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House Bill 5722 (Substitute S-1 as reported)
Sponsor: Representative Virgil Smith
House Committee: Insurance
Senate Committee: Economic Development and Regulatory Reform

CONTENT

The bill would amend the Insurance Code to do all of the following:

- Require insurers that must file an annual audited financial report to designate an audit committee.
- Refer to accounting practices prescribed by the Commissioner of Financial and Insurance Regulation in requirements pertaining to the reporting of an insurer's financial condition in the annual audited financial report.
- Revise and expand requirements for the Commissioner's recognition of a person as an independent public accountant for purposes of an annual audited financial report.
- Allow a qualified independent public accountant who performed an annual audited financial report to engage in certain other nonaudit services, if the activity were preapproved by the audit committee, and allow that preapproval to be waived.
- Require each insurer, rather than the independent public accountant who performed the insurer's audited financial report, to give the Commissioner a report as to any unremediated weakness in the insurer's internal controls over financial reporting.
- Prohibit a director or officer of an insurer from engaging in specific activities.
- Require certain insurers that must file an audited financial report to prepare a report of the insurer's or group of insurers' internal control over financial reporting.
- Allow the Commissioner, upon an insurer's application, to grant an exemption from any or all provisions of the Code relating to an annual audited financial report.
- Require a reinsurance agreement to provide that the agreement constituted the entire agreement between the parties and that there were no understandings between them except as expressed in the agreement.

The bill also would establish specific audit requirements for a domestic insurer that was not a "SOX compliant entity" (which would refer to an entity that either is required to be compliant with, or voluntarily is compliant with, specific requirements of the of the Federal Sarbanes-Oxley Act concerning preapproval of nonaudit services, audit committee independence, and internal control over financial reporting). These provisions would take effect on January 1, 2010.

The bill's provisions requiring reports of insurers' internal control over financial reporting would take effect beginning with the reporting period ending December 31, 2010.

MCL 500.1001 et al.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

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

Date Completed: 12-1-08

Fiscal Analyst: Elizabeth Pratt/Maria Tyszkiewicz