Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

SFA BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

House Bill 5927 (Substitute S-1 as reported)
Sponsor: Representative Andrew Richner
House Committee: Insurance and Financial Services
Senate Committee: Financial Services

CONTENT

The bill would amend Chapter 9 of the Insurance Code, which regulates insurer investments, to do the following:

-- Increase the amount that insurers (except fraternal benefit societies) must have in cash or assets (unless that amount is higher than the minimum capital and surplus required).
-- Reduce the amortization schedule of computers that count toward the asset requirement.
-- Allow an insurer to count as qualified assets loans, other than surplus notes, to an affiliate authorized to transact insurance in any state or in Canada, and to county surplus notes with the approval of the Commissioner of the Office of Financial and Insurance Services.
-- Permit insurers to invest in United States and foreign government securities without the Commissioner's approval.
-- Allow insurers to count as qualified assets, loans on multifamily residential property secured by an instrument having a maximum term of 35 years, subject to appraised value limitations.
-- Provide that domestic insurers could not invest more than 10% of their surplus in real estate loans that exceeded appraised value limitations, unless the loans were the result of restructuring; and allow the Commissioner to increase the limit to 20%.
-- Regulate insurers' investments in derivative instruments.

Currently, a domestic insurer must maintain assets in cash or as defined in Chapter 9 in a total amount at least equal to the sum of its liabilities including required reserves, plus an amount equal to the lesser of 1) the minimum capital and surplus required to be maintained by Sections 408 and 410; or 2) $1 million. The bill would increase the $1 million to $7 million, except in the case of a fraternal benefit society regulated under the Code. (Section 408 prescribes the required level of capital or surplus for domestic insurers organized before July 21, 1965, based on the type of insurance written. Section 410 requires insurers to maintain at least $7 million in unimpaired capital and surplus beginning on January 1, 1999. Insurers organized on or after July 21, 1965, and before January 1, 1999, however, must maintain at least $1 million in capital and surplus but, when they reach $7 million, must maintain that amount unless premiums written and reinsurance assumed are less than surplus.)

MCL 500.901 et al. Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

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

Date Completed: 5-28-02 Fiscal Analyst: Maria Tyszkiewicz