

EXCESS LOSS INSURANCE

House Bill 5400 (Substitute H-2) First Analysis (12-11-01)

Sponsor: Rep. Larry Julian
**Committee: Insurance and Financial
Services**

THE APPARENT PROBLEM:

According to information supplied by the Office of Financial and Insurance Services (OFIS), there has been confusion over which companies can write excess loss insurance for noninsured health benefit plans. To that end, OFIS has issued several bulletins, including Bulletin 2000-03, in an attempt to clarify statutes pertaining to this issue. The bulletin explained that under Sec. 5208 of the Insurance Code, life and health insurers could only write excess loss insurance if they administered the health benefit plan.

Apparently, this limits the ability of many life and health insurers to write excess loss insurance since they wanted to provide this type of insurance for plans other than those that they directly administer. As the market for excess loss insurance has become more available through the life and health insurance companies, and some casualty insurers have withdrawn from the market, this limited arrangement has created market problems. Legislation has been offered to allow health and life insurers to write excess loss insurance for noninsured health benefit plans.

THE CONTENT OF THE BILL:

The bill would amend the Insurance Code to allow an insurer authorized to write life insurance or disability insurance to also offer and write specific or aggregate excess loss insurance to a noninsured benefit plan. An insurer that writes excess loss insurance would have to comply with the applicable policy rate and form requirements under chapters of the code pertaining to casualty insurance rates and casualty insurance contracts. The bill would not limit the authority of an insurer authorized to write casualty insurance to offer and write specific or aggregate excess loss insurance to a noninsured benefit plan. "Noninsured benefit plan" is defined in the code as meaning a benefit plan without insurance or the noninsured portion of a benefit plan that has specific or aggregate excess loss insurance.

Further, the bill would delete an obsolete provision that required the insurance commissioner, by April 1, 1985, to submit a report to the legislature detailing

the impact of Public Act 189 of 1981, which permitted insurance companies to provide administrative services only (ASO) contracts.

MCL 500.5208

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, the bill would have no fiscal impact on the state or local units of local governments. (12-7-01)

ARGUMENTS:

For:

Reportedly, the Office of Financial and Insurance Services (OFIS) has issued a number of bulletins and also a letter to attempt to clarify provisions of law regarding who is authorized to offer excess loss insurance. Placing a clear definition of which companies can write excess loss insurance for uninsured benefit plans, and under what circumstances, should alleviate the need for OFIS to provide any further direction to the insurance industry regarding this issue. The bill should also eliminate any market problems that have been created by the current restriction on insurers only writing such insurance for benefit plans they directly administer.

POSITIONS:

The Office of Financial and Insurance Services (OFIS) supports the bill. (11-30-01)

A representative of the Life Insurance Association of Michigan indicated support for the bill. (12-5-01)

A representative of Sun Life Insurance Company indicated support for the bill. (12-5-01)

Analyst: S. Stutzky

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.