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BILL



ANALYSIS

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Senate Bill 825 (Substitute S-1 as reported)
Sponsor: Senator Jason E. Allen
Committee: Economic Development and Regulatory Reform

Date Completed: 8-16-10

RATIONALE

The Insurance Code limits insurers' exposure to loss from a single risk or hazard. Specifically, the Code prohibits an insurer transacting business in Michigan from exposing itself to a loss on any one risk or hazard in an amount of more than 10% of its paid-up capital and surplus. No portion of a risk or hazard that has been reinsured by an insurer licensed to do business in Michigan is included in determining the risk limitation. Therefore, an insurer must reinsure any risk that it takes on above the 10% cap. For most types of insurance, this may be a reasonable standard for risk limitation, but title insurers believe that their statutory risk limit should be 50% of paid-up capital and surplus.

CONTENT

The bill would amend the Insurance Code to increase the limit on a title insurer's exposure for any loss on any one risk or hazard.

Under the Code, an insurer transacting business in Michigan may not expose itself to any loss on any one risk or hazard in an amount exceeding 10% of its paid-up capital and surplus.

For an insurer that only writes title insurance, the bill would increase the limit to 50% of the insurer's paid-up capital and surplus.

MCL 500.640

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The Code's cap on the amount of loss exposure for a single risk or hazard limits the likelihood that an insurer will suddenly become insolvent if a single high-value policy becomes payable. Title insurers consider the statutory cap to be onerous and unnecessary in their line of business. Although the potential payout for a single title insurance policy could be very high, the likelihood that any claim will be made is very low because insurers perform thorough title histories. Due to the Code's single-risk limitation, title insurers must purchase reinsurance for risk values over the 10% level, which increases the overall cost of the insurance. Neighboring states evidently have much less restrictive requirements, which makes title insurers' cost of doing business higher in Michigan than in other states. One title insurer testified before the Senate Economic Development and Regulatory Reform Committee that, although his company's policy is to reinsure beginning at \$500 million of exposure, to comply with Michigan's single-risk limit the company must reinsure at the \$17 million level. He indicated that Indiana's regulations require the company to reinsure at \$268 million.

By increasing the single-risk exposure limit to 50% of a title insurer's paid-up capital and surplus, the bill would bring Michigan's regulation more in line with the rest of the country. This would improve the business climate for title insurers in Michigan, and reduce their cost of doing business in this State.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

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

Fiscal Analyst: Elizabeth Pratt

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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.