



**House
Legislative
Analysis
Section**

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DOMESTIC INSURERS: IN-STATE DIRECTORS

**Senate Bill 351 (Substitute S-2 with House
committee amendment)**

First Analysis (5-25-89)

RECEIVED

JUL 11 1989

Sponsor: Sen. Richard Posthumus

Senate Committee: Commerce & Technology

House Committee: Insurance

Mich. State Law Libra

THE APPARENT PROBLEM:

The Insurance Code requires that all domestic (i.e., Michigan-based) insurance companies have as trustees or directors at least three Michigan residents. Some people believe this requirement should be eliminated or relaxed, particularly since other kinds of Michigan corporations, those regulated under the Business Corporation Act, have no residency requirement. It has been pointed out that the residency requirement can be an obstacle to a company keeping its headquarters in Michigan in cases where the company becomes part of a larger group of companies or a holding company based out of the state.

THE CONTENT OF THE BILL:

The bill would amend the Insurance Code to reduce from three to one the minimum number of trustees or directors of a domestic insurance company who must be residents of Michigan.

MCL 500.5238

HOUSE COMMITTEE ACTION:

As passed by the Senate, the bill would have eliminated entirely the residency requirement. The House Insurance Committee amended the bill to require that one trustee or director be a state resident.

FISCAL IMPLICATIONS:

The Department of Licensing and Regulation says that the bill has no budgetary or revenue implications for the state. (5-23-89)

ARGUMENTS:

For:

The bill recognizes that most business corporations in Michigan do not have a residency requirement for trustees or directors, and that such a requirement on insurance companies can actually be an obstacle to their keeping headquarters in the state when they become part of a larger business entity based outside the state. Further, insurance regulators say that changes in the way insurance companies are taxed in 1987 has lessened the need to distinguish between "real" and "paper" domestic insurers. Many other states have no residency requirement for directors of insurance companies.

Against:

As passed by the Senate, the bill required no directors to be from the state. In its present version, the bill requires one director be from Michigan. Why should there be any residency requirement?

Response: Some people are concerned that reducing

the residency requirement for Michigan insurers will make the fact that a company is headquartered in the state less meaningful and will make it more likely a company will leave Michigan or disregard the interests of the state and its people. At least the bill now calls for one board member to be a resident. According to insurance regulators, some states require domestic companies to have as many as seven board members be state residents.

POSITIONS:

The Department of Licensing and Regulation, which houses the Insurance Bureau, supports the bill. (5-23-89)

A representative of League General testified in favor of the bill before the House Taxation Committee. (5-23-89)