



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bill 638 (Substitute S-1 as reported)
Sponsor: Senator Margaret E. O'Brien
Committee: Insurance

CONTENT

The bill would amend Chapter 11 (Reinsurance) of the Insurance Code to do the following:

- Revise requirements for a ceding insurer to receive credit for reinsurance as either an asset or a reduction from liability.
- Allow a ceding insurer to receive credit for reinsurance if the reinsurance were ceded to an assuming insurer domiciled in a state that employed reinsurance credit standards similar to Michigan's, or to an assuming insurer that had been certified by the Director of the Department of Insurance and Financial Services, and met other requirements.
- Allow the Director to suspend or revoke the reinsurer's accreditation or certification if an accredited or certified reinsurer ceased to meet the requirements for accreditation or certification, and establish the suspension or revocation procedure.
- Require a ceding insurer to take steps to manage its reinsurance recoverable assets proportionate to its own book of business, and to diversify its reinsurance program.
- Require a domestic ceding insurer to notify the Director within 30 days after reinsurance recoverable assets from any assuming insurer exceeded 50% of the domestic ceding insurer's last reported surplus to policyholders.
- Require a domestic ceding insurer to notify the Director within 30 days after ceding to any assuming insurer more than 20% of the ceding insurer's gross written premium in the prior calendar year.
- Allow the Director to promulgate rules with regard to specific reinsurance agreements.
- Specify that any asset or reduction from liability for reinsurance ceded would be allowed only to the extent that it was consistent with any rules promulgated by the Director.

MCL 500.1103 et al.

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would have a negative fiscal impact on the Department of Insurance and Financial Services due to an increase of duties assigned to the Director. Those new duties would include the creation of a list of qualified jurisdictions under which an assuming insurer was eligible to be considered for certification, ongoing evaluation of a reinsurance supervisory system of a jurisdiction, provision of qualifying documentation for a jurisdiction that was not approved by the National Association of Insurance Commissioners, assignment of a rating system for certified reinsurers, credit adjustment when the Director found that the security of a reinsurer was insufficient, provision of notice and an opportunity for a hearing for a reinsurer before the suspension of that reinsurer's certification. It is likely that the increased costs associated with the increased duties would be absorbed by the Department.

The bill would have no fiscal impact on local units of government.

Date Completed: 11-5-17

Fiscal Analyst: Michael Siracuse

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Bill Analysis @ www.senate.michigan.gov/sfa

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