House
Legislative
Analysis
Section

Olds Plaza Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

REVOLVING DOOR: INSURANCE

House Bill 4563 with committee amendment
First Analysis (6-9-93)

Sponsor: Rep. Terry London
Committee: Insurance

THE APPARENT PROBLEM:

The term "revolving door" refers to the practice of rotating between government office and private life in a way that gives rise to the appearance of conflict of interest, divided loyalties, favoritism, or even corruption. A classic example is when a government regulator leaves office to work for a company that had been under his or her purview as a regulator, causing the public to doubt the independence of the regulator's decisions affecting that company or its competitors. (A case in recent years that upset some people involved the state's insurance commissioner resigning to join the largest in-state auto insurer.) One way to address this problem is to require a waiting period of sorts between certain government posts and private positions. This has already been done for some jobs, and has been proposed for others, including the insurance commissioner.

THE CONTENT OF THE BILL:

The Insurance Code specifies that the insurance commissioner cannot be a stockholder or be directly or indirectly connected with the management of the affairs of an insurance company. House Bill 4563 would prohibit the commissioner from being similarly connected with a health care corporation (i.e., Blue Cross and Blue Shield of Michigan) or a health maintenance organization (HMO) while in office and would further prohibit certain involvement with insurance companies, Blue Cross-Blue Shield, and HMOs for <u>one year after leaving office</u>. (The bill says a person could not (1) be a stockholder in such an entity or its parent or subsidiary corporation unless the stock was publicly traded through a national stock exchange or (2) be retained or employed by such an entity.)

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BACKGROUND INFORMATION:

Similar restrictions currently apply to members of the Public Service Commission and to the commissioner of the Financial Institutions Bureau (also known as the state banking commissioner). A member of the PSC cannot "be retained or employed by any public utility or public service subject to the jurisdiction and control of the commission during the time he is acting as such commissioner, and for six months thereafter." The banking commissioner is "prohibited for a period of six months from the date he or she leaves office from accepting employment with a state chartered depository financial institution regulated by the Financial Institutions Bureau."

House Bill 4332 of the current session would prohibit a member of the Liquor Control Commission from being employed by anyone regulated under the act for six months after leaving office. A commissioner also could not for six months after leaving office own stock in a corporation licensed under the act unless that stock was traded publicly through a national stock exchange. Also House Bill 4326 of this session would prohibit certain legislators and officials of the legislative branch and some officials in the executive branch from becoming lobbyists for one year after leaving office. This would apply, it should be noted, to the insurance commissioner, among many others.

FISCAL IMPLICATIONS:

There is no information at present.

ARGUMENTS:

For:

It is good public policy to prohibit the state's top insurance regulator from leaving that post for immediate employment in the insurance industry. It helps to guarantee the integrity of the office and increase public confidence in government. When a state regulator is on the job, he or she should focus on carrying out the responsibilities of office in the public interest without the distraction or temptations of future employment prospects in the regulated industry.

Response:

This bill calls for a one-year restriction on employment whereas public service commissioners and the banking commissioner currently face only a six-month restriction, as would liquor control commissioners under a current legislative proposal that has passed the House. Why the discrepancy?

Against:

While it is possible that the one-year employment restriction will avoid the appearance of impropriety, ultimately the conduct of a public official will depend on his or her integrity and professionalism. If someone is going to violate the public trust, through favoritism or other forms of corruption, they will do so even with this kind of legislation. Persons of integrity are capable of performing the roles assigned to them appropriately without this kind of legislation. Some people think a prohibition of this sort (coupled with inadequate pay for the insurance commissioner) will discourage good candidates for the position.

POSITIONS:

There are no positions at present.