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## BILL ANALYSIS

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House Bill 5624 (as passed by the House)  
Sponsor: Representative Joe Hune  
House Committee: Insurance  
Senate Committee: Banking and Financial Institutions

Date Completed: 2-21-06

### **CONTENT**

**The bill would amend the Insurance Code to allow a domestic insurer to recognize as an asset in its annual report the value of a book of business that included life insurance or other business written by a life insurance company that the domestic insurer acquired through a business acquisition or a reinsurance transaction.**

The bill specifies that, if a domestic insurer acquired, through a business acquisition or a reinsurance transaction, a book of business that included life insurance or other business written by a life insurance company, and the book of business had a readily determinable market value represented by the present value of the future after-tax profits that would be earned on the book of business in force at the date of the acquisition, the value of the book of business could be recognized as an asset in the annual statement that insurers must file under the Code.

The value of the book of business that a domestic insurer could recognize as an asset could not exceed the sum of all of the following:

- 10% of that "capital and surplus" that was less than 300% of authorized control level risk-based capital.
- 25% of that capital and surplus that was equal to or greater than 300%, but less than 400%, of authorized control level risk-based capital.
- 50% of that capital and surplus that was equal to or greater than 400%, but less than 500%, of authorized control level risk-based capital.
- 75% of that capital and surplus that was equal to or greater than 500% of authorized control level risk-based capital.

The value of the book of business recognized as an asset under the bill would have to be amortized to income over the period in which the domestic insurer benefited economically, not to exceed 10 years. The value of the book of business acquired in excess of the amount allowable under the bill could not be an admitted asset in the annual statement.

A domestic insurer that recognized as an admitted asset any of the amounts listed above annually would have to test the value of the asset for impairment. The insurer would have to follow the asset adequacy analysis required under Section 830a of the Code. (That section requires every life insurance company doing business in Michigan annually to submit to the Commissioner of the Office of Financial and Insurance Services the opinion of a qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the Commissioner by rule are computed appropriately, are based on assumptions that satisfy contractual provisions, are consistent with prior reported amounts, and comply with applicable State laws.)

“Capital and surplus” would mean capital and surplus as of December 31 of the immediately preceding year, adjusted to exclude any net positive goodwill exclusive of any component of the goodwill relating to the existing value of the book of business acquired, electronic data processing equipment, operating system software, and net deferred tax assets.

(The term “book of business” generally refers to the total amount of all insurance accounts written by a company or agent, or the total amount of insurance on an insurer’s books at a particular time.)

MCL 500.1305

Legislative Analyst: Patrick Affholter

**FISCAL IMPACT**

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

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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.