

The Senate Committee on Insurance and Labor offers the following substitute to HB 185:

A BILL TO BE ENTITLED
AN ACT

1 To amend Title 33 of the Official Code of Georgia Annotated, relating to insurance, so as to
2 extensively revise the "Standard Valuation Law"; to provide for definitions; to provide for
3 reserve valuation; to provide for actuarial opinion of reserves; to provide for computation of
4 minimum standard; to provide for computation of minimum standard for annuities; to
5 provide for computation of minimum standard by calendar year of issue; to provide for
6 reserve valuation method for life insurance and endowment benefits; to provide for reserve
7 valuation method of annuity and pure endowment benefits; to provide for minimum reserves;
8 to provide for optional reserve calculations; to provide for reserve calculation for valuation
9 of net premium exceeding the gross premium charged; to provide for reserve calculation of
10 indeterminate premium plans; to provide for minimum standards for accident and health
11 insurance contracts; to provide for valuation manual for policies issued on or after the
12 operative date of the valuation manual; to provide for requirements of a principle-based
13 valuation; to provide for experience reporting for policies in force on or after the operative
14 date of the valuation manual; to provide for confidentiality; to provide for single state
15 exemption; to provide a short title; to define certain terms; to provide for reorganization of
16 mutual insurers and formation of mutual insurance holding companies; to provide that capital
17 stock of the reorganized stock insurer shall be issued to the mutual insurance holding
18 company or to an intermediate stock holding company; to provide for the requirements of
19 any reorganization plan; to provide for mergers of mutual insurers or other entities with
20 mutual insurance holding companies; to provide that capital stock of the merged insurer shall
21 be issued to the mutual insurance holding company or to an intermediate stock holding
22 company; to provide for approval of the reorganization plan or merger plan by the
23 Commissioner of Insurance; to provide for domestication of foreign mutual insurers; to
24 provide for applicability of certain provisions and dissolution and liquidation; to provide for
25 demutualization of mutual insurance holding companies; to provide that certain membership
26 interests shall not be deemed securities; to provide restrictions on voting stock of reorganized
27 stock insurers; to provide for approval of any reorganization plan or merger plan by
28 policyholders; to provide for powers of mutual insurance holding companies and restrictions

29 on voting stock; to provide that the formation of a mutual insurance holding company shall
 30 not increase the Georgia tax burden of the mutual insurance holding company system; to
 31 provide for related matters; to repeal conflicting laws; and for other purposes.

32 BE IT ENACTED BY THE GENERAL ASSEMBLY OF GEORGIA:

33 **SECTION 1.**

34 Title 33 of the Official Code of Georgia Annotated, relating to insurance, is amended by
 35 repealing in its entirety Code Section 33-10-13, relating to the valuation of reserves, and by
 36 enacting a new Code Section 33-10-13 to read as follows:

37 "33-10-13.

38 (a) This Code section shall be known and may be cited as the 'Standard Valuation Law.'

39 (b) For the purposes of this Code section, the following definitions shall apply on or after
 40 the operative date of the valuation manual:

41 (1) The term 'accident and health insurance' means contracts that incorporate morbidity
 42 risk and provide protection against economic loss resulting from accident, sickness, or
 43 medical conditions and as may be specified in the valuation manual.

44 (2) The term 'appointed actuary' means a qualified actuary who is appointed in
 45 accordance with the valuation manual to prepare the actuarial opinion required in
 46 paragraph (2) of subsection (d) of this Code section.

47 (3) The term 'company' means an entity, which (a) has written, issued, or reinsured life
 48 insurance contracts, accident and health insurance contracts, or deposit-type contracts in
 49 this State and has at least one such policy in force or on claim or (b) has written, issued,
 50 or reinsured life insurance contracts, accident and health insurance contracts, or
 51 deposit-type contracts in any state and is required to hold a certificate of authority to
 52 write life insurance, accident and health insurance, or deposit-type contracts in this State.

53 (4) The term 'deposit-type contract' means contracts that do not incorporate mortality or
 54 morbidity risks and as may be specified in the valuation manual.

55 (5) The term 'life insurance' means contracts that incorporate mortality risk, including
 56 annuity and pure endowment contracts, and as may be specified in the valuation manual.

57 (6) The term 'NAIC' means the National Association of Insurance Commissioners.

58 (7) The term 'policyholder behavior' means any action a policyholder, contract holder,
 59 or any other person with the right to elect options, such as a certificate holder, may take
 60 under a policy or contract subject to this Code section, including, but not limited to, lapse,
 61 withdrawal, transfer, deposit, premium payment, loan, annuitization, or benefit elections
 62 prescribed by the policy or contract but excluding events of mortality or morbidity that

63 result in benefits prescribed in their essential aspects by the terms of the policy or
64 contract.

65 (8) The term 'principle-based valuation' means a reserve valuation that uses one or more
66 methods or one or more assumptions determined by the insurer and is required to comply
67 with subsection (p) of this Code section as specified in the valuation manual.

68 (9) The term 'qualified actuary' means an individual who is qualified to sign the
69 applicable statement of actuarial opinion in accordance with the American Academy of
70 Actuaries qualification standards for actuaries signing such statements and who meets the
71 requirements specified in the valuation manual.

72 (10) The term 'tail risk' means a risk that occurs either where the frequency of low
73 probability events is higher than expected under a normal probability distribution or
74 where there are observed events of very significant size or magnitude.

75 (11) The term 'valuation manual' means the manual of valuation instructions adopted by
76 the NAIC as specified in this Code section or as subsequently amended.

77 (c)(1)(A) The Commissioner shall annually value, or cause to be valued, the reserve
78 liabilities (hereinafter called reserves) for all outstanding life insurance policies and
79 annuity and pure endowment contracts of every life insurance company doing business
80 in this state issued on or after January 1, 1966, and prior to the operative date of the
81 valuation manual. In calculating reserves, the Commissioner may use group methods
82 and approximate averages for fractions of a year or otherwise. In lieu of the valuation
83 of the reserves required of a foreign or alien company, the Commissioner may accept
84 a valuation made, or caused to be made, by the insurance supervisory official of any
85 state or other jurisdiction when the valuation complies with the minimum standard
86 provided in this Code section.

87 (B) The provisions set forth in subsections (e) through (n) of this Code section shall
88 apply to all policies and contracts, as appropriate, subject to this Code section issued
89 on or after January 1, 1966, and prior to the operative date of the valuation manual and
90 the provisions set forth in subsections (o) and (p) of this Code section shall not apply
91 to any such policies and contracts.

92 (C) The minimum standard for the valuation of such policies and contracts issued prior
93 to January 1, 1966, shall be as required under the laws in effect immediately prior to
94 January 1, 1966, or the minimum provided in subsection (e) of this Code section if less.

95 (2)(A) The Commissioner shall annually value, or cause to be valued, the reserve
96 liabilities (hereinafter called reserves) for all outstanding life insurance contracts,
97 annuity and pure endowment contracts, accident and health contracts, and deposit-type
98 contracts of every company issued on or after the operative date of the valuation
99 manual. In lieu of the valuation of the reserves required of a foreign or alien company,

100 the Commissioner may accept a valuation made, or caused to be made, by the insurance
101 supervisory official of any state or other jurisdiction when the valuation complies with
102 the minimum standard provided in this Code section.

103 (B) The provisions set forth in subsections (o) and (p) of this Code section shall apply
104 to all policies and contracts issued on or after the operative date of the valuation
105 manual.

106 (d)(1)(A) Prior to the operative date of the valuation manual, every life insurance
107 company doing business in this state shall annually submit the opinion of a qualified
108 actuary as to whether the reserves and related actuarial items held in support of the
109 policies and contracts specified by the Commissioner by regulation are computed
110 appropriately, are based on assumptions that satisfy contractual provisions, are
111 consistent with prior reported amounts, and comply with applicable laws of this state.
112 The Commissioner shall define by regulation the specifics of this opinion and add any
113 other items deemed to be necessary to its scope.

114 (B)(i) Every life insurance company, except as exempted by regulation, shall also
115 annually include in the opinion required by subparagraph (A) of this paragraph, an
116 opinion of the same qualified actuary as to whether the reserves and related actuarial
117 items held in support of the policies and contracts specified by the Commissioner by
118 regulation, when considered in light of the assets held by the company with respect
119 to the reserves and related actuarial items, including but not limited to the investment
120 earnings on the assets and the considerations anticipated to be received and retained
121 under the policies and contracts, make adequate provision for the company's
122 obligations under the policies and contracts, including but not limited to the benefits
123 under and expenses associated with the policies and contracts.

124 (ii) The Commissioner may provide by regulation for a transition period for
125 establishing any higher reserves that the qualified actuary may deem necessary in
126 order to render the opinion required by this subsection.

127 (C) Each opinion required by subparagraph (B) of this paragraph shall be governed by
128 the following provisions:

129 (i) A memorandum, in form and substance acceptable to the Commissioner as
130 specified by regulation, shall be prepared to support each actuarial opinion; and

131 (ii) If the insurance company fails to provide a supporting memorandum at the
132 request of the Commissioner within a period specified by regulation or the
133 Commissioner determines that the supporting memorandum provided by the
134 insurance company fails to meet the standards prescribed by the regulations or is
135 otherwise unacceptable to the Commissioner, the Commissioner may engage a
136 qualified actuary at the expense of the company to review the opinion and the basis

137 for the opinion and prepare the supporting memorandum required by the
138 Commissioner.

139 (D) Every opinion required by this subsection shall be governed by the following
140 provisions:

141 (i) The opinion shall be submitted with the annual statement reflecting the valuation
142 of such reserve liabilities for each year ending on or after December 31, 1994;

143 (ii) The opinion shall apply to all business in force including individual and group
144 health insurance plans, in form and substance acceptable to the Commissioner as
145 specified by regulation;

146 (iii) The opinion shall be based on standards adopted from time to time by the
147 Actuarial Standards Board and on such additional standards as the Commissioner may
148 by regulation prescribe;

149 (iv) In the case of an opinion required to be submitted by a foreign or alien company,
150 the Commissioner may accept the opinion filed by that company with the insurance
151 supervisory official of another state if the Commissioner determines that the opinion
152 reasonably meets the requirements applicable to a company domiciled in this state;

153 (v) For the purposes of this subsection, the term 'qualified actuary' means a member
154 in good standing of the American Academy of Actuaries who meets the requirements
155 set forth in the regulation;

156 (vi) Except in cases of fraud or willful misconduct, the qualified actuary shall not be
157 liable for damages to any person, other than the insurance company and the
158 Commissioner, for any act, error, omission, decision or conduct with respect to the
159 actuary's opinion;

160 (vii) Disciplinary action by the Commissioner against the company or the qualified
161 actuary shall be defined in regulations by the Commissioner;

162 (viii) Except as provided in divisions (xii), (xiii), and (xiv) of this subparagraph,
163 documents, materials, or other information in the possession or control of the
164 department that are a memorandum in support of the opinion, and any other material
165 provided by the company to the Commissioner in connection with the memorandum,
166 shall be confidential by law and privileged, shall not be subject to Article 4 of Chapter
167 18 of Title 50, relating to open records, shall not be subject to subpoena, and shall not
168 be subject to discovery or admissible in evidence in any private civil action.
169 However, the Commissioner is authorized to use the documents, materials, or other
170 information in the furtherance of any regulatory or legal action brought as a part of
171 the Commissioner's official duties;

172 (ix) Neither the Commissioner nor any person who received documents, materials,
173 or other information while acting under the authority of the Commissioner shall be

174 permitted or required to testify in any private civil action concerning any confidential
175 documents, materials, or information subject to division (viii) of this subparagraph;
176 (x) In order to assist in the performance of the Commissioner's duties, the
177 Commissioner:

178 (I) May share documents, materials, or other information, including the confidential
179 and privileged documents, materials, or information subject to division (viii) of this
180 subparagraph with other state, federal, and international regulatory agencies, with
181 the National Association of Insurance Commissioners and its affiliates and
182 subsidiaries, and with state, federal, and international law enforcement authorities,
183 provided that the recipient agrees to maintain the confidentiality and privileged
184 status of the document, materials, or other information;

185 (II) May receive documents, materials, or information, including otherwise
186 confidential and privileged documents, materials, or information, from the National
187 Association of Insurance Commissioners and its affiliates and subsidiaries, and from
188 regulatory and law enforcement officials of other foreign or domestic jurisdictions,
189 and shall maintain as confidential or privileged any document, material, or
190 information received with notice or the understanding that it is confidential or
191 privileged under the laws of the jurisdiction that is the source of the document,
192 material, or information; and

193 (III) May enter into agreements governing sharing and use of information
194 consistent with divisions (viii) through (x) of this subparagraph;

195 (xi) No waiver of any applicable privilege or claim of confidentiality in the
196 documents, materials, or information shall occur as a result of disclosure to the
197 Commissioner under this subsection or as a result of sharing as authorized in division
198 (x) of this subparagraph;

199 (xii) A memorandum in support of the opinion, and any other material provided by
200 the company to the Commissioner in connection with the memorandum, may be
201 subject to subpoena for the purpose of defending an action seeking damages from the
202 actuary submitting the memorandum by reason of an action required by this
203 subsection or by regulations promulgated hereunder;

204 (xiii) The memorandum or other material may otherwise be released by the
205 Commissioner with the written consent of the company or to the American Academy
206 of Actuaries upon request stating that the memorandum or other material is required
207 for the purpose of professional disciplinary proceedings and setting forth procedures
208 satisfactory to the Commissioner for preserving the confidentiality of the
209 memorandum or other material; and

210 (xiv) Once any portion of the confidential memorandum is cited by the company in
211 its marketing or is cited before a governmental agency other than a state insurance
212 department or is released by the company to the news media, all portions of the
213 confidential memorandum shall be no longer confidential.

214 (2)(A) On and after the operative date of the valuation manual, every company with
215 outstanding life insurance contracts, accident and health insurance contracts, or
216 deposit-type contracts in this state and subject to regulation by the Commissioner shall
217 annually submit the opinion of the appointed actuary as to whether the reserves and
218 related actuarial items held in support of the policies and contracts are computed
219 appropriately, are based on assumptions that satisfy contractual provisions, are
220 consistent with prior reported amounts and comply with applicable laws of this state.
221 The valuation manual will prescribe the specifics of this opinion including any items
222 deemed to be necessary to its scope.

223 (B) Every company with outstanding life insurance contracts, accident and health
224 insurance contracts, or deposit-type contracts in this state and subject to regulation by
225 the Commissioner, except as exempted in the valuation manual, shall also annually
226 include in the opinion required by subparagraph (A) of this paragraph, an opinion of the
227 same appointed actuary as to whether the reserves and related actuarial items held in
228 support of the policies and contracts specified in the valuation manual, when considered
229 in light of the assets held by the company with respect to the reserves and related
230 actuarial items, including but not limited to the investment earnings on the assets and
231 the considerations anticipated to be received and retained under the policies and
232 contracts, make adequate provision for the company's obligations under the policies and
233 contracts, including but not limited to the benefits under and expenses associated with
234 the policies and contracts.

235 (C) Each opinion required by subparagraph (B) of paragraph (2) of this subsection
236 shall be governed by the following provisions:

237 (i) A memorandum, in form and substance as specified in the valuation manual, and
238 acceptable to the Commissioner, shall be prepared to support each actuarial opinion;
239 and

240 (ii) If the insurance company fails to provide a supporting memorandum at the
241 request of the Commissioner within a period specified in the valuation manual or the
242 Commissioner determines that the supporting memorandum provided by the
243 insurance company fails to meet the standards prescribed by the valuation manual or
244 is otherwise unacceptable to the Commissioner, the Commissioner may engage a
245 qualified actuary at the expense of the company to review the opinion and the basis

246 for the opinion and prepare the supporting memorandum required by the
 247 Commissioner.

248 (D) Every opinion required by paragraph (2) of this subsection shall be governed by
 249 the following provisions:

250 (i) The opinion shall be in form and substance as specified in the valuation manual
 251 and acceptable to the Commissioner;

252 (ii) The opinion shall be submitted with the annual statement reflecting the valuation
 253 of such reserve liabilities for each year ending on or after the operative date of the
 254 valuation manual;

255 (iii) The opinion shall apply to all policies and contracts subject to subparagraph (B)
 256 of paragraph (2) of this subsection, plus other actuarial liabilities as may be specified
 257 in the valuation manual;

258 (iv) The opinion shall be based on standards adopted from time to time by the
 259 Actuarial Standards Board or its successor, and on such additional standards as may
 260 be prescribed in the valuation manual;

261 (v) In the case of an opinion required to be submitted by a foreign or alien company,
 262 the Commissioner may accept the opinion filed by that company with the insurance
 263 supervisory official of another state if the Commissioner determines that the opinion
 264 reasonably meets the requirements applicable to a company domiciled in this state;

265 (vi) Except in cases of fraud or willful misconduct, the appointed actuary shall not
 266 be liable for damages to any person, other than the insurance company and the
 267 Commissioner, for any act, error, omission, decision or conduct with respect to the
 268 appointed actuary's opinion; and

269 (vii) Disciplinary action by the Commissioner against the company or the appointed
 270 actuary shall be defined in regulations by the Commissioner.

271 (e)(1) Except as otherwise provided in paragraph (2) of this subsection and subsection (f)
 272 of this Code section, the minimum standards for the valuation of all life insurance
 273 policies and annuity or pure endowment contracts issued on or after January 1, 1966,
 274 shall be the Commissioner's reserve valuation methods defined in subsections (g), (h),
 275 and (i) of this Code section and the following interest rates and tables:

276 (A) Three and one-half percent interest or, in the case of policies and contracts other
 277 than annuity and pure endowment contracts issued on or after July 1, 1973, 4 percent
 278 interest for such policies issued prior to July 1, 1979, 5 1/2 percent interest for single
 279 premium life insurance policies, and 4 1/2 percent interest for all other such policies
 280 issued on or after July 1, 1979;

281 (B) For all ordinary policies of life insurance issued on the standard basis, excluding
 282 any disability and accidental death benefits in such policies, the Commissioners 1958

283 Standard Ordinary Mortality Tables for such policies issued prior to the operative date
284 of subsection (e) of Code Section 33-25-4 as amended, except that for any category of
285 such policies issued on female risk modified net premiums and present values, referred
286 to in subsection (g) of this Code section, may be calculated at the insurer's option and
287 with the Commissioner's approval according to an age not more than six years younger
288 than the actual age of the insured; and for such policies issued on or after the operative
289 date of subsection (e) of Code Section 33-25-4, (i) the Commissioners 1980 Standard
290 Ordinary Mortality Table or, (ii) at the election of the insurer for any one or more
291 specified plans of life insurance, the Commissioners 1980 Standard Ordinary Mortality
292 Table with Ten-Year Select Mortality Factors, or (iii) any ordinary mortality table,
293 adopted after 1980 by the National Association of Insurance Commissioners, that is
294 approved by regulation promulgated by the Commissioner for use in determining the
295 minimum standard of valuation for such policies;

296 (C) For all industrial life insurance policies issued on the standard basis, excluding any
297 disability and accidental death benefits in such policies, the 1941 Standard Industrial
298 Mortality Table; for such policies issued prior to the date on which the Commissioners
299 1961 Standard Industrial Mortality Table becomes applicable in accordance with
300 subsection (d) of Code Section 33-25-4 and for such policies issued on or after such
301 date the Commissioners 1961 Standard Industrial Mortality Table or any industrial
302 mortality table, adopted after 1980 by the National Association of Insurance
303 Commissioners, that is approved by regulation promulgated by the Commissioner for
304 use in determining the minimum standard of valuation for such policies;

305 (D) For individual annuity and pure endowment contracts, excluding any disability and
306 accidental death benefits in such policies, the 1937 Standard Annuity Mortality Table
307 or, at the option of the insurer, the Annuity Mortality Table for 1949, ultimate, or any
308 modification of either of these tables approved by the Commissioner;

309 (E) For group annuity and pure endowment contracts, excluding any disability and
310 accidental death benefits in such policies, the Group Annuity Mortality Table for 1951,
311 any modification of such table approved by the Commissioner or, at the option of the
312 insurer, any of the tables or modifications of tables specified for individual annuity and
313 pure endowment contracts;

314 (F) For total and permanent disability benefits in or supplementary to ordinary policies
315 or contracts, for policies or contracts issued on or after January 1, 1966, the tables of
316 Period 2 disablement rates and the 1930 to 1950 termination rates of the 1952 Disability
317 Study of the Society of Actuaries, with due regard to the type of benefit or any tables
318 of disablement rates and termination rates, adopted after 1980 by the National
319 Association of Insurance Commissioners, that are approved by regulation promulgated

320 by the Commissioner for use in determining the minimum standard of valuation for
321 such policies; for policies or contracts issued prior to January 1, 1966, either such tables
322 or, at the option of the insurer, the Class (3) Disability Table (1926). Any such table
323 shall, for active lives, be combined with a mortality table permitted for calculating the
324 reserves for life insurance policies;

325 (G) For accidental death benefits in or supplementary to policies, for policies issued
326 on or after January 1, 1966, the 1959 Accidental Death Benefits Table or any accidental
327 death benefits table, adopted after 1980 by the National Association of Insurance
328 Commissioners, that is approved by regulation promulgated by the Commissioner for
329 use in determining the minimum standard of valuation for such policies; for policies
330 issued prior to January 1, 1966, either such table or, at the option of the insurer, the
331 Inter-Company Double Indemnity Mortality Table. Either table shall be combined with
332 a mortality table permitted for calculating the reserves for life insurance policies; and
333 (H) For group life insurance, life insurance issued on the substandard basis, and other
334 special benefits such tables or appropriate modifications of such tables as may be
335 approved by the Commissioner as being sufficient with relation to the benefits provided
336 by those policies.

337 (2) Except as provided in paragraphs (3) through (7) of this subsection, the minimum
338 standard for the valuation of all individual annuity and pure endowment contracts issued
339 on or after the operative date of this paragraph, as defined in this paragraph, and for all
340 annuities and pure endowments purchased on or after the operative date under group
341 annuity and pure endowment contracts, shall be the Commissioner's reserve valuation
342 methods defined in subsections (g) and (h) of this Code section and the following tables
343 and interest rates:

344 (A) For individual annuity and pure endowment contracts issued prior to July 1, 1979,
345 excluding any disability and accidental death benefits in such contracts, the 1971
346 Individual Annuity Mortality Table or any modification of this table approved by the
347 Commissioner and 6 percent interest for single premium immediate annuity contracts
348 and 4 percent interest for all other individual annuity and pure endowment contracts;

349 (B) For individual single premium immediate annuity contracts issued on or after July
350 1, 1979, excluding any disability and accidental death benefits in such contracts, the
351 1971 Individual Annuity Mortality Table or any individual annuity mortality table,
352 adopted after 1980 by the National Association of Insurance Commissioners that is
353 approved by regulation promulgated by the Commissioner for use in determining the
354 minimum standard of valuation for such contracts or any modification of these tables
355 approved by the Commissioner and 7 1/2 percent interest;

356 (C) For individual annuity and pure endowment contracts issued on or after July 1,
 357 1979, other than single premium immediate annuity contracts, excluding any disability
 358 and accidental death benefits in such contracts, the 1971 Individual Annuity Mortality
 359 Table or any individual annuity mortality table, adopted after 1980 by the National
 360 Association of Insurance Commissioners, that is approved by regulation promulgated
 361 by the Commissioner for use in determining the minimum standard of valuation for
 362 such contracts or any modification of these tables approved by the Commissioner and
 363 5 1/2 percent interest for single premium deferred annuity and pure endowment
 364 contracts and 4 1/2 percent interest for all other such individual annuity and pure
 365 endowment contracts;

366 (D) For all annuities and pure endowments purchased prior to July 1, 1979, under
 367 group annuity and pure endowment contracts, excluding any disability and accidental
 368 death benefits purchased under such contracts, the 1971 Group Annuity Mortality Table
 369 or any modification of this table approved by the Commissioner and 6 percent interest;
 370 and

371 (E) For all annuities and pure endowments purchased on or after July 1, 1979, under
 372 group annuity and pure endowment contracts, excluding any disability and accidental
 373 death benefits purchased under such contracts, the 1971 Group Annuity Mortality Table
 374 or any group annuity mortality table, adopted after 1980 by the National Association
 375 of Insurance Commissioners, that is approved by regulation promulgated by the
 376 Commissioner for use in determining the minimum standard of valuation for such
 377 annuities and pure endowments or any modification of these tables approved by the
 378 Commissioner and 7 1/2 percent interest.

379 After July 1, 1973, any insurer may file with the Commissioner a written notice of its
 380 election to comply with this paragraph after a specified date before January 1, 1979,
 381 which shall be the operative date of this paragraph for such insurer, provided that if an
 382 insurer makes no such election, the operative date of this paragraph for such insurer shall
 383 be January 1, 1979.

384 (f)(1) The interest rates used in determining the minimum standard for the valuation of:

385 (A) All life insurance policies issued in a particular calendar year, on or after the
 386 operative date of subsection (e) of Code Section 33-25-4;

387 (B) All individual annuity and pure endowment contracts issued in a particular
 388 calendar year on or after January 1, 1994;

389 (C) All annuities and pure endowments purchased in a particular calendar year on or
 390 after January 1, 1994, under group annuity and pure endowment contracts; and

391 (D) The net increase, if any, in a particular calendar year after January 1, 1994, in
 392 amounts held under guaranteed interest contracts shall be the calendar year statutory
 393 valuation interest rates as defined in paragraphs (2) through (5) of this subsection.

394 (2) The calendar year statutory valuation interest rates, I, shall be determined as follows
 395 and the results rounded to the nearer one-quarter of 1 percent:

396 (A) For life insurance:

397 $I = .03 + W(R1 - .03) + 1/2 W(R2 - .09)$;

398 (B) For single premium immediate annuities and for annuity benefits involving life
 399 contingencies arising from other annuities with cash settlement options and from
 400 guaranteed interest contracts with cash settlement options:

401 $I = .03 + W(R - .03)$

402 where R1 is the lesser of R and .09, R2 is the greater of R and .09, R is the reference
 403 interest rate defined in paragraph (4) of this subsection, and W is the weighting factor
 404 defined in paragraph (3) of this subsection;

405 (C) For other annuities with cash settlement options and guaranteed interest contracts
 406 with cash settlement options, valued on an issue year basis, except as stated in
 407 subparagraph (B) of this paragraph, the formula for life insurance stated in
 408 subparagraph (A) of this paragraph shall apply to annuities and guaranteed interest
 409 contracts with guarantee durations in excess of ten years and the formula for single
 410 premium immediate annuities stated in subparagraph (B) of this paragraph shall apply
 411 to annuities and guaranteed interest contracts with guarantee duration of ten years or
 412 less;

413 (D) For other annuities with no cash settlement options and for guaranteed interest
 414 contracts with no cash settlement options, the formula for single premium immediate
 415 annuities stated in subparagraph (B) of this paragraph shall apply;

416 (E) For other annuities with cash settlement options and guaranteed interest contracts
 417 with cash settlement options, valued on a change in fund basis, the formula for single
 418 premium immediate annuities stated in subparagraph (B) of this paragraph shall apply;

419 However, if the calendar year statutory valuation interest rate for any life insurance
 420 policies issued in any calendar year determined without reference to this sentence differs
 421 from the corresponding actual rate for similar policies issued in the immediately
 422 preceding calendar year by less than one-half of 1 percent, the calendar year statutory
 423 valuation interest rate for such life insurance policies shall be equal to the corresponding
 424 actual rate for the immediately preceding calendar year. For purposes of applying the
 425 immediately preceding sentence, the calendar year statutory valuation interest rate for life
 426 insurance policies issued in a calendar year shall be determined for 1980 (using the
 427 reference interest rate defined for 1979) and shall be determined for each subsequent

428 calendar year regardless of when subsection (e) of Code Section 33-25-4 becomes
 429 operative.

430 (3) The weighting factors referred to in the formulas stated above are given in the
 431 following tables:

432 (A) Weighting Factors for Life Insurance:

433	<u>Guarantee</u>	
434	<u>Duration</u>	<u>Weighting</u>
435	<u>Years</u>	<u>Factors</u>
436	<u>10 or less</u>	<u>.50</u>
437	<u>More than 10, but not more than 20</u>	<u>.45</u>
438	<u>More than 20</u>	<u>.35</u>

439 For life insurance, the guarantee duration is the maximum number of years the life
 440 insurance can remain in force on a basis guaranteed in the policy or under options to
 441 convert to plans of life insurance with premium rates or nonforfeiture values or both
 442 which are guaranteed in the original policy;

443 (B) Weighting factor for single premium immediate annuities and for annuity benefits
 444 involving life contingencies arising from other annuities with cash settlement options
 445 and guaranteed interest contracts with cash settlement options: .80;

446 (C) Weighting factors for other annuities and for guaranteed interest contracts, except
 447 as stated in subparagraph (B) of this paragraph, shall be as specified in Tables I, II, and
 448 III of this subparagraph, according to the rules and definitions in IV, V, and VI of this
 449 subparagraph:

450 I. For annuities and guaranteed interest contracts valued on an issue year basis:

451	<u>Guarantee</u>	<u>Weighting Factor</u>		
452	<u>Duration</u>	<u>for Plan Type</u>		
453	<u>(Years)</u>	<u>A</u>	<u>B</u>	<u>C</u>
454	<u>5 or less:</u>	<u>.80</u>	<u>.60</u>	<u>.50</u>
455	<u>More than 5, but not more than 10:</u>	<u>.75</u>	<u>.60</u>	<u>.50</u>
456	<u>More than 10, but not more than 20:</u>	<u>.65</u>	<u>.50</u>	<u>.45</u>
457	<u>More than 20:</u>	<u>.45</u>	<u>.35</u>	<u>.35</u>

458 II. For annuities and guaranteed interest contracts valued on a change in fund basis,
 459 the factors shown in Table I increased by:

460		<u>Plan Type</u>		
461		<u>A</u>	<u>B</u>	<u>C</u>
462		<u>.15</u>	<u>.25</u>	<u>.05</u>

463 III. For annuities and guaranteed interest contracts valued on an issue year basis
 464 (other than those with no cash settlement options) which do not guarantee interest on
 465 considerations received more than one year after issue or purchase and for annuities
 466 and guaranteed interest contracts valued on a change in fund basis which do not
 467 guarantee interest rates on considerations received more than 12 months beyond the
 468 valuation date, the factors shown in Table I or derived in Table II increased by:

	<u>Plan Type</u>		
	<u>A</u>	<u>B</u>	<u>C</u>
469			
470			
471	<u>.05</u>	<u>.05</u>	<u>.05</u>

472 IV. For other annuities with cash settlement options and guaranteed interest contracts
 473 with cash settlement options, the guarantee duration is the number of years for which
 474 the contract guarantees interest rates in excess of the calendar year statutory valuation
 475 interest rate for life insurance policies with guarantee duration in excess of 20 years.
 476 For other annuities with no cash settlement options and for guaranteed interest
 477 contracts with no cash settlement options, the guarantee duration is the number of
 478 years from the date of issue or date of purchase to the date annuity benefits are
 479 scheduled to commence;

480 V. Plan type as used in the above tables is defined as follows:

481 Plan Type A: At any time policyholder may withdraw funds only (1) with an
 482 adjustment to reflect changes in interest rates or asset values since receipt of the
 483 funds by the insurer, or (2) without such adjustment but in installments over five
 484 years or more, or (3) as an immediate life annuity, or (4) no withdrawal permitted;

485 Plan Type B: Before expiration of the interest rate guarantee, policyholder may
 486 withdraw funds only (1) with adjustment to reflect changes in interest rates or asset
 487 values since receipt of the funds by the insurer, or (2) without such adjustment but
 488 in installments over five years or more, or (3) no withdrawal permitted. At the end
 489 of interest rate guarantee, funds may be withdrawn without such adjustment in a
 490 single sum or installments over less than five years;

491 Plan Type C: Policyholder may withdraw funds before expiration of interest rate
 492 guarantee in a single sum or installments over less than five years either (1) without
 493 adjustment to reflect changes in interest rates or asset values since receipt of the
 494 funds by the insurer, or (2) subject only to a fixed surrender charge stipulated in the
 495 contract as a percentage of the fund;

496 VI. An insurer may elect to value guaranteed interest contracts with cash settlement
 497 options and annuities with cash settlement options on either an issue year basis or
 498 on a change in fund basis. Guaranteed interest contracts with no cash settlement

499 options and other annuities with no cash settlement options must be valued on an
500 issue year basis. As used in this subsection, an issue year basis of valuation refers
501 to a valuation basis under which the interest rate used to determine the minimum
502 valuation standard for the entire duration of the annuity or guaranteed interest
503 contract is the calendar year valuation interest rate for the year of issue or year of
504 purchase of the annuity or guaranteed interest contract, and the change in fund basis
505 of valuation refers to a valuation basis under which the interest rate used to
506 determine the minimum valuation standard applicable to each change in the fund
507 held under the annuity or guaranteed interest contract is the calendar year valuation
508 interest rate for the year of the change in the fund.

509 (4) The reference interest rate referred to in paragraph (2) of this subsection shall be
510 defined as follows:

511 (A) For all life insurance, the lesser of the average over a period of 36 months and the
512 average over a period of 12 months, ending on June 30 of the calendar year next
513 preceding the year of issue, of Moody's Corporate Bond Yield Average — Monthly
514 Average Corporates, as published in Moody's Investors Service, Inc.;

515 (B) For single premium immediate annuities and for annuity benefits involving life
516 contingencies arising from other annuities with cash settlement options and guaranteed
517 interest contracts with cash settlement options, the average over a period of 12 months,
518 ending on June 30 of the calendar year of issue or year of purchase, of Moody's
519 Corporate Bond Yield Average — Monthly Average Corporates, as published by
520 Moody's Investors Service, Inc.;

521 (C) For other annuities with cash settlement options and guaranteed interest contracts
522 with cash settlement options, valued on a year of issue basis, except as stated in
523 subparagraph (B) of this paragraph, with guarantee duration in excess of ten years, the
524 lesser of the average over a period of 36 months and the average over a period of 12
525 months, ending on June 30 of the calendar year of issue or purchase, of Moody's
526 Corporate Bond Yield Average — Monthly Average Corporates, as published by
527 Moody's Investors Service, Inc.;

528 (D) For other annuities with cash settlement options and guaranteed interest contracts
529 with cash settlement options, valued on a year of issue basis, except as stated in
530 subparagraph (B) of this paragraph, with guarantee duration of ten years or less, the
531 average over a period of 12 months, ending on June 30 of the calendar year of issue or
532 purchase, of Moody's Corporate Bond Yield Average — Monthly Average Corporates,
533 as published by Moody's Investors Service, Inc.;

534 (E) For other annuities with no cash settlement options and for guaranteed interest
535 contracts with no cash settlement options, the average over a period of 12 months,

536 ending on June 30 of the calendar year of issue or purchase, of Moody's Corporate
 537 Bond Yield Average — Monthly Average Corporates, as published by Moody's
 538 Investors Service, Inc.; and

539 (F) For other annuities with cash settlement options and guaranteed interest contracts
 540 with cash settlement options, valued on a change in fund basis, except as stated in
 541 subparagraph (B) of this paragraph, the average over a period of 12 months, ending on
 542 June 30 of the calendar year of the change in the fund, of Moody's Corporate Bond
 543 Yield Average — Monthly Average Corporates, as published by Moody's Investors
 544 Service, Inc.

545 (5) In the event that Moody's Corporate Bond Yield Average — Monthly Average
 546 Corporates is no longer published by Moody's Investors Service, Inc., or, in the event that
 547 the National Association of Insurance Commissioners determines that Moody's Corporate
 548 Bond Yield Average — Monthly Average Corporates as published by Moody's Investors
 549 Service, Inc., is no longer appropriate for the determination of the reference interest rate,
 550 then the alternative method for determination of the reference interest rate, which is
 551 adopted by the National Association of Insurance Commissioners and approved by
 552 regulation promulgated by the Commissioner, may be substituted.

553 (g)(1) Except as otherwise provided in subsections (l) and (n) of this Code section,
 554 reserves according to the Commissioner's reserve valuation method, for the life insurance
 555 and endowment benefits of policies providing for a uniform amount of insurance and
 556 requiring the payment of uniform premiums, shall be the excess, if any, of the present
 557 value at the date of valuation of the future guaranteed benefits provided for by the
 558 policies over the then present value of any future modified net premiums therefor. The
 559 modified net premiums for the policy shall be the uniform percentage of the respective
 560 contract premiums for the benefits, excluding extra premiums on a substandard policy,
 561 that the present value at the date of issue of the policy of all the modified net premiums
 562 shall be equal to the sum of the then present value of the benefits provided for by the
 563 policy and the excess of subparagraph (A) of this paragraph over subparagraph (B) of this
 564 paragraph as follows:

565 (A) A net level annual premium equal to the present value at the date of issue of such
 566 benefits provided for after the first policy year, divided by the present value at the date
 567 of issue of an annuity of one per annum payable on the first and each subsequent
 568 anniversary of such policy on which a premium falls due; provided, however, that the
 569 net level annual premium shall not exceed the net level annual premium on the 19 year
 570 premium whole life plan for insurance of the same amount at an age one year higher
 571 than the age at issue of the policy; and

572 (B) A net one-year term premium for the benefits provided for in the first policy year.

573 Provided that for any life insurance policy issued on or after the effective date of
 574 subsection (h) of Code Section 33-25-4 for which the contract premium in the first policy
 575 year exceeds that of the second year and for which no comparable additional benefit is
 576 provided in the first year for such excess and which provides an endowment benefit or
 577 a cash surrender value or a combination thereof in an amount greater than such excess
 578 premium, the reserve according to the Commissioner's reserve valuation method as of any
 579 policy anniversary occurring on or before the assumed ending date defined in this
 580 subsection as the first policy anniversary on which the sum of any endowment benefit and
 581 any cash surrender value then available is greater than such excess premium shall, except
 582 as otherwise provided in subsection (l) of this Code section, be the greater of the reserve
 583 as of such policy anniversary calculated as described in the preceding paragraph and the
 584 reserve as of such policy anniversary calculated as described in that paragraph, but with
 585 (i) the value defined in subparagraph (A) of that paragraph being reduced by 15 percent
 586 of the amount of such excess first year premium, (ii) all present values of benefits and
 587 premiums being determined without reference to premiums or benefits provided for by
 588 the policy after the assumed ending date, (iii) the policy being assumed to mature on such
 589 date as an endowment, and (iv) the cash surrender value provided on such date being
 590 considered as an endowment benefit. In making the above comparison the mortality and
 591 interest bases stated in subsections (e) and (f) of this Code section shall be used.

592 (2) Reserves according to the Commissioner's reserve valuation method for:

593 (A) Life insurance policies providing for a varying amount of insurance or requiring
 594 the payment of varying premiums;

595 (B) Group annuity and pure endowment contracts purchased under a retirement plan
 596 or plan of deferred compensation, established or maintained by an employer, including
 597 a partnership or sole proprietorship, or by an employee organization or by both, other
 598 than a plan providing individual retirement accounts or individual retirement annuities
 599 under Section 408 of the Internal Revenue Code as now or hereafter amended;

600 (C) Disability and accidental death benefits in all policies and contracts; and

601 (D) All other benefits, except life insurance and endowment benefits in life insurance
 602 policies and benefits provided by all other annuity and pure endowment contracts, shall
 603 be calculated by a method consistent with the principles of this subsection.

604 (h) This subsection shall apply to all annuity and pure endowment contracts other than
 605 group annuity and pure endowment contracts purchased under a retirement plan or plan of
 606 deferred compensation established or maintained by an employer, including a partnership
 607 or sole proprietorship, or by an employee organization or by both, other than a plan
 608 providing individual retirement accounts or individual retirement annuities under Section
 609 408 of the Internal Revenue Code. Reserves according to the Commissioner's annuity

610 reserve method for benefits under annuity or pure endowment contracts, excluding any
611 disability and accidental death benefits in the contracts, shall be the greatest of the
612 respective excesses of the present values at the date of valuation of the future guaranteed
613 benefits, including guaranteed nonforfeiture benefits provided for by the contracts at the
614 end of each respective contract year, over the present value at the date of valuation of any
615 future valuation considerations derived from future gross considerations required by the
616 terms of the contract that become payable prior to the end of the respective contract year.
617 The future guaranteed benefits shall be determined by using the mortality table, if any, and
618 the interest rate or rates, specified in such contracts for determining guaranteed benefits.
619 The valuation considerations are the portions of the respective gross considerations applied
620 under the terms of the contracts to determine nonforfeiture values.

621 (i) In no event shall an insurer's aggregate reserve for all life insurance policies, excluding
622 disability and accidental death benefits issued on or after January 1, 1966, be less than the
623 aggregate reserves calculated in accordance with the methods set forth in subsections (g),
624 (h), (l), and (m) of this Code section and the mortality table or tables and rate or rates of
625 interest used in calculating nonforfeiture benefits for the policies. In no event shall the
626 aggregate reserves for all policies, contracts, and benefits be less than the aggregate
627 reserves determined by the appointed actuary to be necessary to render the opinion required
628 by subsection (d) of the Code section.

629 (j)(1) Reserves for all policies and contracts issued prior to January 1, 1966, may be
630 calculated, at the option of the insurer, according to any standards which produce greater
631 aggregate reserves for all the policies and contracts than the minimum reserves required
632 by the laws in effect immediately prior to that date.

633 (2) For any category of policies, contracts, or benefits specified in subsection (e) of this
634 Code section issued on or after January 1, 1966, reserves may be calculated, at the option
635 of the insurer, according to any standard or standards which produce greater aggregate
636 reserves for such category than those calculated according to the minimum standard
637 provided in this Code section; but the rate or rates of interest used for policies and
638 contracts, other than annuity and pure endowment contracts, shall not be higher than the
639 corresponding rate or rates of interest used in calculating any nonforfeiture benefits
640 provided for in the policies and contracts.

641 (k) An insurer that at any time had adopted any standard of valuation producing greater
642 aggregate reserves than those calculated according to the minimum standard provided for
643 in subsection (i) of this Code section may, with the approval of the Commissioner, adopt
644 any lower standard of valuation but not lower than the minimum provided in this
645 subsection; provided, however, that for the purposes of this subsection, the holding of
646 additional reserves previously determined by a qualified actuary to be necessary to render

647 the opinion required by subsection (d) of this Code section shall not be deemed to be the
648 adoption of a higher standard of valuation.

649 (l) If in any contract year the gross premium charged by any life insurer on any policy or
650 contract issued on or after January 1, 1966, is less than the valuation net premium for the
651 policy or contract calculated by the method used in calculating the reserve thereon but
652 using the minimum valuation standards of mortality and rate of interest, the minimum
653 reserve required for such policy or contract shall be the greater of either the reserve
654 calculated according to the mortality table, rate of interest, and method actually used for
655 such policy or contract or the reserve calculated by the method actually used for the policy
656 or contract but using the minimum valuation standards of mortality and rate of interest and
657 replacing the valuation net premium by the actual gross premium in each contract year for
658 which the valuation net premium exceeds the actual gross premium. The minimum
659 valuation standards of mortality and rate of interest referred to in this Code section are
660 those standards stated in subsections (e) and (f) of this Code section. Provided that for any
661 life insurance policy issued on or after the effective date of subsection (h) of Code Section
662 33-25-4 for which the gross premium in the first policy year exceeds that of the second
663 year and for which no comparable additional benefit is provided in the first year for such
664 excess and which provides as an endowment benefit or a cash surrender value or a
665 combination thereof in an amount greater than such excess premium, the foregoing
666 provisions of this subsection shall be applied as if the method actually used in calculating
667 the reserve for such policy were the method described in subsection (g) of this Code
668 section, ignoring the second paragraph of paragraph (1) of subsection (g) of this Code
669 section. The minimum reserve at each policy anniversary of such a policy shall be the
670 greater of the minimum reserve calculated in accordance with subsection (g) of this Code
671 section, including the second paragraph of paragraph (1) of subsection (g) of this Code
672 section, and the minimum reserve calculated in accordance with this subsection.

673 (m) In the case of any plan of life insurance which provides for future premium
674 determination, the amounts of which are to be determined by the insurer based on then
675 estimates of future experience, or in the case of any plan of life insurance or annuity which
676 is of such a nature that the minimum reserves cannot be determined by the methods
677 described in subsections (e), (g), (h), and (l) of this Code section, the reserves which are
678 held under any such plan must:

679 (1) Be appropriate in relation to the benefits and the pattern of premiums for that plan;
680 and

681 (2) Be computed by a method which is consistent with the principles of this Code
682 section, the 'Standard Valuation Law.'

683 as determined by regulations promulgated by the Commissioner.

684 (n) For accident and health insurance contracts issued on or after the operative date of the
685 valuation manual, the standard prescribed in the valuation manual is the minimum standard
686 of valuation required under paragraph (2) of subsection (c) of this Code section. For
687 disability, accident and sickness, accident, and health insurance contracts issued prior to
688 the operative date of the valuation manual, the minimum standard of valuation is the
689 standard adopted by the Commissioner by regulation.

690 (o)(1) For policies issued on or after the operative date of the valuation manual, the
691 standard prescribed in the valuation manual is the minimum standard of valuation
692 required under paragraph (2) of subsection (c) of this Code section, except as provided
693 under paragraphs (5) and (7) of this subsection.

694 (2) The operative date of the valuation manual is January 1 of the first calendar year
695 following the first July 1 as of which all of the following have occurred:

696 (A) The valuation manual has been adopted by the NAIC by an affirmative vote of at
697 least 42 members, or three-fourths of the members voting, whichever is greater;

698 (B) The Standard Valuation Law, as amended by the NAIC in 2009, or legislation
699 including substantially similar terms and provisions, has been enacted by states
700 representing greater than 75 percent of the direct premiums written as reported in the
701 following annual statements submitted for 2008: life, accident and health annual
702 statements; health annual statements; or fraternal annual statements; and

703 (C) The Standard Valuation Law, as amended by the NAIC in 2009, or legislation
704 including substantially similar terms and provisions, has been enacted by at least 42 of
705 the following 55 jurisdictions: The 50 states of the United States, American Samoa, the
706 American Virgin Islands, the District of Columbia, Guam, and Puerto Rico.

707 (3) Unless a change in the valuation manual specifies a later effective date, changes to
708 the valuation manual shall be effective on January 1 following the date when the change
709 to the valuation manual has been adopted by the NAIC by an affirmative vote
710 representing:

711 (A) At least three-fourths of the members of the NAIC voting, but not less than a
712 majority of the total membership; and

713 (B) Members of the NAIC representing jurisdictions totaling greater than 75 percent
714 of the direct premiums written as reported in the following annual statements most
715 recently available prior to the vote in subparagraph (A) of this paragraph: life, accident
716 and health annual statements, health annual statements, or fraternal annual statements.

717 (4) The valuation manual must specify all of the following:

718 (A) Minimum valuation standards for and definitions of the policies or contracts
719 subject to paragraph (2) of subsection (c) of this Code section. Such minimum
720 valuation standards shall be:

- 721 (i) The Commissioner's reserve valuation method for life insurance contracts, other
 722 than annuity contracts, subject to paragraph (2) of subsection (c) of this Code section;
 723 (ii) The Commissioner's annuity reserve valuation method for annuity contracts
 724 subject to paragraph (2) of subsection (c) of this Code section; and
 725 (iii) Minimum reserves for all other policies or contracts subject to paragraph (2) of
 726 subsection (c) of this Code section;
- 727 (B) Which policies or contracts or types of policies or contracts that are subject to the
 728 requirements of a principle-based valuation in paragraph (1) of subsection (p) of this
 729 Code section and the minimum valuation standards consistent with those requirements;
- 730 (C) For policies and contracts subject to a principle-based valuation under subsection
 731 (p) of this Code section:
- 732 (i) Requirements for the format of reports to the Commissioner under
 733 subparagraph (p)(2)(C) of this Code section and which shall include information
 734 necessary to determine if the valuation is appropriate and in compliance with this
 735 Code section;
- 736 (ii) Assumptions shall be prescribed for risks over which the company does not have
 737 significant control or influence; and
- 738 (iii) Procedures for corporate governance and oversight of the actuarial function, and
 739 a process for appropriate waiver or modification of such procedures;
- 740 (D) For policies not subject to a principle-based valuation under subsection (p) of this
 741 Code section the minimum valuation standard shall either:
- 742 (i) Be consistent with the minimum standard of valuation prior to the operative date
 743 of the valuation manual; or
- 744 (ii) Develop reserves that quantify the benefits and guarantees, and the funding,
 745 associated with the contracts and their risks at a level of conservatism that reflects
 746 conditions that include unfavorable events that have a reasonable probability of
 747 occurring;
- 748 (E) Other requirements, including, but not limited to, those relating to reserve methods,
 749 models for measuring risk, generation of economic scenarios, assumptions, margins,
 750 use of company experience, risk measurement, disclosure, certifications, reports,
 751 actuarial opinions and memorandums, transition rules, and internal controls; and
- 752 (F) The data and form of the data required under subsection (q) of this Code section,
 753 with whom the data must be submitted, and may specify other requirements including
 754 data analyses and reporting of analyses.
- 755 (5) In the absence of a specific valuation requirement or if a specific valuation
 756 requirement in the valuation manual is not, in the opinion of the Commissioner, in
 757 compliance with this Code section, then the company shall, with respect to such

758 requirements, comply with minimum valuation standards prescribed by the
759 Commissioner by regulation.

760 (6) The Commissioner may engage a qualified actuary, at the expense of the company,
761 to perform an actuarial examination of the company and opine on the appropriateness of
762 any reserve assumption or method used by the company, or to review and opine on a
763 company's compliance with any requirement set forth in this Code section. The
764 Commissioner may rely upon the opinion, regarding provisions contained within this
765 Code section, of a qualified actuary engaged by the commissioner of another state,
766 district, or territory of the United States. As used in this paragraph, the term 'engage'
767 includes employment and contracting.

768 (7) The Commissioner may require a company to change any assumption or method that
769 in the opinion of the Commissioner is necessary in order to comply with the requirements
770 of the valuation manual or this Code section; and the company shall adjust the reserves
771 as required by the Commissioner. The Commissioner may take other disciplinary action
772 as permitted pursuant to this title.

773 (p)(1) A company must establish reserves using a principle-based valuation that meets
774 the following conditions for policies or contracts as specified in the valuation manual:

775 (A) Quantify the benefits and guarantees, and the funding, associated with the contracts
776 and their risks at a level of conservatism that reflects conditions that include
777 unfavorable events that have a reasonable probability of occurring during the lifetime
778 of the contracts. For policies or contracts with significant tail risk, reflects conditions
779 appropriately adverse to quantify the tail risk;

780 (B) Incorporate assumptions, risk analysis methods and financial models and
781 management techniques that are consistent with, but not necessarily identical to, those
782 utilized within the company's overall risk assessment process, while recognizing
783 potential differences in financial reporting structures and any prescribed assumptions
784 or methods;

785 (C) Incorporate assumptions that are derived in one of the following manners:

786 (i) The assumption is prescribed in the valuation manual; or

787 (ii) For assumptions that are not prescribed, the assumptions shall:

788 (I) Be established utilizing the company's available experience, to the extent it is
789 relevant and statistically credible; or

790 (II) To the extent that company data is not available, relevant, or statistically
791 credible, be established utilizing other relevant, statistically credible experience; and

792 (D) Provide margins for uncertainty including adverse deviation and estimation error,
793 such that the greater the uncertainty the larger the margin and resulting reserve.

- 794 (2) A company using a principle-based valuation for one or more policies or contracts
 795 subject to this subsection as specified in the valuation manual shall:
- 796 (A) Establish procedures for corporate governance and oversight of the actuarial
 797 valuation function consistent with those described in the valuation manual;
- 798 (B) Provide to the Commissioner and the board of directors an annual certification of
 799 the effectiveness of the internal controls with respect to the principle-based valuation.
 800 Such controls shall be designed to assure that all material risks inherent in the liabilities
 801 and associated assets subject to such valuation are included in the valuation, and that
 802 valuations are made in accordance with the valuation manual. The certification shall
 803 be based on the controls in place as of the end of the preceding calendar year; and
- 804 (C) Develop, and file with the Commissioner upon request, a principle-based valuation
 805 report that complies with standards prescribed in the valuation manual.
- 806 (3) A principle-based valuation may include a prescribed formulaic reserve component.
- 807 (q) A company shall submit mortality, morbidity, policyholder behavior, or expense
 808 experience and other data as prescribed in the valuation manual.
- 809 (r)(1) For purposes of this subsection, the term 'confidential information' shall mean:
- 810 (A) A memorandum in support of an opinion submitted under subsection (d) of this
 811 Code section and any other documents, materials, and other information, including, but
 812 not limited to, all working papers, and copies thereof, created, produced, or obtained
 813 by or disclosed to the Commissioner or any other person in connection with such
 814 memorandum;
- 815 (B) All documents, materials, and other information, including, but not limited to, all
 816 working papers, and copies thereof, created, produced, or obtained by or disclosed to
 817 the Commissioner or any other person in the course of an examination made under
 818 paragraph (6) of subsection (o) of this Code section; provided, however, that if an
 819 examination report or other material prepared in connection with an examination made
 820 under Chapter 2 of this title is not held as private and confidential information under
 821 Chapter 2 of this title, an examination report or other material prepared in connection
 822 with an examination made under paragraph (6) of subsection (o) of this Code section
 823 shall not be confidential information to the same extent as if such examination report
 824 or other material had been prepared under Chapter 2 of this title;
- 825 (C) Any reports, documents, materials, and other information developed by a company
 826 in support of, or in connection with, an annual certification by the company under
 827 subparagraph (p)(2)(B) of this Code section evaluating the effectiveness of the
 828 company's internal controls with respect to a principle-based valuation and any other
 829 documents, materials, and other information, including, but not limited to, all working
 830 papers, and copies thereof, created, produced, or obtained by or disclosed to the

831 Commissioner or any other person in connection with such reports, documents,
832 materials, and other information;

833 (D) Any principle-based valuation report developed under subparagraph (p)(2)(C) of
834 this Code section and any other documents, materials, and other information, including,
835 but not limited to, all working papers, and copies thereof, created, produced, or
836 obtained by or disclosed to the Commissioner or any other person in connection with
837 such report; and

838 (E) Any documents, materials, data, and other information submitted by a company
839 under subsection (q) of this Code section (collectively, 'experience data') and any other
840 documents, materials, data, and other information, including, but not limited to, all
841 working papers, and copies thereof, created or produced in connection with such
842 experience data, in each case that include any potentially company-identifying or
843 personally identifiable information, that is provided to or obtained by the Commissioner
844 (together with any 'experience data,' the 'experience materials') and any other
845 documents, materials, data, and other information, including, but not limited to, all
846 working papers, and copies thereof, created, produced, or obtained by or disclosed to
847 the Commissioner or any other person in connection with such experience materials.

848 (2)(A) Except as provided in this subsection, a company's confidential information is
849 confidential by law and privileged, and shall not be subject to Article 4 of Chapter 18
850 of Title 50, shall not be subject to subpoena, and shall not be subject to discovery or
851 admissible in evidence in any private civil action; provided, however, that the
852 Commissioner is authorized to use the confidential information in the furtherance of
853 any regulatory or legal action brought against the company as a part of the
854 Commissioner's official duties.

855 (B) Neither the Commissioner nor any person who received confidential information
856 while acting under the authority of the Commissioner shall be permitted or required to
857 testify in any private civil action concerning any confidential information.

858 (C) In order to assist in the performance of the Commissioner's duties, the
859 Commissioner may share confidential information (i) with other state, federal, and
860 international regulatory agencies and with the NAIC and its affiliates and subsidiaries,
861 and (ii) in the case of confidential information specified in subparagraphs (A) and (D)
862 of paragraph (1) of this subsection only, with the Actuarial Board for Counseling and
863 Discipline or its successor upon request stating that the confidential information is
864 required for the purpose of professional disciplinary proceedings and with state, federal,
865 and international law enforcement officials; in the case of (i) and (ii), provided that such
866 recipient agrees, and has the legal authority to agree, to maintain the confidentiality and

867 privileged status of such documents, materials, data, and other information in the same
 868 manner and to the same extent as required for the Commissioner.

869 (D) The Commissioner may receive documents, materials, data, and other information,
 870 including otherwise confidential and privileged documents, materials, data, or
 871 information, from the NAIC and its affiliates and subsidiaries, from regulatory or law
 872 enforcement officials of other foreign or domestic jurisdictions, and from the Actuarial
 873 Board for Counseling and Discipline or its successor and shall maintain as confidential
 874 or privileged any document, material, data, or other information received with notice
 875 or the understanding that it is confidential or privileged under the laws of the
 876 jurisdiction that is the source of the document, material, or other information.

877 (E) The Commissioner may enter into agreements governing sharing and use of
 878 information consistent with this paragraph.

879 (F) No waiver of any applicable privilege or claim of confidentiality in the confidential
 880 information shall occur as a result of disclosure to the Commissioner under this
 881 subsection or as a result of sharing as authorized in subparagraph (C) of paragraph (2)
 882 of this subsection.

883 (G) A privilege established under the law of any state or jurisdiction that is
 884 substantially similar to the privilege established under this paragraph shall be available
 885 and enforced in any proceeding in, and in any court of, this state.

886 (H) In this subsection, the terms 'regulatory agency,' 'law enforcement agency,' and the
 887 'NAIC' include, but are not limited to, their employees, agents, consultants and
 888 contractors.

889 (3) Notwithstanding this paragraph, any confidential information specified in
 890 subparagraphs (A) and (D) of paragraph (1) of this subsection:

891 (A) May be subject to subpoena for the purpose of defending an action seeking
 892 damages from the appointed actuary submitting the related memorandum in support of
 893 an opinion submitted under subsection (d) of this Code section or principle-based
 894 valuation report developed under subparagraph (p)(2)(C) of this Code section by reason
 895 of an action required by this Code section or by regulations promulgated hereunder;

896 (B) May otherwise be released by the Commissioner with the written consent of the
 897 company; and

898 (C) Once any portion of a memorandum in support of an opinion submitted under
 899 subsection (d) of this Code section or a principle-based valuation report developed
 900 under subparagraph (p)(2)(C) of this Code section is cited by the company in its
 901 marketing or is publicly volunteered to or before a governmental agency other than a
 902 state insurance department or is released by the company to the news media, all
 903 portions of such memorandum or report shall no longer be confidential.

904 (s)(1) The Commissioner may exempt specific product forms or product lines of a
905 domestic company that is licensed and doing business only in this state from the
906 requirements of subsection (o) of this Code section, provided:

907 (A) The Commissioner has issued an exemption in writing to the company and has not
908 subsequently revoked the exemption in writing; and

909 (B) The company computes reserves using assumptions and methods used prior to the
910 operative date of the valuation manual in addition to any requirements established by
911 the Commissioner and promulgated by regulation.

912 (2) For any company granted an exemption under this subsection, subsections (d)
913 through (n) of this Code section shall be applicable. With respect to any company
914 applying this exemption, any reference to subsection (o) of this Code section in
915 subsections (d) through (n) of this Code section shall not be applicable.

916 (t)(1) An insurer that has less than \$300 million of ordinary life premiums and that is
917 licensed and doing business in this state and that is subject to the requirements of
918 subsections (o) through (r) of this Code section is deemed to pass the exclusion tests
919 associated with life insurance reserve requirements incorporated in the valuation manual,
920 provided that:

921 (A) If the insurer is a member of a group of life insurers, the group has combined
922 ordinary life premiums of less than \$600 million;

923 (B) The insurer reported total adjusted capital of at least 450 percent of authorized
924 control level risk based capital in the risk based capital report for the prior calendar
925 year;

926 (C) The appointed actuary has provided an unqualified opinion on the reserves for the
927 prior calendar year; and

928 (D) The insurer has provided a certification by a qualified actuary that any universal
929 life policy with a secondary guarantee issued by the insurer after the operative date of
930 the valuation manual meets the definition of a nonmaterial secondary guarantee
931 universal life product as defined in the valuation manual.

932 (2) For purposes of paragraph (1) of this subsection, ordinary life premiums are
933 measured as direct premium plus reinsurance assumed from an unaffiliated company, as
934 reported in the annual statement for the prior calendar year.

935 (3) A company that meets the requirements under paragraph (1) of this subsection is also
936 subject to the requirements of subsection (l) of this Code section.

937 (4) A domestic company meeting all of the conditions provided in this subsection may
938 file, prior to July 1 of the current calendar year, a statement with the Commissioner
939 certifying that such conditions are met for the current calendar year based on premiums
940 and other values from the financial statements for the prior calendar year. The

941 Commissioner may reject such statement prior to September 1 and require a company to
 942 comply with the valuation manual requirements for life insurance reserves."

943 **SECTION 2.**

944 Said title is further amended by revising subsection (e) of Code Section 33-25-4, relating to
 945 required nonforfeiture provisions, as follows:

946 "(e)(1) As used in this subsection, the term 'operative date of the valuation manual' means
 947 January 1 of the first calendar year that the valuation manual as defined in subsection (o)
 948 of Code Section 33-1-10 becomes effective.

949 (1.1) This subsection shall apply to any life insurance policy issued on or after January 1,
 950 1989, or such earlier date as may have been elected by the insurer with respect to such
 951 policy in accordance with the provisions of paragraph (11) of this subsection. Except as
 952 provided in paragraph (3) of this subsection, the adjusted premiums for any policy shall
 953 be calculated on an annual basis and shall be such uniform percentage of the respective
 954 premiums specified in the policy for each policy year, excluding amounts payable as
 955 extra premiums to cover impairments or special hazards and also excluding any uniform
 956 annual contract charge or policy fee specified in the policy in a statement of the method
 957 to be used in calculating the cash surrender values and paid-up nonforfeiture benefits, that
 958 the present value, at the date of issue of the policy, of all adjusted premiums shall be
 959 equal to the sum of (A) the then present value of the future guaranteed benefits provided
 960 for by the policy; (B) one percent of either the amount of insurance, if the insurance is
 961 uniform in amount, or the average amount of insurance at the beginning of each of the
 962 first ten policy years; and (C) 125 percent of the nonforfeiture net level premium as
 963 defined in this subsection; provided, however, that in applying the percentage specified
 964 in item (C) of this paragraph no nonforfeiture net level premium shall be deemed to
 965 exceed 4 percent of either the amount of insurance, if the insurance is uniform in amount,
 966 or the average amount of insurance at the beginning of each of the first ten policy years.
 967 The date of issue of a policy for the purpose of this subsection shall be the date as of
 968 which the rated age of the insured is determined.

969 (2) The nonforfeiture net level premium shall be equal to the present value, at the date
 970 of issue of the policy, of the guaranteed benefits provided for by the policy divided by the
 971 present value, at the date of issue of the policy, of an annuity of one per annum payable
 972 on the date of issue of the policy and on each anniversary of such policy on which a
 973 premium falls due.

974 (3) In the case of policies which cause on a basis guaranteed in the policy unscheduled
 975 changes in benefits or premiums or which provide an option for changes in benefits or
 976 premiums other than a change to a new policy, the adjusted premiums and present values

977 shall initially be calculated on the assumption that future benefits and premiums do not
978 change from those stipulated at the date of issue of the policy. At the time of any such
979 change in the benefits or premiums the future adjusted premiums, nonforfeiture net level
980 premiums and present values shall be recalculated on the assumption that the future
981 benefits and premiums do not change from those stipulated by the policy immediately
982 after the change.

983 (4) Except as otherwise provided in paragraph (7) of this subsection, the recalculated
984 future adjusted premiums for any such policy shall be such uniform percentage of the
985 respective future premiums specified in the policy for each policy year, excluding
986 amounts payable as extra premiums to cover impairments and special hazards and also
987 excluding any uniform annual contract charge or policy fee specified in the policy in a
988 statement of the method to be used in calculating the cash surrender values and paid-up
989 nonforfeiture benefits, that the present value, at the time of change to the newly defined
990 benefits or premiums, of all such future adjusted premiums shall be equal to the excess
991 of (A) the sum of (i) the then present value of the then future guaranteed benefits
992 provided for by the policy and (ii) the additional expense allowance, if any, over (B) the
993 then cash surrender value, if any, or present value of any paid-up nonforfeiture benefit
994 under the policy.

995 (5) The additional expense allowance, at the time of the change to the newly defined
996 benefits or premiums, shall be the sum of (A) 1 percent of the excess, if positive, of the
997 average amount of insurance at the beginning of each of the first ten policy years
998 subsequent to the change over the average amount of insurance prior to the change at the
999 beginning of each of the first ten policy years subsequent to the time of the most recent
1000 previous change, or, if there has been no previous change, the date of issue of the policy;
1001 and (B) 125 percent of the increase, if positive, in the nonforfeiture net level premium.

1002 (6) The recalculated nonforfeiture net level premium shall be equal to the result obtained
1003 by dividing (A) by (B) where:

1004 (A) Equals the sum of:

1005 (i) The nonforfeiture net level premium applicable prior to the change times the
1006 present value of an annuity of one per annum payable on each anniversary of the
1007 policy on or subsequent to the date of the change on which a premium would have
1008 fallen due had the change not occurred; and

1009 (ii) The present value of the increase in future guaranteed benefits provided for by
1010 the policy; and

1011 (B) Equals the present value of an annuity of one per annum payable on each
1012 anniversary of the policy on or subsequent to the date of change on which a premium
1013 falls due.

1014 (7) Notwithstanding any other provisions of this subsection to the contrary, in the case
1015 of a policy issued on a substandard basis which provides reduced graded amounts of
1016 insurance so that, in each policy year, such policy has the same tabular mortality cost as
1017 an otherwise similar policy issued on the standard basis which provides higher uniform
1018 amounts of insurance, adjusted premiums and present values for such substandard policy
1019 may be calculated as if it were issued to provide such higher uniform amounts of
1020 insurance on the standard basis.

1021 (8) All adjusted premiums and present values referred to in this Code section shall for
1022 all policies of ordinary insurance be calculated on the basis of (A) the Commissioners
1023 1980 Standard Ordinary Mortality Table or (B) at the election of the insurer for any one
1024 or more specified plans of life insurance, the Commissioners 1980 Standard Ordinary
1025 Mortality Table with Ten-Year Select Mortality Factors; shall for all policies of industrial
1026 insurance be calculated on the basis of the Commissioners 1961 Standard Industrial
1027 Mortality Table; and shall for all policies issued in a particular calendar year be
1028 calculated on the basis of a rate of interest not exceeding the nonforfeiture interest rate
1029 as defined in this subsection for policies issued in that calendar year; provided, however,
1030 that:

1031 (A) At the option of the insurer, calculations for all policies issued in a particular
1032 calendar year may be made on the basis of a rate of interest not exceeding the
1033 nonforfeiture interest rate, as defined in this subsection, for policies issued in the
1034 immediately preceding calendar year;

1035 (B) Under any paid-up nonforfeiture benefit, including any paid-up dividend additions,
1036 any cash surrender value available, whether or not required by subsection (a) of this
1037 Code section, shall be calculated on the basis of the mortality table and rate of interest
1038 used in determining the amount of such paid-up nonforfeiture benefit and paid-up
1039 dividend additions, if any;

1040 (C) An insurer may calculate the amount of any guaranteed paid-up nonforfeiture
1041 benefit including any paid-up additions under the policy on the basis of an interest rate
1042 no lower than that specified in the policy for calculating cash surrender values;

1043 (D) In calculating the present value of any paid-up term insurance with accompanying
1044 pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality
1045 assumed may be not more than those shown in the Commissioners 1980 Extended Term
1046 Insurance Table for policies of ordinary insurance and not more than the
1047 Commissioners 1961 Industrial Extended Term Insurance Table for policies of
1048 industrial insurance;

1049 (E) For insurance issued on a substandard basis, the calculation of any such adjusted
1050 premiums and present values may be based on appropriate modifications of the
1051 aforementioned tables;

1052 (F) For policies issued prior to the operative date of the valuation manual, any ~~Any~~
1053 Commissioners standard ordinary mortality tables adopted after 1980 by the National
1054 Association of Insurance Commissioners that are approved by regulation promulgated
1055 by the Commissioner for use in determining the minimum nonforfeiture standard may
1056 be substituted for the Commissioners 1980 Standard Ordinary Mortality Table with or
1057 without Ten-Year Select Mortality Factors or for the Commissioners 1980 Extended
1058 Term Insurance Table. For policies issued on or after the operative date of the
1059 valuation manual, the valuation manual shall provide the Commissioners standard
1060 mortality table for use in determining the minimum nonforfeiture standard that may be
1061 substituted for the Commissioners 1980 Standard Ordinary Mortality Table with or
1062 without Ten-Year Select Mortality Factors or for the Commissioners 1980 Extended
1063 Term Insurance Table. If the Commissioner approves by regulation any
1064 Commissioners standard ordinary mortality table adopted by the National Association
1065 of Insurance Commissioners for use in determining the minimum nonforfeiture
1066 standard for policies issued on or after the operative date of the valuation manual, then
1067 that minimum nonforfeiture standard supersedes the minimum nonforfeiture standard
1068 provided by the valuation manual; and

1069 (G) For policies issued prior to the operative date of the valuation manual, any ~~Any~~
1070 Commissioners standard industrial mortality tables adopted after 1980 by the National
1071 Association of Insurance Commissioners that are approved by regulation promulgated
1072 by the Commissioner for use in determining the minimum nonforfeiture standard may
1073 be substituted for the Commissioners 1961 Standard Industrial Mortality Table or the
1074 Commissioners 1961 Industrial Extended Term Insurance Table. For policies issued
1075 on or after the operative date of the valuation manual, the valuation manual shall
1076 provide the Commissioners standard mortality table for use in determining the
1077 minimum nonforfeiture standard that may be substituted for the Commissioners 1961
1078 Standard Industrial Mortality Table or the Commissioners 1961 Industrial Extended
1079 Term Insurance Table. If the Commissioner approves by regulation any
1080 Commissioners standard industrial mortality table adopted by the National Association
1081 of Insurance Commissioners for use in determining the minimum nonforfeiture
1082 standard for policies issued on or after the operative date of the valuation manual, then
1083 that minimum nonforfeiture standard supersedes the minimum nonforfeiture standard
1084 provided by the valuation manual.

1085 (9) The nonforfeiture interest rate is defined as follows:

1086 (A) For policies issued prior to the operative date of the valuation manual, the
 1087 nonforfeiture interest rate per annum for any policy issued in a particular calendar year
 1088 shall be equal to 125 percent of the calendar year statutory valuation interest rate for
 1089 such policy as defined in Code Section 33-10-13, the Standard Valuation Law, rounded
 1090 to the nearer one quarter of 1 percent; provided, however, that the nonforfeiture interest
 1091 rate shall not be less than 4.00 percent.

1092 (B) For policies issued on and after the operative date of the valuation manual, the
 1093 nonforfeiture interest rate per annum for any policy issued in a particular calendar year
 1094 shall be provided by the valuation manual.

1095 (10) Notwithstanding any other provision in this title to the contrary, any refiling of
 1096 nonforfeiture values or their methods of computation for any previously approved policy
 1097 form which involves only a change in the interest rate or mortality table used to compute
 1098 nonforfeiture values shall not require refiling of any other provisions of that policy form.

1099 (11) After November 1, 1982, any insurer may file with the Commissioner a written
 1100 notice of its election to comply with the provisions of this subsection with respect to
 1101 specified policy forms after a specified date before January 1, 1989, which shall be the
 1102 operative date of this subsection for such specified policy forms. If an insurer makes no
 1103 such election, the operative date of this subsection for such insurer shall be January 1,
 1104 1989."

1105 SECTION 3.

1106 Said title is further amended by adding a new Chapter 13A to read as follows:

1107 "CHAPTER 13A

1108 33-13A-1.

1109 This chapter shall be known and may be cited as the 'Mutual Insurance Holding Company
 1110 Act.'

1111 33-13A-2.

1112 As used in this chapter, the term:

1113 (1) 'Intermediate stock holding company' means one or more stock corporations that own
 1114 all of the shares of voting stock of one or more reorganized stock insurers after a
 1115 reorganization under Code Section 33-13A-3 or a merger under Code Section 33-13A-4.

1116 (2) 'Majority of the voting stock of the reorganized stock insurer' means shares of the
 1117 capital stock of the reorganized stock insurer that carry the right to cast a majority of the
 1118 votes entitled to be cast by all of the outstanding shares of the capital stock of the

1119 reorganized stock insurer for the election of directors and on all other matters submitted
1120 to a vote of the shareholders of the reorganized stock insurer. The ownership of a
1121 majority of the voting stock of the reorganized stock insurer that is required pursuant to
1122 this chapter to be at all times owned by a mutual insurance holding company includes
1123 indirect ownership through one or more intermediate stock holding companies in a
1124 corporate structure approved by the Commissioner. However, indirect ownership through
1125 one or more intermediate stock holding companies shall not result in the mutual insurance
1126 holding company owning less than the equivalent of a majority of the voting stock of the
1127 reorganized stock insurer. The Commissioner shall have jurisdiction over an intermediate
1128 stock holding company as if it were a mutual insurance holding company.

1129 (3) 'Member' means a person who obtains a membership interest in a mutual insurance
1130 holding company by virtue of being a policyholder of a mutual insurer that is the subject
1131 of a reorganization plan under Code Section 33-13A-3 or a merger plan under Code
1132 Section 33-13A-4.

1133 (4) 'Merger plan' means a plan approved by a mutual insurer's board of directors under
1134 Code Section 33-13A-4 which proposes to merge a domestic or foreign mutual insurer
1135 into an existing mutual insurance holding company or into an intermediate stock holding
1136 company, thereby converting the domestic or foreign mutual insurer into a stock insurer.

1137 (5) 'Mutual insurance holding company' means a domestic corporation incorporated
1138 pursuant to a reorganization plan under Code Section 33-13A-3 or a merger plan under
1139 Code Section 33-13A-4, which company is the ultimate parent of a reorganized stock
1140 insurer and which may be the parent company of one or more intermediate stock holding
1141 companies.

1142 (6) 'Policyholder' means a person who is insured under one or more insurance policies
1143 or annuity contracts by a mutual insurer at the time of a reorganization under Code
1144 Section 33-13A-3 or a merger under Code Section 33-13A-4.

1145 (7) 'Reorganization plan' means a reorganization plan adopted by a mutual insurer's
1146 board of directors in accordance with Code Section 33-13A-3 or 33-13A-4 which
1147 proposes to convert the domestic or foreign mutual insurer into a stock insurer.

1148 (8) 'Reorganized stock insurer' means the domestic or foreign stock insurer resulting
1149 from a domestic or foreign mutual insurer's reorganization under Code Section 33-13A-3
1150 or merger under Code Section 33-13A-4.

1151 (9) 'Voting stock' means securities of any class or any ownership interest having voting
1152 power for the election of directors, trustees, or management of a corporation. Voting
1153 stock shall also mean any security convertible into or evidencing a right to acquire a
1154 voting security.

1155 33-13A-3.

1156 (a) A domestic mutual insurer, upon approval of the Commissioner, may reorganize by
1157 forming an insurance holding company system, which shall be designated as a mutual
1158 insurance holding company, based upon a reorganization plan and continuing the corporate
1159 existence of the reorganizing insurer as a stock insurer. Such a reorganization plan must
1160 be adopted by the affirmative vote of not less than two-thirds of the mutual insurer's board
1161 of directors. The Commissioner, after a public hearing as provided in paragraph (2) of
1162 subsection (d) of Code Section 33-13-3, if satisfied that the interests of the policyholders
1163 are properly protected and that the reorganization plan is fair and equitable to the
1164 policyholders, may approve the proposed reorganization plan and may require as a
1165 condition of approval such modifications of the reorganization plan as the Commissioner
1166 finds necessary for the protection of the policyholders' interests. A reorganization pursuant
1167 to this Code section is subject to the requirements of Code Section 33-13-3. The
1168 Commissioner shall retain jurisdiction over a mutual insurance holding company organized
1169 pursuant to this Code section to ensure that policyholder interests are protected.

1170 (b) All of the initial shares of the capital stock of the reorganized stock insurer shall be
1171 issued to the mutual insurance holding company or to an intermediate stock holding
1172 company. The membership interests of the policyholders of the reorganized stock insurer
1173 shall become membership interests in the mutual insurance holding company.
1174 Policyholders of the reorganized stock insurer shall be members of the mutual insurance
1175 holding company in accordance with the articles of incorporation and bylaws of the mutual
1176 insurance holding company. The mutual insurance holding company shall at all times own
1177 a majority of the voting stock of the reorganized stock insurer or an intermediate stock
1178 holding company.

1179 (c) The reorganization plan shall provide that all of the initial shares of capital stock of the
1180 reorganized stock insurer shall be issued to the mutual insurance holding company or to an
1181 intermediate stock holding company. The reorganization plan shall provide that the mutual
1182 insurance holding company shall at all times own a majority of the voting stock of the
1183 reorganized stock insurer or, alternatively, that the mutual insurance holding company shall
1184 at all times own the majority of voting stock in an intermediate stock holding company,
1185 which intermediate stock holding company shall at all times own all of the voting stock of
1186 the reorganized stock insurer. The shares of voting stock required to be owned by the
1187 mutual insurance holding company or by an intermediate stock holding company shall not
1188 be pledged, hypothecated, or in any way encumbered with regard to any obligation,
1189 guaranty, or commitment undertaken by or on behalf of the mutual insurance holding
1190 company or the intermediate stock holding company, if any. The reorganization plan shall

1191 also provide that the board of directors of the mutual insurance holding company will be
1192 elected by the members.

1193 (d) The reorganization plan shall provide that membership interests of the policyholders
1194 of the mutual insurer shall automatically convert to membership interests in the mutual
1195 insurance holding company so long as the policy is in force as of the date the
1196 reorganization plan was adopted by the board of directors of the mutual insurer and that,
1197 concurrently upon the effective date of the reorganization, the policyholder's membership
1198 interests in the mutual insurer shall be extinguished.

1199 33-13A-4.

1200 (a) A domestic mutual insurer, upon the approval of the Commissioner, may reorganize
1201 by merging its policyholders' membership interests into a mutual insurance holding
1202 company formed pursuant to Code Section 33-13A-3 and continuing the corporate
1203 existence of the reorganizing insurer as a stock insurer subsidiary of the mutual insurance
1204 holding company or an intermediate stock holding company. The Commissioner, after a
1205 public hearing as provided in paragraph (2) of subsection (d) of Code Section 33-13-3, if
1206 satisfied that the interests of the policyholders are properly protected and that the merger
1207 plan is fair and equitable to the policyholders, may approve the merger plan and may
1208 require as a condition of approval such modifications of the merger plan as the
1209 Commissioner finds necessary for the protection of the policyholders' interests. The
1210 Commissioner shall retain jurisdiction over the mutual insurance holding company
1211 organized pursuant to this Code section to ensure that policyholder interests are protected.

1212 (b) All of the initial shares of the capital stock of the reorganized stock insurer shall be
1213 issued to the mutual insurance holding company or to an intermediate stock holding
1214 company. The membership interests of the policyholders of the reorganized stock insurer
1215 shall become membership interests in the mutual insurance holding company.
1216 Policyholders of the reorganized stock insurer shall be members of the mutual insurance
1217 holding company in accordance with the articles of incorporation and bylaws of the mutual
1218 insurance holding company. The mutual insurance holding company shall at all times own
1219 a majority of the voting stock of the reorganized stock insurer or an intermediate stock
1220 holding company. A merger of policyholders' membership interests in a mutual insurer
1221 into a mutual insurance holding company shall be deemed to be the acquisition of an
1222 insurance control company pursuant to Code Section 33-13-3 and is subject to the
1223 requirements of Code Section 33-13-3.

1224 (c) A foreign mutual insurer which, if a domestic mutual insurer, would be organized
1225 under Chapter 14 of this title may reorganize upon the approval of the Commissioner and
1226 in compliance with the requirements of any law or rule applicable to the foreign mutual

1227 insurer by merging its policyholders' membership interests into a mutual insurance holding
1228 company formed pursuant to Code Section 33-13A-3 and continuing the corporate
1229 existence of the reorganizing foreign mutual insurer as a foreign stock insurer subsidiary
1230 of the mutual insurance holding company or one or more intermediate stock holding
1231 companies. The Commissioner, after a public hearing as provided in paragraph (2) of
1232 subsection (d) of Code Section 33-13-3, may approve the proposed merger. The
1233 reorganizing foreign mutual insurer may remain a foreign company or foreign corporation
1234 after the merger and may be admitted to do business in this state, upon approval by the
1235 Commissioner. A foreign mutual insurer that is a party to the merger may at the same time
1236 redomesticate in this state by complying with the applicable requirements of this state and
1237 its state of domicile. The provisions of subsection (b) of this Code section shall apply to
1238 a merger authorized under this subsection.

1239 33-13A-5.

1240 A mutual insurance holding company resulting from the reorganization of a domestic
1241 mutual insurer and the reorganized stock insurer shall be incorporated and governed
1242 pursuant to Chapter 14 of this title and subject to Chapter 13 of this title. This requirement
1243 shall supersede any conflicting provisions of Chapter 2 of Title 14. The articles of
1244 incorporation and any amendments to such articles of the mutual insurance holding
1245 company shall be subject to approval of the Commissioner in the same manner as those of
1246 an insurer. An intermediate stock holding company shall be incorporated and governed
1247 pursuant to Chapter 2 of Title 14.

1248 33-13A-6.

1249 A mutual insurance holding company is deemed to be an insurer subject to this title and
1250 shall automatically be a party to any proceeding under this title involving an insurer that,
1251 as a result of a reorganization pursuant to Code Section 33-13A-3 or a merger pursuant to
1252 Code Section 33-13A-4, is a subsidiary of the mutual insurance holding company or one
1253 or more intermediate stock holding companies. In any proceeding involving the
1254 reorganized stock insurer, the assets of the mutual insurance holding company are deemed
1255 to be assets of the estate of the reorganized stock insurer for purposes of satisfying the
1256 claims of the reorganized stock insurer's policyholders. A mutual insurance holding
1257 company shall not be dissolved or liquidated without the prior approval of the
1258 Commissioner.

1259 33-13A-7.

1260 (a) Code Section 33-14-76 is not applicable to a reorganization or merger pursuant to this
1261 chapter.

1262 (b) The demutualization of a mutual insurance holding company is subject to the
1263 requirements of Code Section 33-14-76.

1264 33-13A-8.

1265 A membership interest in a mutual insurance holding company shall not constitute a
1266 security as such term is defined in Code Section 11-8-102.

1267 33-13A-9.

1268 (a) The offerings of voting stock by a reorganized stock insurer or intermediate stock
1269 holding company to any person other than the mutual insurance holding company or a
1270 wholly owned subsidiary thereof, which offering is to occur in connection with the
1271 reorganization or merger or is the first to occur after the effective date of the reorganization
1272 or merger, shall be made only in accordance with such provisions as the reorganization
1273 plan or merger plan may contain governing such an initial offering or with the prior
1274 approval of the Commissioner after submission of an application by the proposed issuer.
1275 The reorganization plan or merger plan shall describe the terms on which members,
1276 officers, and directors of the mutual insurance holding company, as well as any other
1277 persons, may participate in such offering. The Commissioner may approve any such
1278 application unless the Commissioner finds that the offering would be prejudicial to the
1279 members of the mutual holding company.

1280 (b) The Commissioner may retain any attorneys, actuaries, accountants, and other experts
1281 not otherwise a part of the Commissioner's staff as may be reasonably necessary to assist
1282 the Commissioner in reviewing an application submitted pursuant to this Code section, the
1283 cost of which shall be borne by the proposed issuer submitting such application.

1284 33-13A-10.

1285 (a) Within 45 days after the date of the Commissioner's approval of a reorganization plan
1286 or merger plan pursuant to this chapter, unless extended by the Commissioner for good
1287 cause, the mutual insurer shall hold a meeting of its policyholders to vote upon such plan.
1288 The mutual insurer shall give notice at least 30 days before the time fixed for the meeting,
1289 by first-class mail to the last known address of each policyholder, that the reorganization
1290 plan or merger plan will be voted upon at a regular or special meeting of the policyholders.
1291 The notice shall include a brief description of the reorganization plan or merger plan and
1292 a statement that the Commissioner has approved such plan. The notice shall also include

1293 information regarding where the policyholder can obtain copies of the full reorganization
1294 plan or merger at no cost to the policyholder. The notice to each policyholder shall also
1295 include a written proxy permitting the policyholder to vote for or against the reorganization
1296 plan or merger plan. A reorganization plan or merger plan shall be approved only if not
1297 less than two-thirds of the policyholders voting in person or by proxy at the meeting vote
1298 in favor of such plan. Each policyholder shall be entitled to only one vote regardless of the
1299 number of policies owned by the policyholder.

1300 (b) If a mutual insurer complies substantially and in good faith with the notice
1301 requirements of this Code section, the mutual insurer's failure to give any policyholder any
1302 required notice does not impair the validity of any action taken under this Code section.

1303 (c) For purposes of voting, policyholder means a person who is eligible to vote under the
1304 mutual insurer's articles of incorporation or bylaws and who is also a policyholder of the
1305 mutual insurer as of the date on which the reorganization plan or merger plan is initially
1306 approved by the board of directors of the mutual insurer.

1307 33-13A-11.

1308 The majority of the voting stock of the reorganized stock insurer, which is required by this
1309 Code section to be at all times owned by a mutual insurance holding company, shall not
1310 be conveyed, transferred, assigned, pledged, subject to a security interest or lien,
1311 encumbered, or otherwise hypothecated or alienated by the mutual insurance holding
1312 company or intermediate stock holding company. Any conveyance, transfer, assignment,
1313 pledge, security interest, lien, encumbrance, hypothecation, or alienation of, in or on the
1314 majority of the voting stock of the reorganized stock insurer that is required by this Code
1315 section to be at all times owned by a mutual insurance holding company, is in violation of
1316 the provisions of this Code section and shall be void in inverse chronological order of the
1317 date of such conveyance, transfer, assignment, pledge, security interest, lien, encumbrance,
1318 hypothecation, or alienation as to the shares necessary to constitute a majority of such
1319 voting stock. The majority of the voting stock of the reorganized stock insurer that is
1320 required by this Code section to be at all times owned by a mutual insurance holding
1321 company shall not be subject to execution and levy. The shares of the capital stock of the
1322 surviving or new company resulting from a merger or consolidation of two or more
1323 reorganized stock insurers or two or more intermediate stock holding companies that were
1324 subsidiaries of the same mutual insurance holding company are subject to the same
1325 requirements, restrictions, and limitations as provided in this Code section to which the
1326 shares of the merging or consolidating reorganized stock insurers or intermediate stock
1327 holding companies were subject as provided in this Code section prior to the merger or
1328 consolidation.

1329 33-13A-12.

1330 It is the intent of the General Assembly that the formation of a mutual insurance holding
1331 company shall not increase the Georgia tax burden of the mutual insurance holding
1332 company system and that a reorganized stock insurer shall continue to be subject to
1333 Georgia insurance premium taxation in lieu of all other taxes except as provided in
1334 Chapter 8 of this title.

1335 33-13A-13.

1336 The Commissioner shall have the authority to promulgate rules and regulations to
1337 implement and enforce the provisions of this chapter."

1338 **SECTION 4.**

1339 All laws and parts of laws in conflict with this Act are repealed.