Legislative Analysis

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LIFE AND HEALTH GUARANTY ASSOCIATION: AMENDMENTS TO CONFORM TO NAIC MODEL

House Bill 6097 as introduced
Sponsor: Rep. Joe Haveman
Committee: Insurance

Complete to 5-18-10

A SUMMARY OF HOUSE BILL 6097 AS REPORTED FROM COMMITTEE

The bill would amend Chapter 77 of the Insurance Code, which deals with the Michigan Life and Health Insurance Guaranty Authority. This authority protects policyholders in the event an insurance company cannot meet its obligations due to financial impairment or insolvency. House Bill 6097 would raise the limits relating to the amount of annuity benefits that are protected under Chapter 77. Specifically, the bill would apply to (1) the present value of an annuity benefit; (2) the unallocated annuity benefit of an individual participating in a governmental retirement benefit plan; and (3) a structured settlement annuity benefit. In each case, the increase is from $100,000 to $250,000.

The bill also makes several clarifying technical amendments.

The amendments are said to be required to make Michigan law conform to the model act of the National Association of Insurance Commissioners (NAIC).

MCL 500.7704

BACKGROUND AND DISCUSSION:

Life and Health Insurance Guaranty Association

As the association notes, the MLHIGA:

was created in statute to protect Michigan residents who are policyholders of life or health policies issued by an insolvent insurance company, up to specified limits. All insurance companies (with limited exceptions) licensed to write life and health insurance or annuities in Michigan are required, as a condition of doing business in the state, to be members of the guaranty association. If a member company becomes insolvent, protection is provided through assessments of the guaranty association's other member insurance companies writing the same line or lines of insurance as the insolvent company. All 50 states, the District of Columbia, and Puerto Rico have life and health insurance guaranty associations.

Accreditation of Office of Financial and Insurance Regulation

According to OFIR, Michigan's guaranty association statute needs to conform to the model act of the National Association of Insurance Commisioners in order for state regulators to continue to be accredited by the NAIC. Accreditation by the NAIC is important, according to state insurance regulators, because that allows Michigan-based insurance companies to file financial statements in their home state rather than in each state in which they do business. The accreditation process saves states and insurance companies both time and money, according to OFIR. House Bill 6097 is said to adopt language needed for NAIC accreditation.

FISCAL IMPACT:

The operations of the bill in and of itself would have no significant fiscal impact on the state or local units of government, and would not materially impact the Office of Financial and Insurance Regulation (OFIR), which administers the provisions of the Insurance Code.

OFIR does, however, note that the bill is necessary to ensure continued conformity with accreditation standards of the National Association of Insurance Commissioners. On this point, the NAIC notes that its accreditation program "allows for inter-state cooperation and reduces regulatory redundancies. That is, if a company is domiciled in an accredited state, the other states in which that company is licensed and/or writes business may be assured that, because of its accredited status, the domiciliary state insurance department is adequately monitoring the financial solvency of that company. In fact, each accredited state's laws or regulations on financial examinations contain a provision that all licensed companies are to be examined periodically; however, in lieu of performing its own examination, a state may accept the examination report prepared by an insurance department that was accredited at the time of examination. Therefore, the inter-state reliance that the accreditation program produces ultimately saves millions of dollars in duplicative examination costs." (Quoted from *Financial Regulation Standards and Program Accreditation*, National Association of Insurance Commissioners, March 2010, [http://www.naic.org/documents/committees_f_FRSA_pamphlet.pdf]).

To the extent that continued non-conformity with industry standards persists, OFIR could lose its NAIC accreditation, subjecting Michigan-domiciled insurers to increased solvency regulation in other states in which they do business. Ultimately such a change in regulatory environment might become a factor (among several) used by Michigan-domiciled insurers to reevaluate whether to remain domiciled here.

POSITIONS:

The Office of Financial and Insurance Association supports the bill. (5-13-10)

The Michigan Life and Health Guaranty Association indicated support for the bill. (5-13-10)

The Life Insurance Association of Michigan indicated support for the bill. (5-13-10)

NAIFA-Michigan (National Association of Insurance and Financial Advisors) indicated support for the bill. (5-13-10)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.