House
Legislative
Analysis
Section

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INSURANCE COMPANY ACCOUNTING

House Bill 5635 with committee amendment
First Analysis (6-14-88)

Sponsor: Rep. Lloyd F. Weeks
Committee: Insurance

THE APPARENT PROBLEM:

Chapter 9 of the Insurance Code regulates the investment practices of insurance companies as a means of guarding against insolvencies. Section 901 says a company can loan or invest its funds in any investment legally permitted to other corporations if it has assets in cash or in other specifically designated forms at least equal to its liabilities, plus such things as contingency reserves and the minimum surplus and capital amounts required of insurers. The code specifies how assets and liabilities are to be determined for this purpose. Some companies have requested different accounting treatment for certain kinds of money owed to them that would have the effect of increasing assets and decreasing liabilities.

THE CONTENT OF THE BILL:

The bill would amend Section 901 of the Insurance Code to specify that the sum of liabilities and reserves that assets need to offset could be reduced by premium notes secured by letters of credit, security trust funds, or unearned premium reserves. The section currently limits the amount of receivables from agents and policyholders that can be used to reduce the sum of liabilities to 40 percent of surplus. The bill would provide that premiums, agents' balances, and installments booked but deferred and not yet due would be excluded from the 40 percent limitation.

MCL 500.901

FISCAL IMPLICATIONS:

The bill has no fiscal implications to the state, according to the Department of Licensing and Regulation. (5-24-88)

ARGUMENTS:

For:

The bill would allow some new categories of receivables (money owed) to be treated by insurance companies like other amounts owed them for purposes of calculating assets and liabilities. Insurers point out there is adequate security that these receivables, such as premium notes, will be paid. Further, the bill would exclude from the limit on the amount of receivables that can be used to decrease liabilities certain premiums counted as owed but not yet due (e.g., installment payments) on the grounds that the premiums that are owed are for coverage yet to be provided and for which, therefore, the insurer has no liability.

Against:

The Insurance Bureau has pointed out that allowing receivables such as agents' and policyholders' balances owed to make up a larger portion of an insurance company's assets could lead to problems in the event of a receivership or liquidation because they would be difficult to collect. Section 901 requires the diversification of assets in order to make sure that insurance companies have sufficient assets to cover the claims of policyholders.

POSITIONS:

The Insurance Bureau, within the Department of Licensing and Regulation, supports the bill. (5-24-88)

The American International Group supports the bills. (6-13-88)