

**SENATE SUBSTITUTE FOR  
HOUSE BILL NO. 5624**

A bill to amend 1956 PA 218, entitled  
"The insurance code of 1956,"  
by amending section 1305 (MCL 500.1305), as amended by 1992 PA 182.

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1       Sec. 1305. (1) A domestic insurer, either by itself or in  
2       cooperation with 1 or more persons, may organize or acquire 1 or  
3       more subsidiaries if consistent with other provisions of this act.  
4       These subsidiaries may conduct any kind of business and their  
5       authority to do so shall not be limited by reason of the fact that  
6       they are subsidiaries of a domestic insurer. This provision shall  
7       not be construed to provide authority for conduct or activities by  
8       these subsidiaries that would otherwise be inconsistent with other  
9       provisions of this act.

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1           (2) EXCEPT AS OTHERWISE PROVIDED IN SUBSECTION (3), IF A  
2 DOMESTIC INSURER ACQUIRES THROUGH A BUSINESS ACQUISITION OR A  
3 REINSURANCE TRANSACTION A BOOK OF BUSINESS THAT INCLUDES LIFE  
4 INSURANCE OR OTHER BUSINESS WRITTEN BY A LIFE INSURANCE COMPANY,  
5 AND THE BOOK OF BUSINESS HAS A READILY DETERMINABLE MARKET VALUE  
6 REPRESENTED BY THE PRESENT VALUE OF THE FUTURE AFTER-TAX PROFITS  
7 THAT WILL BE EARNED ON THE BOOK OF BUSINESS IN FORCE AT THE DATE OF  
8 THE ACQUISITION, THE VALUE OF THE BOOK OF BUSINESS ACQUIRED, ABOVE  
9 ANY AMOUNT PREVIOUSLY RECOGNIZED AS AN ADMITTED ASSET UNDER THIS  
10 SECTION OR THAT MAY BE PERMITTED UNDER ACCOUNTING PRACTICES AND  
11 PROCEDURES DESIGNATED BY THE COMMISSIONER UNDER SECTION 438, MAY BE  
12 RECOGNIZED WITH THE PRIOR APPROVAL OF THE COMMISSIONER AS AN  
13 ADMITTED ASSET IN THE ANNUAL STATEMENT FILED PURSUANT TO SECTION  
14 438. THE COMMISSIONER SHALL MAKE A DETERMINATION REGARDING THE  
15 ADMISSIBILITY OF THIS ASSET WITHIN 60 DAYS AFTER RECEIVING A FILING  
16 WITH SUPPORTING DOCUMENTATION, IN A FORM SATISFACTORY TO THE  
17 COMMISSIONER, FROM THE DOMESTIC INSURER REQUESTING SUCH APPROVAL.

18           (3) NOTWITHSTANDING SUBSECTION (2), A DOMESTIC INSURER MAY  
19 RECOGNIZE AS AN ADMITTED ASSET IN THE ANNUAL STATEMENT FILED  
20 PURSUANT TO SECTION 438 THE VALUE OF A BOOK OF BUSINESS DESCRIBED  
21 IN SUBSECTION (2) WITHOUT THE PRIOR APPROVAL OF THE COMMISSIONER,  
22 IF THE DOMESTIC INSURER FILES A WRITTEN NOTICE WITH THE  
23 COMMISSIONER OF ITS INTENT TO RECORD THE VALUE OF THE BOOK OF  
24 BUSINESS ACQUIRED AS AN ADMITTED ASSET AND <<PROVIDES A CERTIFICATION BY  
AN OFFICER OF THE DOMESTIC INSURER THAT, AS OF THE DATE OF THE NOTICE,>>  
THE DOMESTIC INSURER

25 MEETS ALL OF THE FOLLOWING CRITERIA:

26           (A) THE INSURER'S MOST RECENT A.M. BEST FINANCIAL RATING IS AT  
27 LEAST AN "A".

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1 (B) THE INSURER HAS AT LEAST 1 ADDITIONAL RATING OF AT LEAST  
2 AN "A" OR ITS EQUIVALENT, AS ASSIGNED BY A RATING ORGANIZATION  
3 INCLUDED ON THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS'  
4 LIST OF NATIONALLY RECOGNIZED STATISTICAL ORGANIZATIONS <<AND APPROVED BY  
THE COMMISSIONER>>.

5 (C) FOLLOWING THE ACQUISITION OR REINSURANCE TRANSACTION, THE  
6 INSURER WILL POSSESS A MINIMUM CAPITAL AND SURPLUS OF AT LEAST  
7 <<\$1,000,000,000.00>>, EXCLUDING FROM THE INSURER'S CAPITAL AND SURPLUS  
8 THE PRO FORMA EFFECT OF THE TOTAL VALUE OF THE BOOK OF BUSINESS TO  
9 BE RECOGNIZED AS AN ADMITTED ASSET BY THE DOMESTIC INSURER.

10 (D) THE INSURER'S TOTAL ADJUSTED RISK BASED CAPITAL EXCEEDS 5  
11 TIMES THE COMPANY'S AUTHORIZED CONTROL LEVEL RISK BASED CAPITAL.

12 (E) THE INSURER'S CERTIFICATE OF AUTHORITY HAS NOT BEEN  
13 SUSPENDED, REVOKED, OR LIMITED UNDER SECTION 436 AT ANY TIME DURING  
14 THE 5-YEAR PERIOD IMMEDIATELY PRECEDING THE ACQUISITION OR  
15 REINSURANCE TRANSACTION.

16 (F) THE INSURER IS NOT SUBJECT TO AN ANALYST TEAM SYSTEM LEVEL  
17 A OR B DESIGNATION BY THE NATIONAL ASSOCIATION OF INSURANCE  
18 COMMISSIONERS FOR THE YEAR IMMEDIATELY PRECEDING THE ACQUISITION OR  
19 REINSURANCE TRANSACTION.

20 (G) FOLLOWING THE ACQUISITION OR REINSURANCE TRANSACTION, THE  
21 INSURER WILL MEET THE ASSET REQUIREMENT UNDER SECTION 901.

22 (4) THE VALUE OF THE BOOK OF BUSINESS ACQUIRED AS DESCRIBED IN  
23 SUBSECTION (2) THAT A DOMESTIC INSURER MAY RECOGNIZE AS AN ADMITTED  
24 ASSET SHALL NOT EXCEED <<THE LESSER OF 50% OF CAPITAL AND SURPLUS OR>>  
THE FOLLOWING:

25 (A) TWENTY PERCENT OF THAT ADJUSTED CAPITAL AND SURPLUS THAT  
26 IS LESS THAN OR EQUAL TO 500% OF AUTHORIZED CONTROL LEVEL RISK  
27 BASED CAPITAL, PLUS

1 (B) EIGHTY-FIVE PERCENT OF THAT ADJUSTED CAPITAL AND SURPLUS  
2 THAT IS GREATER THAN 500%, BUT LESS THAN OR EQUAL TO 600%, OF  
3 AUTHORIZED CONTROL LEVEL RISK BASED CAPITAL, PLUS

4 (C) NINETY-FIVE PERCENT OF THAT ADJUSTED CAPITAL AND SURPLUS  
5 THAT IS GREATER THAN 600%, BUT LESS THAN OR EQUAL TO 700%, OF  
6 AUTHORIZED CONTROL LEVEL RISK BASED CAPITAL, PLUS

7 (D) ONE HUNDRED PERCENT OF THAT ADJUSTED CAPITAL AND SURPLUS  
8 THAT IS GREATER THAN 700% OF AUTHORIZED CONTROL LEVEL RISK BASED  
9 CAPITAL.

10 (5) THE VALUE OF THE BOOK OF BUSINESS ACQUIRED AS DESCRIBED IN  
11 SUBSECTION (2) SHALL BE AMORTIZED PURSUANT TO ACCOUNTING PRACTICES  
12 AND PROCEDURES DESIGNATED BY THE COMMISSIONER UNDER SECTION 438.  
13 THE VALUE OF THE BOOK OF BUSINESS ACQUIRED IN EXCESS OF THE AMOUNT  
14 ALLOWABLE UNDER THIS SECTION SHALL NOT BE AN ADMITTED ASSET IN THE  
15 ANNUAL STATEMENT FILED PURSUANT TO SECTION 438.

16 (6) A DOMESTIC INSURER THAT RECOGNIZES AS AN ADMITTED ASSET IN  
17 THE ANNUAL STATEMENT FILED PURSUANT TO SECTION 438 ANY VALUE OF  
18 BUSINESS ACQUIRED SHALL ANNUALLY TEST THE VALUE OF THE ASSET FOR  
19 IMPAIRMENT AS PART OF THE ASSET ADEQUACY TESTING AND SHALL  
20 REFERENCE THIS TESTING IN THE OPINION FILED UNDER SECTION 830A.

21 (7) AS USED IN SUBSECTION (4), "ADJUSTED CAPITAL AND SURPLUS"  
22 MEANS CAPITAL AND SURPLUS AS OF DECEMBER 31 OF THE IMMEDIATELY  
23 PRECEDING YEAR, ADJUSTED TO EXCLUDE ANY NET POSITIVE GOODWILL  
24 EXCLUSIVE OF ANY COMPONENT OF THE GOODWILL RELATING TO THE EXISTING  
25 VALUE OF THE BOOK OF BUSINESS ACQUIRED, ELECTRONIC DATA PROCESSING  
26 EQUIPMENT, OPERATING SYSTEM SOFTWARE, AND NET DEFERRED TAX ASSETS.

27 (8) NOTHING IN THIS SECTION SHALL BE CONSTRUED TO LIMIT THE

1 COMMISSIONER'S AUTHORITY UNDER SECTIONS 436 AND 436A.