

SFA

BILL ANALYSIS

Senate Fiscal Agency

• Lansing, Michigan 48909

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House Bill 5290 (Substitute H-1 as reported without amendment)

Sponsor: Representative James M. Middaugh

House Committee: Insurance

Senate Committee: Commerce and Technology

Date Completed: 4-27-90

RATIONALE

Chapter 13 of the Insurance Code, which deals with holding companies, requires that the Insurance Commissioner approve of any acquisition of, or attempt to acquire control of, a domestic insurance company before the acquisition can be made. (Control means the power to direct or cause the direction of the management or policies of a person or entity, and the Code presumes that ownership of 10% or more of the voting securities is control.) The term "domestic insurer" usually refers to a Michigan-based company, but for the purpose of these provisions, it also includes a parent entity that controls a domestic insurer, no matter where that parent is located. It does not, however, include a parent entity that "is either directly or through its affiliates primarily engaged in business other than the business of insurance". In other words, if one company or conglomerate merges with or takes over another company that owns a Michigan-based insurer, the transaction must be reviewed and approved by the State Insurance Commissioner if the parent company's primary business is insurance, but need not be reviewed if the parent company's principal business is something other than insurance. The purpose of the review is to ensure that the assets of the insurer and, thus, the interests of the policyholders, will be protected in the transaction. Some people believe that insurance regulators should review all such acquisition cases, regardless of the primary business of the company controlling a Michigan-based insurer.

CONTENT

The bill would amend Chapter 13 of the Insurance Code to:

- Require that the Insurance Commissioner be notified of and approve any attempt by a person to acquire or gain control of an entity that itself controls a domestic insurer, in cases in which the parent entity is primarily engaged in business other than insurance.
- Require that a person who proposed to enter into an agreement to merge with or otherwise acquire control of a domestic insurer file a preacquisition notification with the Insurance Commissioner at least 30 days before the proposed effective date of the acquisition.
- Require domestic companies to register with the Insurance Commissioner beginning May 1, 1991. (Currently, the Insurance Code requires insurers that are members of an insurance company holding system and authorized to do business in the State to register with the Commissioner, but exempts domestic insurers from the registration requirement if they do not transact business in any other state.)

MCL 500.1311 and 500.1324

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

H.B. 5290 (4-27-90)

ARGUMENTS

Legislative Analyst: L. Burghardt
Fiscal Analyst: J. Schultz

Supporting Argument

The bill would extend the Insurance Commissioner's power to scrutinize proposals to take control of domestic insurance companies by requiring that he or she review cases in which a Michigan-based insurer is controlled by a parent entity that is not primarily in the business of insurance. Such cases are exempt from review now. The primary business of the parent company should not be the factor that determines when the interests of policyholders should be protected. Under the bill, if someone attempts to take over, or otherwise control, a conglomerate that includes among its holdings a Michigan-based insurer, notice to, and approval by, the State Insurance Commissioner of the proposed takeover would be required.

Response: The bill would require the approval of the State's Insurance Commissioner before some very large corporations with only secondary interests in insurance operations could be sold, acquired, or merged. Insurance regulators cite General Motors, Ford, Chrysler, Dow Chemical, and Household Finance as examples of companies that would be affected by the bill. In such cases, the insurance portion of the companies' business is relatively minor, and the involvement of State insurance regulators would be inappropriate.

Supporting Argument

The bill would require all companies that are members of insurance holding company systems to register with the Insurance Commissioner, thus removing the exemption for domestic insurers that sell insurance only in Michigan. Insurance regulators say that currently 56 of the 62 domestic insurers who are members of holding companies already file what are known as "Form B" registrations, and the bill would require the other six to file this form as well. According to an analysis of the bill by the Insurance Bureau (3-27-90), Form B "contains a wealth of information concerning the make up and financial stability of the holding company, and discloses the insurer's ultimate controlling person, transactions and agreements among affiliates; litigation, and biographical information on officers and directors". The Bureau says it needs access to Form B information for all insurers, including those that operate only in this State, in order to protect Michigan policyholders adequately.

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