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Senate Bill 604 (as reported without amendment)  
Sponsor: Senator Valde Garcia  
Committee: Financial Services

Date Completed: 10-8-01

### **RATIONALE**

Advisory agencies provide loss, expense, and risk statistics to insurers; rating organizations provide rates and insurance contract forms to insurers. The Insurance Code requires all advisory agencies, rating organizations, and joint underwriters to pay for and pass a State exam at least once every five years. The Office of Financial and Insurance Services believes that these exams are unnecessary and burdensome, because these entities do not sell insurance. It has been suggested that the five-year exam requirement be removed.

### **CONTENT**

**The bill would amend the Insurance Code to eliminate mandatory examinations of licensed organizations that provide certain services to insurers.**

Under current law, the Commissioner of the Office of Financial and Insurance Services must examine licensed rating, advisory, and underwriting organizations at least every five years. Organizations providing services to both general casualty (excluding workers' compensation) and fire and inland marine insurers are subject to the examinations. The reasonable costs of an examination must be paid by the agency being examined.

The bill would permit, rather than require, the Commissioner to examine the organizations, and would delete the five-year time frame. This change would apply to general casualty as well as fire and marine rating, advisory, and underwriting agencies.

MCL 500.2468 & 500.2662

### **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

#### **Supporting Argument**

The Office of Financial and Insurance Services is responsible for ensuring the financial stability of insurance companies. Examinations of insurance companies can provide assurance to consumers that they are protected from unstable or fraudulent insurance practices. Advisory and rating organizations do not, however, sell insurance or write policies; they merely provide information to the insurance companies. Requiring an examination of each of these organizations at least once every five years is burdensome. If the bill were passed, the Commissioner still would have the authority to require an examination if and when he or she believed it necessary. Eliminating the five-year requirement would allow the Office to focus more thoroughly on those agencies that carry a risk to the consumer.

Legislative Analyst: C. Layman

### **FISCAL IMPACT**

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

Fiscal Analyst: M. Tyszkiewicz

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.