Office of Financial and Insurance Regulation

Ottawa Building, 611 W. Ottawa St. Lansing, Michigan

WHO WE ARE

OFIR is a Type I agency housed in the Michigan Department of Energy, Labor and Economic Growth. (DELEG will become the Department of Licensing and Regulatory Affairs, or LARA, effective April 24)

OFIR is a fee funded financial service regulator. Industry assessments and fees pay for our regulatory and consumer assistance activities.

WHO WE ARE

OFIR currently has 362 employees, who are responsible for the regulation of a wide variety of financial service and insurance entities and individual licensees, including:

- Blue Cross Blue Shield
- 25 Health Maintenance Organizations
- 171 domestic (Michigan based) insurance companies
- 1,458 foreign insurance companies
- 113 state chartered banks
- 200 state chartered credit unions
- 1,799 investment advisers
- 2,044 securities broker-dealers
- 6,172 consumer finance lenders
- 171,443 insurance agents
- 122,642 securities agents
- 674 payday lenders

OFIR MISSION & GOALS

MISSION STATEMENT

- The Michigan Office of Financial and Insurance Regulation (OFIR) grows Michigan by creating a regulatory climate that promotes consumer protection and education and ensures the financial services industries are safe, sound, and entitled to the public trust.

GOALS

- Educate, empower, and protect consumers.
- Ensure institutional solvency, safety and soundness, while maintaining a regulatory environment that fosters a competitive financial services industry.
- Foster public confidence in the industries, institutions, and individuals coming under our purview.
- Ensure that industries, institutions, and individuals comply with applicable laws and rules.
- Work to make health care coverage more accessible and affordable.
- Develop, empower, and retain a 21st century workforce.
- Make home and auto insurance coverage more accessible and affordable

WHO ARE OFIR'S CUSTOMERS

The Office of Financial and Insurance Regulation (OFIR) has a variety of customers, including:

- Michigan citizens
- Michigan Legislators and the Governor
- Other state departments and agencies
- Insurance carriers (including Blue Cross Blue Shield of Michigan, HMOs, MEWAs, surplus lines insurers, and alternative financing and delivery systems)
- Depository institutions (banks and credit unions)
- Consumer lenders
- Insurance agents; Securities agents and broker dealers
- Entities making securities offerings under Michigan law
- National regulatory associations with which OFIR participates

OFIR Works for Michigan Consumers

OFIR provides consumer assistance, conducts investigations and takes enforcement actions for the benefit of Michigan consumers.

The OFIR Communication Center responds to approximately 12,000 calls per month from Michigan consumers.

Last year OFIR staff helped consumers recover $27 million:

$8 million related to insurance and securities matters
$19 million involved mortgage and banking products

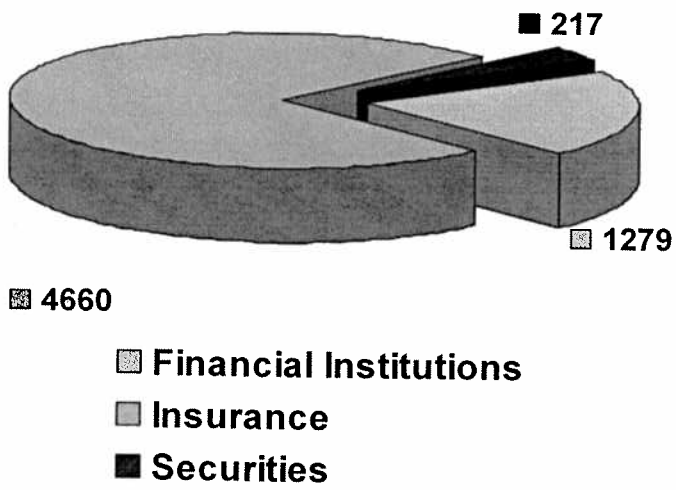
2010 Complaint Volume

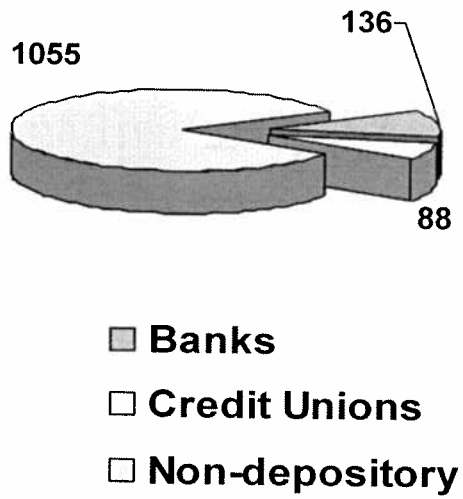
100,000+ consumer calls last year

3,000+ complaints resolved

Working for Michigan Consumers

OFIR Consumer Services Division reviews approximately 6,000 complaints per year.





State Based Insurance Regulation

- Long history – States formed the NAIC in the 1870's
- NAIC Accreditation Program
  - Minimum set of uniform laws & regulatory framework
  - Effective regulation of industry – analysis / exam programs
  - Adequate staffing / training
- State Legislators & State Regulators
- Why care?

State Based Insurance Regulation

- State-based regulation
  - Coordination
  - Duplication
  - Checks and balances
    - Multiple eyes looking for problems
- Role of the NAIC

Insurance Modernization Efforts

- **Producer Licensing**
  - National Insurance Producer Registry
  - 47 states are certified as reciprocal under GLBA
  - Pursuing greater uniformity
- **System for Electronic Rate and Form Filing (SERFF)**
  - In 2008 over 550,000 filings were processed using SERFF; over 2800 insurers use SERFF
  - It is estimated that 90% of all filings are filed through SERFF;
  - Average filing turnaround time for L&H filings is under 42 days; for P&C filings under 35 days;
- **Interstate compact for regulation of life and annuity products**
  - 35 states
  - more than 50 uniform standards in the individual life and annuity product lines, providing greater flexibility to companies in their product filing options.
- **Market conduct**
  - Market analysis
  - Interstate collaboration – the market actions working group (MAWG)
- **Solvency Analysis**
  - Detailed analysis of insurer financial condition
  - Interstate collaboration – financial analysis working group (FAWG)

Michigan Premium Volume

Premium Volume by Type of Insurer (2009)

• Life/Health	$20,194,229,616
• Property/Casualty	$13,382,375,548
• Health	$17,129,703,860
• Fraternal	$ 416,452,946
• Title	$ 215,468,720
• All Other	$ 28,366,582
• Total	**$51,402,597,272** ($51 billion premium volume)

- **Michigan ranked 10th in overall premium volume in 2009.**

NAIC 2009 Insurance Department Resource Report

Recent Premium Volume 2006-2009

- 2006- $50,145,860,105
- 2007- $51,371,145,986
- 2008- $50,998,104,902
- 2009- $51,402,597,272

NAIC 2009 Insurance Department Resource Report

Michigan Premium Volume

2009 Premium Volume by Jurisdiction – Top 25 (in millions US $)

1 Japan	$505,956	11.32%	14 Spain	$82,775	1.85%
2 United Kingdom	$309,241	6.92%	**15 Pennsylvania**	**$81,490**	**1.82%**
3 France	$283,070	6.33%	16 India	$65,085	1.46%
4 Germany	$238,366	5.33%	17 Taiwan	$63,647	1.42%
5 Italy	$169,360	3.79%	**18 Illinois**	**$60,435**	**1.35%**
6 PR China	$163,047	3.65%	19 Australia	$60,317	1.35%
7 New York	**$150,472**	**3.37%**	**20 New Jersey**	**$56,059**	**1.25%**
8 California	**$121,196**	**2.71%**	**21 Ohio**	**$55,282**	**1.24%**
9 Florida	**$102,578**	**2.30%**	**22 Michigan**	**$51,402**	**1.16%**
10 Netherlands	$108,144	2.42%	23 Brazil	$48,760	1.09%
11 Texas	**$99,681**	**2.23%**	24 Switzerland	$48,470	1.08%
12 Canada	$98,840	2.21%	25 Ireland	$44,598	1.00%
13 South Korea	$91,963	2.06%			

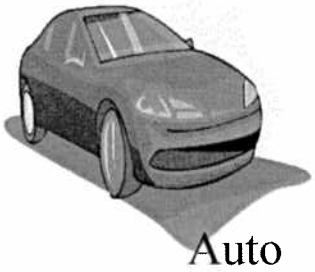
Worldwide Total **$4,469,275** **($4.4 TRILLION)**

Sources: NAIC Financial Database for USA and Swiss Re Sigma No. 2/2010 for the remainder.

2009 Premium Volume -- Worldwide (An Alternative Look)

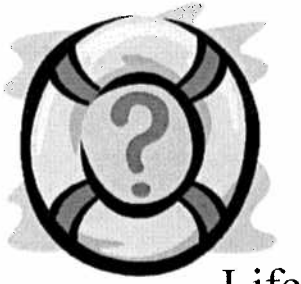
GET SMART ABOUT INSURANCE

The Basics



Auto

Home



Life

Health

What is insurance?

What is insurance?

A contractual transfer of risk from one party to another, for a premium.

Why buy insurance?

To reduce financial exposure to potential risks.

Examples

Risk	Product
Home / Goods protection	Home insurance policy (fire, weather events, theft, premise liability)
Car accident	Auto policy (PIP, comprehensive, collision)
Medical condition	Health insurance
Income loss on death	Life insurance
Clouded real property title	Title insurance

Types of Insurance

- **Property & Casualty insurance**
  Insurance on homes, cars, and businesses.
  - **Property insurance-** protects a person or business with an interest in physical property against its loss or the loss of its income-producing abilities.
  - **Casualty insurance-** mainly protects a person or business against legal liability for losses caused by injury to other people or damage to the property of others.
- Property and casualty insurance deals with life's uncertainties through the concept of **indemnification.** Through indemnification, an individual is restored to *the same position or financial condition that existed prior to the loss*, but does not permit the person to profit from the loss.

Types of Insurance

Life Insurance

- **Permanent life insurance** (universal life, variable universal life and whole life)
  - Provides long-term financial protection.
  - Death benefit and, in some cases, value
  - Because of the savings element, premiums tend to be higher.
- **Term insurance**
  - Covers you for term of one or more years
  - Pays death benefit only if you die in that term
  - Generally offers largest insurance protection per dollar
  - Does not build up cash value
  - May not be renewable

Types of Insurance

Health Insurance

- Types of plans
  - Major medical plans
    - Indemnity
    - Preferred provider organization (PPO)
    - Health maintenance organization (HMO)
  - Limited benefit plans
    - Provide coverage for particular health care setting, ailment or disease, e.g.
      - Basic hospital expense coverage
      - Accident only coverage
- Additional coverage options,
  - Disability
  - Long-term care
  - Medicare supplemental
- Non-insurance options
  - Discount plans

Auto Insurance Basics

Michigan No-Fault

In 1973, automobile insurance became compulsory for drivers in Michigan with the advent of the no-fault system.

The no-fault system was adopted to:

- provide a high level of benefits available to injured motorists,
- make sure payments were made promptly, and
- reduce the proportion of premium dollars paid out for legal costs.

Auto Insurance Basics

A basic Michigan no-fault policy contains the following mandatory components:

Personal Injury Protection (PIP) –

- Unlimited medical benefits including rehabilitation, vocational training services
- Wage loss up to a maximum of $4,948 per month for up to three years
- Survivor's benefits
- Replacement services up to $20 per day

Property Protection Insurance (PPI)

- Up to $1 million for damage your car does in Michigan to other people's property (e.g. buildings, fences, parked vehicles).

Residual Liability Insurance – Bodily Injury and Property Damage (BI/PD)

- When can a driver be sued?
  - If you cause an accident in Michigan in which someone is killed or seriously injured
  - You're in an accident in Michigan with a non-resident occupant of a motor vehicle not registered in Michigan
  - If you are involved in an accident in a state other than Michigan
  - For up to $500 in damages to another person's car, which is not covered by insurance, if you are 50% or more at fault in the accident (mini tort)

  Minimum required BI/PD coverage limits are:
  - Up to $20,000 for a person who is hurt or killed in an accident
  - Up to $40,000 for each accident if several people are hurt or killed
  - Up to $10,000 for property damage in another state

Auto Insurance Basics

Optional Coverage

- **Collision and Comprehensive Insurance**
  Damage to your vehicle will only be covered if you purchase collision and comprehensive coverage.

- **Collision Insurance**
  This coverage pays for repairs to your car when it is damaged in a crash. There are three basic kinds of collision insurance:

  -**Broad form** collision pays for damages regardless of fault, with a deductible that applies only if you are substantially at fault
  -**Standard collision** pays for damages regardless of fault, with a deductible that always applies
  -**Limited collision** pays only if you are not substantially at fault, and may or may not have a deductible

- **Comprehensive Insurance**
  This coverage pays for your car if it is stolen or for repairs if it is damaged by a falling object, fire, flood, vandalism, or collision with an animal.

- **Uninsured/Underinsured Motorist Coverage (UM/UIM)**
  This coverage will pay if you are seriously injured or killed by an uninsured/underinsured motorist.

Home Insurance

Types of Coverage

- **Dwelling**
  Protects against loss of the dwelling structure

- **Appurtenant Structures**
  Other structures on the property, such as a detached garage

- **Contents-Personal Property**
  Protects against loss to personal property in amounts which vary, depending on the policy form. Covered loss of personal property is usually settled on an ***actual cash value*** basis. However, many companies now offer ***replacement cost*** on personal property

- **Contents - Off-Premises Losses**
  Protection against loss to personal property while away from the premises, such as property left in a car or hotel room.

- **Special Items**
  There are special limits on coverage for certain items such as money, jewelry, computers, or furs.

Home Insurance

- **Additional Living Expenses**
  This coverage pays for additional living expenses incurred because of a loss on the property.

- **Liability**
  Protection against lawsuits, for example, from someone being injured on your property. Pays for your legal defense if you are sued.

- **Medical Payments**
  This coverage pays for immediate care, such as first aid, ambulance charge, etc., for someone who is hurt on your property.

- **Property of Others**
  Coverage against the physical damage to the property of others caused by the insured.

Home Insurance

- **Flood insurance**

  NOT included in home owner's/renters policies.

  Available through the National Flood Insurance Program (NFIP)

Other Key Pieces in the Michigan Insurance Puzzle

- **Michigan Catastrophic Claims Association (MCCA)**
  - Statutorily created auto reinsurer www.michigancatastrophic.com

    This non-profit non-governmental association was created by the state legislature in 1978 to cover automobile insurance personal injury protection (PIP) claims over a certain dollar threshold (currently $480,000) for each person injured by an automobile accident covered by a Michigan no-fault policy. An injured person submits his/her PIP claim to the responsible insurer who pays the claim and then seeks reimbursement from the MCCA for costs over the threshold. The current MCCA assessment is $143.09 per vehicle—a decade ago it was $5.60.
- **Michigan Auto Insurance Placement Facility (MAIPF)**
  - Auto residual facility

    The Michigan Automobile Insurance Placement Facility (Facility) is a non-profit non-governmental association formed by the Legislature in 1969 to provide auto insurance to Michigan consumers who cannot obtain coverage from private insurers. It will accept most people who pay the premium that it charges; however Chapter 33 of the Michigan Code allows it to refuse certain applicants based on their risk background. A person who is eligible for coverage with private insurers can also obtain coverage with the Facility.

Other Key Pieces in the Michigan Insurance Puzzle

- **Michigan Basic (FAIR plan)**

  Property residual facility

  The Michigan Basic Property Insurance Association is a non-profit non-governmental association formed by the Legislature in 1968 to provide home insurance to Michigan consumers who cannot obtain coverage from private insurers. It will accept most people who pay the premium that it charges; however Chapter 29 of the Michigan Code allows it to refuse certain applicants based on their risk background. A person who is statutorily eligible for coverage with private insurers can also obtain coverage with the Michigan Basic.

- **Guarantee Funds**

  Cover claims of insolvent traditional insurers

  - Funded by industry assessments (generating state tax credits for insurers)

  BCBSM, HMO's, MEWA's, PEPP's. etc… are not covered by guarantee funds

- **Michigan Auto Theft Prevention Authority – State Police**

  $1 per policy surcharge funds anti-theft efforts

  Engages in grant making for local law enforcement efforts across Michigan

Other Key Pieces in the Michigan Insurance Puzzle

- **Michigan Assigned Claims Facility – Secretary of State**
  - Handles claims where there is no other insurance

    The State of Michigan established the Assigned Claims Plan in 1973 to provide financial help to people injured by an uninsured driver, who have no insurance coverage of their own. The Plan is administered by the Michigan Department of State, under authority of the No-Fault Insurance Law (MCL 500.3171)

    Eligibility

    Any person (Michigan resident or not) who is injured in an accident in Michigan, either while riding in or being struck by an uninsured Michigan-registered vehicle, and who has no insurance to pay the resulting bills. If a person dies under these circumstances, a survivor may also apply to Assigned Claims for benefits.

    Motorcyclists are eligible if they have been in an accident with an uninsured motor vehicle (not another motorcycle), and do not have other insurance to cover the resulting medical expenses.

    Benefits are not available from Assigned Claims to the owner (registrant) of an uninsured car or motorcycle who was injured in an accident while driving or riding in his or her own vehicle or motorcycle. Drivers of stolen cars or motorcycles are *not eligible* for benefits.

- **Michigan Workers' Compensation Placement Facility (MWCPF)**

  Workers' compensation residual facility

  The MWCPF is a non-profit non-governmental association formed by the Legislature in 1982 to provide workers' comp insurance to Michigan employers that cannot obtain coverage from private insurers. However, it will accept any employer that pays the premium that it charges. It is managed by the **Data Collection Agency (DCA)**, which is also a non-profit non-governmental association formed by the Legislature in 1982 to collect classification plan data from every insurer writing comp in Michigan in order to develop advisory pure premium rates that insurers can choose to use as the underlying basis for their rate development.

Rate & Form Review in Michigan

	Rate Review	Form Review	Review Method	Rate Review Standards	Form Review Standards
Health Maintenance Organizations	Yes All Rates	Yes All Forms	Prior Approval – 60 Days Rates, forms, and methodologies must be filed and approved before becoming effective. **Rates must be fair, sound, and reasonable in relation to the services provided.**	500.3519	500.3501 Chapter 22, 34
Blue Cross Blue Shield of MI	Yes All Rates	Yes All Forms	Prior Approval of forms w/rates - 30 days 550.1607(1),(2),(3) using standards found in 550.1608 – 1610 Rates, forms, and methodologies must be filed and approved before becoming effective. **All lines of business (group, non-group, group conversion, Medicare supplemental) must be self-sustaining and equitable, adequate, and not excessive.** ***Exception is collective bargaining**	550.1609	550.1607
Blue Cross Blue Shield of MI	Yes All Rates	N/A	Prior Approval of rates - 90 days for individual lines and group methodologies	550.1608 - 1610	N/A

Rate & Form Review in Michigan

	Rate Review	Form Review	Review Method	Rate Review Standards	Form Review Standards
Commercial Individual Health	Yes-All Rate Ratios (50%-65% Minimum Loss Ratio)	Yes All Forms	Prior Approval – 30 Days	500.3474 R 500.801 et al	Chapters 20, 22, and 34
Commercial Group Health	No	Yes All Forms	Prior Approval – 30 Days	N/A	Chapters 20, 22, and 36 (34)

Rate & Form Review in Michigan

	Rate Review	Form Review	Review Method	Rate Review Standards	Form Review Standards
Commercial Individual Life	No	Yes All Forms	Prior Approval – 30 Days	N/A	Chapters 20, 22, and 40
Commercial Group Life	No	Yes All Forms	Prior Approval – 30 Days	N/A	Chapters 20, 22, and 44
Medicare Supplement	Yes All Rates	Yes All Forms	Prior Approval for Rates – no time limit but procedurally 30 days Prior Approval for Advertising – 45 days Prior Approval for Forms – 30 days	500.3847, 500.3849 500.2236 (time frame for rates and forms)	500.3815

- Exception is collective bargaining

Rate & Form Review in Michigan

	Rate Review	Form Review	Review Method	Rate Review Standards	Form Review Standards
Long Term Care	Yes All Rates	Yes All Forms	File & Use for Rates – 30 Days Prior Approval for Forms – 30 Days	500.3926 500.3926a 500.3927	Chapter 39
Commercial Annuities Group and Individual	No	Yes All Forms	Prior Approval – 30 Days	N/A	Chapters 20, 22, 40, and 41 R 500.628-629

Rate & Form Review in Michigan

	Rate Review	Form Review	Review Method	Rate Review Standards	Form Review Standards
Casualty Insurance,	Yes, except for Exempt Commercial policyholders.	Yes, except for Exempt Commercial policyholders.	For rates and rules, insurer can select "Prior Approval" or "File and Use" method. Forms can only be submitted "Prior Approval" and have a 30 day waiting period. 15 day waiting period before filing becomes effective for filings under 500.2406, extendable by Commissioner for additional period not to exceed 15 days. 500.2408, 500.2416, 500.2418 Alternative filings under 500.2430 subject to Commissioner's review within 15 days of rate filing (500.2430)	MCL 500.2403	MCL 500.2236, 500.2236(8); Order No. 10-005-M; Chapter 22 Generally. A few types of coverage are automatically exempt from filing.

Rate & Form Review in Michigan

	Rate Review	Form Review	Review Method	Rate Review Standards	Form Review Standards
Non-Group Rated Automobile Insurance	Yes	Yes	Rates and rules can only be "File and Use" because there is no waiting period before filing becomes effective under 500.2108. Forms can only be submitted "Prior Approval" and have a 30 day waiting period.	MCL 500.2109 MCL 500.2110a MCL 500.2111 MCL 500.2118 MCL 500.2119 MCL 500.2120	MCL 500.2236, 500.2236(8)(e); Order No. 10005-M; Chapter 22, 30, 31, and 32 Generally.
Group Rated Personal Auto, MCL 500.2129 Exempt Company, and Commercial Auto programs	Yes, except for exempt commercial policyholders.	Yes, except for exempt commercial policyholders.	Forms can only be submitted "Prior Approval" and have a 30 day waiting period. 15 day waiting period, extendable by Commissioner for 1 additional period not to exceed 15 days. No alternative filing method available. 2129 Exempt Company and Commercial Auto Programs could utilize Alternative filings under 500.2430 subject to Commissioner's review within 15 days of rate filing (500.2430)	MCL 500.2103 MCL 500.2105 MCL 500.2403 MCL 500.2603	MCL 500.2236, 500.2236(8)(e); Order No. 10-005-M; Chapter 22, 30, 31, and 32, Generally.
Worker's Compensation Insurance	Yes	Yes, except For exempt Commercial policyholders.	Rates and rules can only be "File and Use" because there is no waiting period before filing becomes effective under 500.2406(4). Forms can only be submitted "Prior Approval" and have a 30 day waiting period.	MCL 500.2403	MCL 500.2236, 500.2236(8)(e); Order No. 10-005-M; Chapter 22 Generally.

Rate & Form Review in Michigan

	Rate Review	Form Review	Review Method	Rate Review Standards	Form Review Standards
Title Insurance	Yes, except for exempt commercial policyholders	Yes, except for exempt commercial policyholders	For rates and rules, insurer can select "Prior Approval" or "File and Use" method. Forms can only be submitted "Prior Approval" and have a 30 day waiting period. 15 day waiting period before filing becomes effective for filings under 500.2406, extendable by Commissioner for 1 additional period not to exceed 15 days. 500.2408, 500.2416, 500.2418 Alternative filings under 500.2430 subject to Commissioner's review within 15 days of rate filing (500.2430)	MCL 500.7312 MCL 500.2403	MCL 500.7313 MCL 500.2236, 500.2236(8)(e); Order No. 10-005-M; Chapter 22 Generally.
Property Insurance	Yes, except for exempt commercial policyholders	Yes, except for exempt commercial policyholders	For rates and rules, insurer can select "Prior Approval" or "File and Use" method. Forms can only be submitted "Prior Approval" and have a 30 day waiting period. 15 day waiting period before filing becomes effective for filings under 500.2608, extendable by Commissioner for 1 additional period not to exceed 15 days. 500.2608, 500.2616, 500.2620. Alternative filings under 500.2628 subject to Commissioner's review within 15 days of rate filing (500.2628).	MCL 500.2603	MCL 500.2236, 500.2236(8)(e); Order No. 10-005-M; Chapter 22 Generally. A few types of coverage are Automatically exempt from filing.

Rate & Form Review in Michigan

	Rate Review	Form Review	Review Method	Rate Review Standards	Form Review Standards
Marine Insurance	Yes, except for exempt commercial policyholders.	Yes, except for exempt commercial policyholders.	For rates and rules, insurer can select "Prior Approval" or "File and Use" method. Forms can only be submitted "Prior Approval" and have a 30 day waiting period. 15 day waiting period before filing becomes effective for filings under 500.2408 and 500.2608, extendable by Commissioner for additional period not to exceed 15 days. 500.2608, 500.2616, 500.2620. Alternative filings under 500.2408 and 500.2628 subject to Commissioner's review within 15 days of rate filing (500.2628).	MCL 500.2603 500.2403	MCL 500.2236, 500.2236(8)(e); Order No. 10-005-M; Chapter 22 Generally.
Inland Navigation and Transportation Insurance	Yes, except for exempt commercial policyholders.	Yes, except for exempt commercial policyholders.	15 day waiting period before filing becomes effective for filings under 500.2608, extendable by Commissioner for 1 additional period not to exceed 15 days. 500.2608, 500.2616, 500.2620. Alternative filings under 500.2628 subject to Commissioner's review within 15 days of rate filing (500.2628).	MCL 500.2603	MCL 500.2236, 500.2236(8)(e); Order No. 10-005-M; Chapter 22 Generally.

Rate Review in Michigan

- **Rate standards for insurance programs required to be filed, including home and personal auto coverage**

All rates shall be made in accordance with the following:

Rates shall not be excessive, inadequate, or unfairly discriminatory

Rate Review in Michigan

- **Excessive**
  A rate shall not be held to be excessive unless the rate is
  - unreasonably high for the insurance coverage provided and
  - a reasonable degree of competition does not exist for the insurance to which the rate is applicable.

- **Inadequate**
  A rate shall not be held to be inadequate unless the rate is
  - unreasonably low for the insurance coverage provided and
  - the continued use of the rate endangers the solvency of the insurer;

  or
  - unless the rate is unreasonably low for the insurance provided and
  - the use of the rate has or will have the effect of destroying competition among insurers, creating a monopoly, or causing a kind of insurance to be unavailable to a significant number of applicants who are in good faith entitled to procure that insurance through ordinary methods

Rate Review in Michigan

Unfairly Discriminatory

A rate for a coverage is unfairly discriminatory in relation to another rate for the same coverage if

- the differential between the rates is not reasonably justified by differences in losses, expenses, or both, or by differences in the uncertainty of loss, for the individuals or risks to which the rates apply.
- A reasonable justification shall be supported by
  - a reasonable classification system;
  - by sound actuarial principles when applicable; and
  - by actual and credible loss and expense statistics or,
  - in the case of new coverages and classifications, by reasonably anticipated loss and expense experience.

Regulatory Fundamentals

Key Regulatory Tools

- **Uniform laws**
- **Licensure** (individual / entity)
- **Solvency Protection** (including Risk-Based Capital –RBC)
- **Quarterly and annual reporting**
- **Investment Limits**
- **Statutory Accounting Principals (SAP)** (conservative, focus on balance sheet and insurer solvency)
- **Off-site Financial Analysis**
- **On-site Examinations**
- **Rate & Form Review**
- **Market Conduct Analysis & Exams**
- **Complaint Handling**

Risk Based Capital
Risk-based capital (RBC) is a method of measuring the minimum amount of capital appropriate for an insurer to support its overall business operations in consideration of its size and risk profile. It provides an elastic means of setting the capital requirements in which the degree of risk taken by the insurer is the primary determinant. The five major categories of risks considered are: affiliated investments, other investments, underwriting, credit and business.

Risk Based Capital

RBC ACTION LEVELS

- **Company Action Level** 150% to 200%

  In the event of a Company Action Level Event, the commissioner shall require an insurer to prepare and submit an RBC Plan.

  Within sixty (60) days after the submission of an RBC Plan to the commissioner, the commissioner shall notify the insurer whether the RBC Plan is satisfactory.

- **Regulatory Control Level** 100% to 150%

  Require the insurer to prepare and submit an RBC Plan or, if applicable, a Revised RBC Plan;

  Subsequent to an investigation or analysis, issue a Corrective Order.

- **Authorized Control Level** 70% to 100%

  If the commissioner deems it to be in the best interests of the policyholders and creditors of the insurer and of the public, take such actions as are necessary to cause the insurer to be placed under regulatory control under Chapter 81 of the Code.

- **Mandatory Control Level** 70% ACL

  The commissioner shall take such actions as are necessary to place the insurer under regulatory control under Chapter 81 of the Code.

  The commissioner may forego action for up to ninety (90) days after the Mandatory Control Level Event if the commissioner finds there is a reasonable expectation that the Mandatory Control Level Event may be eliminated within the ninety (90) day period.

Risk–Focused Surveillance Cycle

Examination

Risk-Focused Examination Seven Phase Process:
Identify Key Functional Activities
Identify/Assess Inherent Risk
Identify & Evaluate Controls
Determine Residual Risk
Establish Procedures and Conduct Exam
Update Supervisory Plan
Exam Report/Management Letter

Financial Analysis

Financial Analysis Includes:
Risk Assessment Results
Financial Analysis Handbook Process
Ratio Analysis
Actuarial Analysis
Other Units (Market Regulation, Legal, etc.)
Update with Internal/External Changes

INSURER PROFILE SUMMARY

Priority System

Company Priority Score
Determined By:
Department Analysis and NAIC Financial Tools:
- Scoring System
- ATS Results
- IRIS Ratios

Exam Results

Supervisory Plan

Develop Ongoing Supervisory Plan
That Includes:
Frequency of Exams
Scope of Exams
Meetings with Company Management
Follow-up on Recommendations
Financial Analysis Monitoring

Internal/External Changes

Consider Changes to:
NRSRO Ratings
Ownership/Management/Corporate Structure
Business Strategy/Plan
Legal or Regulatory Status

Hot Topics

- Dodd-Frank
  - FIO
  - FSOC (SIFI - "systemically important financial institutions")
- PPACA
  - High Risk Pool
  - Market Reforms
  - Medical Loss Ratios (MLR)

-Insurance Exchange Planning Process
-Michigan Exchange – run by state or feds?

- Insurance Access & Affordability – personal lines
- Anti-Fraud Initiatives
- Evolving state regulatory system in an increasingly global framework

International Standard Setting

International Association of Insurance Supervisors (IAIS)

- Insurance Core Principles
  - Peer Review & Self-assessment
  - Financial Sector Assessment Program (FSAP)
  - "Common Framework for Supervision of Internationally Active Insurance Groups (IAIGs)" - ComFrame

- Joint Forum
- Organization for Economic Cooperation & Development (OECD)
- Financial Stability Board

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