THE INSURANCE CODE OF 1956 (EXCERPT)
Act 218 of 1956

500.1341 Transactions within holding company system; certain insurers as party; standards; prior approval; transactions entered into by domestic insurers; notification; separate transactions; review by director; total investment exceeding 10% of corporation's voting securities.

Sec. 1341. (1) Transactions within a holding company system to which an insurer domiciled in this state or a foreign insurer whose written insurance premium in this state for each of the most recent 3 years exceeds the premiums written in its state of domicile and whose written premium in this state was 20% or more of its total written premium in each of the most recent 3 years is a party or with respect to which the assets or liabilities of these insurers are affected are subject to all of the following standards:

(a) The terms must be fair and reasonable.

(b) The charges or fees for services performed must be reasonable.

(c) The expenses incurred and payment received must be allocated to the insurer in conformity with customary insurance accounting practices consistently applied.

(d) The books, accounts, and records of each party must be maintained to clearly and accurately disclose the precise nature and details of the transactions including necessary accounting information to support the reasonableness of the charges or fees to the respective parties.

(e) The insurer's surplus as regards policyholders following any dividends or distributions to shareholder affiliates must be reasonable in relation to the insurer's outstanding liabilities and adequate to its financial needs so that the insurer continues to comply with section 403.

(2) The director's prior approval is required for sales, purchases, exchanges, loans, extensions of credit, or investments, involving 5% or more of the insurer's assets at the immediately preceding year's end, between a domestic controlled insurer and a person in its holding company system.

(3) A domestic insurer and a person in its holding company system shall not enter into the following transactions with each other, or modify an existing transaction, unless the insurer notifies the director in writing of its intention to enter into the transaction, or its reason to modify an existing transaction and the modification's financial impact on the insurer, at least 30 days, or a shorter period as the director allows, before entering into or modifying the transaction and the director has not disapproved it within that period:

(a) A sale, purchase, exchange, loan, extension of credit, or investment, if the transaction is equal to or greater than the lesser of 3% of the insurer's assets or 25% of capital and surplus as of December 31 of the immediately preceding year.

(b) A loan or extension of credit to a person who is not an affiliate, if the insurer makes the loan or extends the credit with the agreement or understanding that the proceeds of the transaction, in whole or in substantial part, will be used to make a loan or extend credit to, to purchase an asset of, or to invest in, an affiliate of the insurer making the loan or extending credit if the transaction is equal to or greater than the lesser of 3% of the insurer's assets or 25% of capital and surplus as of December 31 of the immediately preceding year.

(c) A guarantee that is quantifiable and exceeds the lesser of 0.5% of the insurer's admitted assets or 10% of surplus as of December 31 of the immediately preceding year. A guarantee that is not quantifiable under this subdivision is subject to prior approval of the director.

(d) A direct or indirect acquisition of, or investment in, a person that controls the insurer or that controls an affiliate of the insurer, if the amount of the transaction plus the insurer's present holdings in investment exceeds 2.5% of surplus. This subdivision does not apply to a direct or indirect acquisition of, or investments in, a subsidiary acquired under section 1305 or any other section of this chapter, or a nonsubsidiary insurance affiliate that is subject to this act.

(e) A reinsurance treaty or agreement.

(f) Rendering of services on a regular systematic basis.

(g) A tax allocation agreement.

(h) A cost-sharing agreement.

(i) A material transaction, specified by regulation, that the director determines may adversely affect the interests of the insurer's policyholders.

(4) An insurer shall informally notify the director of a termination of transaction under subsection (3) no later than 30 days after the transaction terminates.

(5) Subsection (3) does not authorize or permit a transaction that, for an insurer that is not a member of the same holding company system, would be otherwise contrary to law.

(6) A domestic insurer shall not enter into transactions that are part of a plan or series of like transactions with persons within the holding company system if the purpose of those separate transactions is to avoid the

threshold amount under this chapter and thus avoid the review that would otherwise occur. If the director determines that the separate transactions were entered into over any relevant period for that purpose, he or she may exercise his or her authority under section 1371.

(7) In reviewing a transaction under subsection (2), the director shall consider whether the transaction complies with the standards described in subsection (1) and whether it may otherwise adversely affect the interests of policyholders, creditors, or the public.

(8) A domestic insurer shall notify the director within 30 days of the domestic insurer's investment in any 1 corporation if the insurance holding company system's total investment in the corporation exceeds 10% of the corporation's voting securities.

History: Add. 1970, Act 136, Imd. Eff. July 29, 1970;—Am. 1992, Act 182, Imd. Eff. Oct. 1, 1992;—Am. 1994, Act 227, Imd. Eff. June 27, 1994;—Am. 1994, Act 443, Imd. Eff. Jan. 10, 1995;—Am. 2015, Act 244, Imd. Eff. Dec. 22, 2015.

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