

# HOUSE BILL No. 5827

September 18, 2014, Introduced by Reps. Singh, Dianda, Faris, LaVoy and Slavens and referred to the Committee on Insurance.

A bill to amend 1956 PA 218, entitled  
"The insurance code of 1956,"  
by amending section 3104 (MCL 500.3104), as amended by 2002 PA 662.

## THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1       Sec. 3104. (1) ~~An~~ **THE CATASTROPHIC CLAIMS ASSOCIATION IS**  
2 **CREATED AS AN** unincorporated, nonprofit association. ~~to be known as~~  
3 ~~the catastrophic claims association, hereinafter referred to as the~~  
4 ~~association, is created.~~ Each insurer engaged in writing insurance  
5 coverages that provide the security required by section 3101(1)  
6 within this state, as a condition of its authority to transact  
7 insurance in this state, shall be a member of the association and  
8 ~~shall be~~ **IS** bound by the plan of operation of the association. Each  
9 insurer engaged in writing insurance coverages that provide the  
10 security required by section 3103(1) within this state, as a  
11 condition of its authority to transact insurance in this state,

1 shall be considered a member of the association, but only for  
2 purposes of premiums under subsection (7)(d). Except as expressly  
3 provided in this section, the association is not subject to any  
4 laws of this state with respect to insurers, but in all other  
5 respects the association is subject to the laws of this state to  
6 the extent that the association would be if it were an insurer  
7 organized and subsisting under chapter 50.

8 (2) The association shall provide and each member shall accept  
9 indemnification for 100% of the amount of ultimate loss sustained  
10 under personal protection insurance coverages in excess of the  
11 following amounts in each loss occurrence:

12 (a) For a motor vehicle accident policy issued or renewed  
13 before July 1, 2002, \$250,000.00.

14 (b) For a motor vehicle accident policy issued or renewed  
15 during the period July 1, 2002 to June 30, 2003, \$300,000.00.

16 (c) For a motor vehicle accident policy issued or renewed  
17 during the period July 1, 2003 to June 30, 2004, \$325,000.00.

18 (d) For a motor vehicle accident policy issued or renewed  
19 during the period July 1, 2004 to June 30, 2005, \$350,000.00.

20 (e) For a motor vehicle accident policy issued or renewed  
21 during the period July 1, 2005 to June 30, 2006, \$375,000.00.

22 (f) For a motor vehicle accident policy issued or renewed  
23 during the period July 1, 2006 to June 30, 2007, \$400,000.00.

24 (g) For a motor vehicle accident policy issued or renewed  
25 during the period July 1, 2007 to June 30, 2008, \$420,000.00.

26 (h) For a motor vehicle accident policy issued or renewed  
27 during the period July 1, 2008 to June 30, 2009, \$440,000.00.

1 (i) For a motor vehicle accident policy issued or renewed  
2 during the period July 1, 2009 to June 30, 2010, \$460,000.00.

3 (j) For a motor vehicle accident policy issued or renewed  
4 during the period July 1, 2010 to June 30, 2011, \$480,000.00.

5 (k) For a motor vehicle accident policy issued or renewed  
6 during the period July 1, 2011 to June 30, 2013, \$500,000.00.  
7 Beginning July 1, 2013, this \$500,000.00 amount shall be increased  
8 biennially on July 1 of each odd-numbered year, for policies issued  
9 or renewed before July 1 of the following odd-numbered year, by the  
10 lesser of 6% or the consumer price index, and rounded to the  
11 nearest \$5,000.00. This biennial adjustment shall be calculated by  
12 the association by January 1 of the year of its July 1 effective  
13 date.

14 (3) An insurer may withdraw from the association only upon  
15 ceasing to write insurance that provides the security required by  
16 section 3101(1) in this state.

17 (4) An insurer whose membership in the association has been  
18 terminated by withdrawal shall continue to be bound by the plan of  
19 operation, and upon withdrawal, all unpaid premiums that have been  
20 charged to the withdrawing member are payable as of the effective  
21 date of the withdrawal.

22 (5) An unsatisfied net liability to the association of an  
23 insolvent member shall be assumed by and apportioned among the  
24 remaining members of the association as provided in the plan of  
25 operation. The association has all rights allowed by law on behalf  
26 of the remaining members against the estate or funds of the  
27 insolvent member for ~~sums~~ **MONEY** due the association.

1           (6) If a member has been merged or consolidated into another  
2 insurer or another insurer has reinsured a member's entire business  
3 that provides the security required by section 3101(1) in this  
4 state, the member and successors in interest of the member remain  
5 liable for the member's obligations.

6           (7) The association shall do all of the following on behalf of  
7 the members of the association:

8           (a) Assume 100% of all liability as provided in subsection  
9 (2).

10           (b) Establish procedures by which members shall promptly  
11 report to the association each claim that, on the basis of the  
12 injuries or damages sustained, may reasonably be anticipated to  
13 involve the association if the member is ultimately held legally  
14 liable for the injuries or damages. Solely for the purpose of  
15 reporting claims, the member shall in all instances consider itself  
16 legally liable for the injuries or damages. The member shall also  
17 advise the association of subsequent developments likely to  
18 materially affect the interest of the association in the claim.

19           (c) Maintain relevant loss and expense data relative to all  
20 liabilities of the association and require each member to furnish  
21 statistics, in connection with liabilities of the association, at  
22 the times and in the form and detail as may be required by the plan  
23 of operation.

24           (d) In a manner provided for in the plan of operation,  
25 calculate and charge to members of the association a total premium  
26 sufficient to cover the expected losses and expenses of the  
27 association that the association will likely incur during the

1 period for which the premium is applicable. The premium shall  
2 include an amount to cover incurred but not reported losses for the  
3 period and may be adjusted for any excess or deficient premiums  
4 from previous periods. Excesses or deficiencies from previous  
5 periods may be fully adjusted in a single period or may be adjusted  
6 over several periods in a manner provided for in the plan of  
7 operation. Each member shall be charged an amount equal to that  
8 member's total written car years of insurance providing the  
9 security required by section 3101(1) or 3103(1), or both, written  
10 in this state during the period to which the premium applies,  
11 multiplied by the average premium per car. The average premium per  
12 car shall be the total premium calculated divided by the total  
13 written car years of insurance providing the security required by  
14 section 3101(1) or 3103(1) written in this state of all members  
15 during the period to which the premium applies. A member shall be  
16 charged a premium for a historic vehicle that is insured with the  
17 member of 20% of the premium charged for a car insured with the  
18 member. As used in this subdivision:

19 (i) "Car" includes a motorcycle but does not include a historic  
20 vehicle.

21 (ii) "Historic vehicle" means a vehicle that is a registered  
22 historic vehicle under section 803a or 803p of the Michigan vehicle  
23 code, 1949 PA 300, MCL 257.803a and 257.803p.

24 (e) Require and accept the payment of premiums from members of  
25 the association as provided for in the plan of operation. The  
26 association shall do either of the following:

27 (i) Require payment of the premium in full within 45 days after

1 the premium charge.

2 (ii) Require payment of the premiums to be made periodically to  
3 cover the actual cash obligations of the association.

4 (f) Receive and distribute all ~~sums~~**MONEY** required by the  
5 operation of the association.

6 (g) Establish procedures for reviewing claims procedures and  
7 practices of members of the association. If the claims procedures  
8 or practices of a member are considered inadequate to properly  
9 service the liabilities of the association, the association may  
10 undertake or may contract with another person, including another  
11 member, to adjust or assist in the adjustment of claims for the  
12 member on claims that create a potential liability to the  
13 association and may charge the cost of the adjustment to the  
14 member.

15 (8) In addition to other powers granted to it by this section,  
16 the association may do all of the following:

17 (a) Sue and be sued in the name of the association. A judgment  
18 against the association shall not create any direct liability  
19 against the individual members of the association. The association  
20 may provide for the indemnification of its members, members of the  
21 board of directors of the association, and officers, employees, and  
22 other persons lawfully acting on behalf of the association.

23 (b) Reinsure all or any portion of its potential liability  
24 with reinsurers licensed to transact insurance in this state or  
25 approved by the ~~commissioner~~**DIRECTOR OF THE DEPARTMENT**.

26 (c) Provide for appropriate housing, equipment, and personnel  
27 as may be necessary to assure the efficient operation of the

1 association.

2 (d) Pursuant to the plan of operation, adopt reasonable rules  
3 for the administration of the association, enforce those rules, and  
4 delegate authority, as the board considers necessary to assure the  
5 proper administration and operation of the association consistent  
6 with the plan of operation.

7 (e) Contract for goods and services, including independent  
8 claims management, actuarial, investment, and legal services, from  
9 others within or without this state to assure the efficient  
10 operation of the association.

11 (f) Hear and determine complaints of a company or other  
12 interested party concerning the operation of the association.

13 (g) Perform other acts not specifically enumerated in this  
14 section that are necessary or proper to accomplish the purposes of  
15 the association and that are not inconsistent with this section or  
16 the plan of operation.

17 (9) A board of directors is created ~~, hereinafter referred to~~  
18 ~~as the board, which shall be responsible for the operation of~~ **AND**  
19 **SHALL OPERATE** the association consistent with the plan of operation  
20 and this section.

21 (10) The plan of operation shall provide for all of the  
22 following:

23 (a) The establishment of necessary facilities.

24 (b) The management and operation of the association.

25 (c) Procedures to be utilized in charging premiums, including  
26 adjustments from excess or deficient premiums from prior periods.

27 (d) Procedures governing the actual payment of premiums to the

1 association.

2 (e) Reimbursement of each member of the board by the  
3 association for actual and necessary expenses incurred on  
4 association business.

5 (f) The investment policy of the association.

6 (g) Any other matters required by or necessary to effectively  
7 implement this section.

8 (11) Each board shall include members that would contribute a  
9 total of not less than 40% of the total premium calculated pursuant  
10 to subsection (7)(d). Each director shall be entitled to 1 vote.  
11 The initial term of office of a director shall be 2 years.

12 (12) As part of the plan of operation, the board shall adopt  
13 rules providing for the composition and term of successor boards to  
14 the initial board, consistent with the membership composition  
15 requirements in subsections (11) and (13). Terms of the directors  
16 shall be staggered so that the terms of all the directors do not  
17 expire at the same time and so that a director does not serve a  
18 term of more than 4 years.

19 (13) The board shall consist of 5 directors, and the  
20 ~~commissioner~~**DIRECTOR OF THE DEPARTMENT** shall be an ex officio  
21 member of the board without vote.

22 (14) Each director shall be appointed by the ~~commissioner~~  
23 **DIRECTOR OF THE DEPARTMENT** and shall serve until that member's  
24 successor is selected and qualified. The chairperson of the board  
25 shall be elected by the board. A vacancy on the board shall be  
26 filled by the ~~commissioner~~**DIRECTOR OF THE DEPARTMENT** consistent  
27 with the plan of operation.



1       (15) ~~After the board is appointed, the~~ **THE** board shall meet as  
2 often as the chairperson, the ~~commissioner,~~ **DIRECTOR OF THE**  
3 **DEPARTMENT,** or the plan of operation ~~shall require,~~ **REQUIRES,** or at  
4 the request of any 3 members of the board. The chairperson ~~shall~~  
5 ~~retain the right to~~ **MAY** vote on all issues. Four members of the  
6 board constitute a quorum.

7       (16) An annual report of the operations of the association  
8 **THAT IS** in a form and detail as ~~may be determined by the board~~  
9 shall be furnished to each member.

10 ~~—— (17) Not more than 60 days after the initial organizational~~  
11 ~~meeting of the board, the board shall submit to the commissioner~~  
12 ~~for approval a proposed plan of operation consistent with the~~  
13 ~~objectives and provisions of this section, which shall provide for~~  
14 ~~the economical, fair, and nondiscriminatory administration of the~~  
15 ~~association and for the prompt and efficient provision of~~  
16 ~~indemnity. If a plan is not submitted within this 60 day period,~~  
17 ~~then the commissioner, after consultation with the board, shall~~  
18 ~~formulate and place into effect a plan consistent with this~~  
19 ~~section.~~

20 ~~—— (18) The plan of operation, unless approved sooner in writing,~~  
21 ~~shall be considered to meet the requirements of this section if it~~  
22 ~~is not disapproved by written order of the commissioner within 30~~  
23 ~~days after the date of its submission. Before disapproval of all or~~  
24 ~~any part of the proposed plan of operation, the commissioner shall~~  
25 ~~notify the board in what respect the plan of operation fails to~~  
26 ~~meet the requirements and objectives of this section. If the board~~  
27 ~~fails to submit a revised plan of operation that meets the~~

~~requirements and objectives of this section within the 30-day period, the commissioner shall enter an order accordingly and shall immediately formulate and place into effect a plan consistent with the requirements and objectives of this section.~~

(17) ~~(19) The proposed plan of operation or ANY~~ amendments to the plan of operation **OF THE ASSOCIATION** are subject to majority approval by the board, ~~ratified AND RATIFICATION~~ by a majority of the membership having a vote, with voting rights being apportioned according to the premiums charged in subsection (7)(d) and are subject to approval by the ~~commissioner~~ **DIRECTOR OF THE DEPARTMENT**.

(18) ~~(20) Upon approval by the commissioner and ratification by the members of the plan submitted, or upon the promulgation of a plan by the commissioner, each AN~~ insurer authorized to write insurance providing the security required by section 3101(1) in this state, as provided in this section, is bound by and shall formally subscribe to and participate in the plan ~~approved OF~~ **OPERATION** as a condition of maintaining its authority to transact insurance in this state.

(19) ~~(21) The EXCEPT AS PROVIDED IN SUBSECTION (23), THE~~ association is subject to all the reporting, loss reserve, and investment requirements of the ~~commissioner~~ **DIRECTOR OF THE DEPARTMENT** to the same extent as ~~would a member~~ **ARE THE MEMBERS** of the association.

(20) ~~(22) Premiums charged members by the association shall be recognized in the rate-making procedures for insurance rates in the same manner that expenses and premium taxes are recognized.~~

(21) ~~(23) The commissioner~~ **DIRECTOR OF THE DEPARTMENT** or an

1 authorized representative of the ~~commissioner~~**DIRECTOR OF THE**  
 2 **DEPARTMENT** may visit the association at any time and examine any  
 3 and all **OF** the association's affairs.

4 (22) ~~(24)~~—The association does not have liability for losses  
 5 occurring before July 1, 1978.

6 (23) **THE ASSOCIATION SHALL ONLY DEPOSIT MONEY OF THE**  
 7 **ASSOCIATION WITH A FINANCIAL INSTITUTION THAT MAINTAINS ITS**  
 8 **PRINCIPAL OFFICE OR A BRANCH OFFICE IN THE UNITED STATES. AS USED**  
 9 **IN THIS SUBSECTION, "FINANCIAL INSTITUTION" MEANS A STATE OR**  
 10 **NATIONALLY CHARTERED BANK OR STATE OR FEDERALLY CHARTERED SAVINGS**  
 11 **AND LOAN ASSOCIATION, SAVINGS BANK, OR CREDIT UNION WHOSE DEPOSITS**  
 12 **ARE INSURED BY AN AGENCY OF THE UNITED STATES GOVERNMENT UNDER THE**  
 13 **LAWS OF THIS STATE OR THE UNITED STATES.**

14 (24) ~~(25)~~—As used in this section:

15 (A) **"ASSOCIATION" MEANS THE CATASTROPHIC CLAIMS ASSOCIATION**  
 16 **CREATED IN SUBSECTION (1).**

17 (B) **"BOARD" MEANS THE BOARD OF DIRECTORS OF THE ASSOCIATION**  
 18 **CREATED IN SUBSECTION (9).**

19 (C) ~~(a)~~—"Consumer price index" means the percentage of change  
 20 in the consumer price index for all urban consumers in the United  
 21 States city average for all items for the 24 months prior to  
 22 October 1 of the year ~~prior to~~**BEFORE** the July 1 effective date of  
 23 the biennial adjustment under subsection (2)(k) as reported by the  
 24 United States department of labor, bureau of labor statistics, and  
 25 as certified by the commissioner.

26 (D) ~~(b)~~—"Motor vehicle accident policy" means a policy  
 27 providing the coverages required under section 3101(1).

1           **(E)** ~~(e)~~—"Ultimate loss" means the actual loss amounts that a  
2 member is obligated to pay and that are paid or payable by the  
3 member, and do not include claim expenses. An ultimate loss is  
4 incurred by the association on the date that the loss occurs.