SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

House Bill 5635 (as reported without amendment)
Sponsor: Representative Lloyd F. Weeks
House Committee: Insurance
Senate Committee: Commerce and Technology

Date Completed: 9-22-88

RATIONALE

Chapter 9 of the Insurance Code regulates the investment practices of insurance companies as a means of guarding against insolvencies. It provides that an insurance company can loan or invest its funds in any investment legally permitted to other corporations if the insurer has assets in cash or in other forms specified in the Code that are at least equal to the sum of its liabilities and reserves plus certain contingencies and capital amounts required of insurers. The Code specifies how assets and liabilities must be determined for this purpose. Some insurers have requested that the Code be amended to provide that certain kinds of debts owed to insurers be considered as assets, thus making those debts applicable against liabilities in judging the financial condition of companies.

CONTENT

The bill would amend the Insurance Code to specify that the sum of liabilities and reserves that an insurer's assets must offset (in order for the insurer to loan or invest its funds) could be reduced by premium notes secured by letters of credit, security trust funds, or unearned premium reserves.

The Code provides that the sum of liabilities and reserves may be reduced by agents' balances or uncollected premiums, but the amount of receivables used cannot exceed 40% of an insurer's surplus. The bill provides that premiums, agents' balances, and installments booked but deferred and not yet due would be excluded from the 40% limitation.

MCL 500.901

FISCAL IMPACT

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

ARGUMENTS

Supporting Argument

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 that there is adequate security to ensure 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). Premiums that are owed are for coverage yet to be provided; therefore, the insurer has no present liability for that coverage.

Opposing Argument

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 the receivables would be difficult to collect. The Code requires the diversification of assets in order to make sure that insurers have sufficient assets to cover the claims of policyholders.

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