: 2.9.99  
Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. SB 2156

House Industry, Business and Labor Committee

Subcommittee on \_\_\_\_\_  
or  
 Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass

Motion Made By Eckstrom Seconded By Klein

Representatives	Yes	No	Representatives	Yes	No
Chair - Berg	/		Rep. Thorpe	/	
Vice Chair - Kempenich	/				
Rep. Brekke	/				
Rep. Eckstrom	/				
Rep. Froseth	/				
Rep. Glassheim	/				
Rep. Johnson	/				
Rep. Keiser	/				
Rep. Klein	/				
Rep. Koppang	/				
Rep. Lemieux	/				
Rep. Martinson	/				
Rep. Severson	/				
Rep. Stefonowicz	/				

Total (Yes) 15 No 0

Absent \_\_\_\_\_

Floor Assignment Johnson

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE (410)**  
**February 24, 1999 4:34 p.m.**

**Module No: HR-33-3502**  
**Carrier: N. Johnson**  
**Insert LC: . Title: .**

**REPORT OF STANDING COMMITTEE**

**SB 2156: Industry, Business and Labor Committee (Rep. Berg, Chairman) recommends DO PASS (15 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2156 was placed on the Fourteenth order on the calendar.**

**1999 TESTIMONY**

**SB 2156**



**American Council of Life Insurance**

Patricia A. Parachini  
Legislative Director

**BY FACSIMILE**

January 19, 1999

The Honorable Duane Mutch  
Chairman, Industry, Business and Labor Committee  
North Dakota State Senate  
State Capitol  
Bismarck, North Dakota 58505

**RE: SENATE BILL 2156 -- NATIONAL ASSOCIATION OF INSURANCE  
COMMISSIONERS ACCOUNTING PRACTICES AND PROCEDURES  
MANUAL**

Dear Chairman Mutch and Members of the Committee:

The American Council of Life Insurance ("ACLI") is pleased to formally submit this letter in support of the above-referenced proposed legislation for the hearing scheduled before your Committee on January 20<sup>th</sup>, 1999. The ACLI is the principal trade association for life insurance companies in the United States, representing 532 companies which account for approximately 89% of the life insurance in force in the country. Three hundred and ninety-two of our members are licensed in North Dakota, accounting for 89% of the total life insurance business written in your state. We offer our full support for S. 2156, with the additional amendments suggested by the Insurance Department, and respectfully urge its adoption by the Committee.

The Accounting Practices and Procedures Manual that the Insurance Department seeks to adopt by rule is a great improvement over the current version of the manual, and represents the culmination of almost eight years of work by state regulators to solve a major problem. The problem is that regulators and insurance company auditors are having a difficult time understanding the financial statements of insurers, due to the tremendous variation in accounting rules from state to state. This is obviously a significant concern, as it is the regulators' job to monitor the solvency of the insurance industry, so that consumers' insurance benefits are protected.

The new Accounting Manual, called "Codification," provides for uniform financial reporting from state to state, so that regulators can make meaningful comparisons if insurers located in different states. A regulator's ability to analyze financial information should be greatly enhanced, and consumers will benefit from having access to financial information that is presented on a comparable basis.

The Honorable Duane Mutch

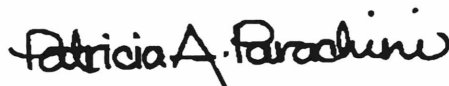
January 19, 1999

Page 2

In our view, Codification is an example of how the state system of insurance regulation works best. This is because the new Manual protects state sovereignty by allowing North Dakota legislators to continue to determine what transactions its domiciled companies may undertake. However, the new Manual requires the disclosure of prescribed or permitted accounting practices that vary materially from Codification, so that North Dakota regulators will understand the basis of accounting used by insurers domiciled in other states that also do business in your state. We believe that this system of statutory accounting will be a significant enhancement to state solvency regulation.

Mr. Chairman, the ACLI appreciates your sponsorship of Senate Bill 2156, as amended, and, again, respectfully urges its adoption by the Industry, Business and Labor Committee on the 20<sup>th</sup>, as well as by the full Senate body. Please let us know if you have any questions regarding this letter.

Sincerely,



Patricia A. Parachini

cc: Tom Smith, Zuger, Kirmis & Smith  
Greg Morris, Pioneer Mutual Life  
Melody Jensen, TMG Life

SENATE BILL NO. 2156  
TESTIMONY BEFORE THE SENATE  
INDUSTRY, BUSINESS, AND LABOR COMMITTEE

TRENT C. HEINEMEYER  
DEPUTY INSURANCE COMMISSIONER  
NORTH DAKOTA INSURANCE DEPARTMENT

*Statutory  
Accounting*

**The Problem**

At the heart of insurance regulation is solvency protection. Our state-based system of insurance regulation requires that insurance companies provide certain financial information to regulators in each jurisdiction in which they are licensed so that regulators can analyze their financial condition. The financial statements are required to be prepared on the basis of accounting permitted in the jurisdiction where the insurance company is domiciled. Therefore, a company domiciled in North Dakota would prepare its financial statements based on accounting practices and procedures permitted by North Dakota law, rule, or practice, and the company would be required to file that information in North Dakota and each other jurisdiction in which it is licensed. The other jurisdictions likely have somewhat different laws, rules, and practices allowed their domestic companies for the preparation of financial information resulting in variances among states and companies as to the accounting basis of reported information.

All states have adopted the National Association of Insurance Commissioners (NAIC) Accounting Practices and Procedures Manuals as a basis for the preparation of financial statements to state regulators. However, these manuals are limited in the amount of guidance they provide insurance companies and regulators, and are also altered by the law, rule, or practice of each jurisdiction.

Therefore, under the current system, the guidance provided for the preparation of financial information and the comparability of the information are both somewhat limited.

**The Solution**

Senate Bill No. 2156 provides the Insurance Commissioner with specific authority to adopt by rule a version of the NAIC Accounting Practices and Procedures Manual, a new version of which is the result of a several year project called "codification" which provides a substantial overhaul of the existing Accounting Practices and Procedures Manuals and eliminates to a large degree the problems of insufficient guidance for the preparation of financial statements and the lack of comparability of financial information. There is very strong support for this new Accounting Practices and Procedures Manual from the insurance industry, as evidenced by letters of support and testimony you have received, and from insurance regulators around the country who endorsed its support in a nearly unanimous action of the NAIC with a vote of 49 states in favor and 1 state opposed.

## **Senate Bill No. 2156**

Senate Bill No. 2156 provides specific statutory authority to the Insurance Commissioner to adopt a rule incorporating a new NAIC Accounting Practices and Procedures Manual. The Department adopted a similar rule several years ago and with it put in place the old version of the NAIC Accounting Practices and Procedures Manuals. We have introduced this legislation to assure that North Dakota's legislators are aware of this major overhaul to, and consolidation of, the Accounting Practices and Procedures Manuals which we would propose to adopt by rule, as this "codification" project encountered some controversy in its later stages, some involving the National Conference of Insurance Legislators (NCOIL) as will be discussed later in this testimony.

## **Background**

State insurance regulators are charged with the duty of monitoring the financial condition of insurance companies doing business in the various states. Generally speaking, state regulators in a given state spend most of their financial surveillance resources monitoring the financial condition of the insurance companies domiciled, or chartered, in their state and then each of the other states in which those companies are licensed rely heavily upon the monitoring performed by the domiciliary state regulators. However, frequently state regulators are interested in the financial condition of insurance companies licensed, but not domiciled, in their state. Because the financial statements presented to a nondomiciliary state are based upon accounting practices and procedures prescribed and permitted in the state of domicile, there will be differences in the way financial information is reported from company to company and state to state. Comparability is a very important aspect of the insurance regulators' analysis and these differences make it difficult for state regulators to compare financial information.

The lack of financial information that is comparable from one state to another has long been problematic for the state system of regulation because each state has its own unique prescribed and permitted accounting practices. As a result, a regulator in one state has no way to understand the financial statements of a company domiciled in another state.

This lack of comparable and reliable financial information for insurers was one of the central criticisms of the state system of solvency regulation and led to the initiation of the codification project nearly a decade ago. Congressional critics and those in the financial markets continue to closely monitor whether the states will adopt an effective accounting and reporting model.

The second concern addressed by Senate Bill No. 2156 is that insurers have never had a comprehensive basis of accounting upon which to base their financial reporting. During the development of the codification project, the NAIC discovered many gaps and inconsistencies in the current accounting manuals and state prescribed practices. Currently, there are many gaps in the guidance provided and other areas in which the guidance is vague. Insurers need a much more comprehensive basis of accounting to lessen the burden of accurate financial reporting. This explains, in part, why there is such strong industry support for Senate Bill No. 2156.

The codification project which will become the new NAIC Accounting Practices and Procedures Manual, and which is contemplated to be adopted by rule pursuant to Senate Bill No. 2156, will

provide the comprehensive basis of accounting insurers and regulators need and will provide the comparability of information that regulators may use to undertake a much more meaningful analysis of financial information provided by insurance companies.

The controversy at NCOIL, referred to earlier, and championed largely by one state, Michigan, boils down to a question of states' rights with the suggestion that the NAIC was mandating the use of this manual without legislative enactment. That is simply not the case. In fact, the preamble of the codification project addresses this issue by stating, "this manual is not intended to preempt state's legislative and regulatory authority. It is intended to establish a comprehensive basis of accounting recognized and adhered to in the absence of conflict with, or silence of, state statutes and/or regulations." In addition to the citation included in the preamble, the American Institute of Certified Public Accountants has publicly stated that the basis of opinion in the audit report of statutory financial statements will remain the prescribed and permitted practices of the state of domicile, regardless of the adoption of codification by such state.

The other issue creating controversy involved the way in which codification would provide the comparability of information deemed critical by insurance regulators. Initially, many within the industry proposed that statutory accounting be dropped altogether and a GAAP (generally accepted accounting principles) framework be adopted. Another option considered by the technical members of the Codification Working Group was to create a single accounting basis that all insurers and states would be required to follow.

Ultimately, both of these options were rejected because they would have taken control of the accounting rulemaking authority away from legislators and Commissioners who are responsible for the regulation of the industry and the protection of consumers.

The search for common ground culminated early this year with the work of the Ad Hoc Codification Task Force. As these discussions began, regulators were not insisting on either a single form of investment practice or a single basis of accounting. The industry, on the other hand, generally expressed support for some form of uniform "disclosure" provided the format was reasonable. Almost everyone involved in this discussion understood the importance of comparability of financial information if state-based regulation of insurance is to remain viable. "Disclosure" emerged as the way to reach the common ground and the task force developed the appropriate disclosure document which reconciles surplus and net income from the state prescribed and permitted basis to the codification basis. Thus, regulators in states other than the state of domicile can compare the financial statements of their licensed companies no matter where those insurers are domiciled. Any differences noted in this disclosure will have no effect on the statutory audit opinion of the insurer which will continue to be based on the prescribed and permitted practices of the state of domicile.

### **Conclusion**

The codification project is widely regarded as not only critically important, but also crucial to the future of the state-based system of insurance regulation, and we urge your support of Senate Bill No. 2156.

January 19, 1999

**PROPOSED AMENDMENTS TO SENATE BILL NO. 2156**

Page 1, line 8, remove “a version of”

Page 1, line 10, replace “model” with “manual” and replace “conduct” with “statutory accounting practices”

Page 1, line 12, replace “model” with “manual” and replace “that version” with “the manual”

Renumber accordingly

Senate Industry, Business and Labor Committee

HEARING ON S.B. 2156

TESTIMONY OF GARY R. THUNE  
FOR THE AIA

My name is Gary Thune. I appear on behalf of the American Insurance Association (AIA) in support of Senate Bill No. 2156, *as amended*.

The AIA supports the codification of accounting practices and procedures and believes this Bill is an effective means of implementing it. The AIA hopes that other states will also support this effort.

The AIA urges a Do Pass vote on this bill.

Gary R. Thune  
AIA