



Senate Fiscal Agency  
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## BILL ANALYSIS



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Senate Bill 898 (as passed by the Senate)  
Sponsor: Senator Joe Hune  
Committee: Insurance

Date Completed: 8-6-18

### **RATIONALE**

The Insurance Code requires a captive insurance company, by March 1 of each year, to submit to the Director of the Department of Insurance and Financial Services (DIFS) a report of its financial condition, verified by oath of two of its executive officers. The Code specifies that the company may report using one of two methods: generally accepted accounting principles (GAAP) or statutory accounting principles (SAP). Evidently, another financial reporting method, the international financial report standards (IFRS), is commonly used worldwide. Some believe that using the IFRS would simplify accounting procedures for Michigan domestic captive insurers and make Michigan a more attractive place for those insurers to operate. It has been suggested that the Code be amended to allow captive insurance companies to submit their financial reports to the Director using IFRS.

### **CONTENT**

**The bill would amend the Insurance Code to modify the deadline by which a captive insurance company must submit a report on its financial condition to the Director of the Department of Insurance and Financial Services, and allow a captive insurer to report using international financial reporting standards with the Director's permission.**

Specifically, the bill would require the report to be submitted not later than 60 days after the end of a captive insurance company's fiscal year, instead of by March 1 of each year.

The Code permits a captive insurance company to report using GAAP or, with the approval of the Director, SAP, with useful or necessary modifications or adaptations required or approved or accepted by the Director for the type of insurance and kinds of insurers to be reported on. The bill also would allow a captive insurance company to report using IFRS with the Director's permission.

(The Code defines "captive insurance company" as a pure captive insurance company, association captive insurance company, sponsored captive insurance company, special purpose captive insurance company, or industrial insured captive insurance company authorized under the Code.)

MCL 500.4621

### **BACKGROUND**

According to its website, the IFRS Foundation is a not-for-profit organization that develops a single set of "high-quality, understandable, enforceable and globally accepted accounting standards". The standards are set by the Foundation's standard-setting body. The IFRS Foundation states that it has complete profiles (information about the application and use of IFRS in that jurisdiction) for 166 countries around the world.

The GAAP are standards maintained and updated by several independent boards, such as the Financial Accounting Standards Board.<sup>1</sup> The standards incorporate 10 concepts: principles of regularity, consistency, sincerity, permanence of methods, non-compensation, prudence, continuity, periodicity, materiality, and utmost good faith.

The SAP are standards established by the National Association of Insurance Commissioners. According to the Association's website, most insurers authorized to do business in the United States and its territories are required to prepare statutory financial statements in accordance with SAP. The SAP are "designed to assist state insurance departments in the regulation of the solvency of insurance companies". The SAP uses the GAAP framework.

## **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

### **Supporting Argument**

Proper accounting standards are important, as they provide a standardized way of describing a company's financial condition and performance. The modern economic environment requires transnational financial transactions. According to the IFRS Foundation's website, more than one-third of all financial transactions occur across national borders. Without an agreed-upon set of standards, a patchwork of accounting requirements adds unnecessary costs and complexity for businesses and investors worldwide.

The IFRS are used in various jurisdictions globally. The standards enhance international comparability and quality of financial information, strengthen accountability by reducing the information gap between the providers of capital and the people to whom they have trusted their money, and contribute to efficiency by helping investors identify opportunities and risks worldwide.

According to testimony before the Senate Committee on Insurance, Delaware and Vermont currently allow IFRS reporting. The bill would provide Michigan's domestic captive insurers the ability to use a simplified and accepted accounting process and make Michigan's business environment more attractive to captive insurers domiciled elsewhere.

Legislative Analyst: Drew Krogulecki

## **FISCAL IMPACT**

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

Fiscal Analyst: Elizabeth Raczkowski

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<sup>1</sup> "What is GAAP", Accounting.com. Retrieved on 8-6-2018.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.