

# HOUSE BILL No. 4427

February 24, 2009, Introduced by Reps. Segal, Jackson, Smith, Switalski, Bauer, Durhal and Liss and referred to the Committee on Insurance.

A bill to amend 1956 PA 218, entitled "The insurance code of 1956," by amending sections 134 and 3104 (MCL 500.134 and 500.3104), section 134 as amended by 1990 PA 256 and section 3104 as amended by 2002 PA 662.

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1           Sec. 134. (1) Every certificate of authority or license in  
2 force immediately prior to January 1, 1957 and existing under any  
3 act repealed by this act is valid until its original expiration  
4 date, unless earlier terminated in accordance with this act.

5           (2) Any plan of operation adopted by an association or  
6 facility, and any premium or assessment levied against an insurer

1 member of that association or facility, is hereby validated  
2 retroactively to the date of its original adoption or levy and  
3 ~~shall continue~~**CONTINUES** in force and effect according to the terms  
4 of the plan of operation, premium, or assessment until otherwise  
5 changed by the commissioner or the board of directors of the  
6 association or facility pursuant to this act.

7 (3) An association or facility or the board of directors of  
8 the association or facility is not a state agency and the money of  
9 an association or facility is not state money.

10 (4) ~~A~~**EXCEPT AS OTHERWISE PROVIDED IN SECTION 3104, A** record  
11 of an association or facility ~~shall be exempted~~**IS EXEMPT** from  
12 disclosure pursuant to section 13 of the freedom of information  
13 act, ~~Act No. 442 of the Public Acts of 1976, being section 15.243~~  
14 ~~of the Michigan Compiled Laws~~**1976 PA 442, MCL 15.243.**

15 (5) Any premium or assessment levied by an association or  
16 facility, or any premium or assessment of a similar association or  
17 facility formed under a law in force outside this state, is not a  
18 burden or special burden for purposes of a calculation under  
19 section 476a, and any premium or assessment paid to an association  
20 or facility shall not be included in determining the aggregate  
21 amount a foreign insurer pays to the commissioner under section  
22 476a.

23 (6) As used in this section, "association or facility" means  
24 an association of insurers created under this act and any other  
25 association or facility formed under this act as a nonprofit  
26 organization of insurer members, including, but not limited to, the  
27 following:

1 (a) The Michigan worker's compensation placement facility  
2 created under chapter 23.

3 (b) The Michigan basic property insurance association created  
4 under ~~section~~ **CHAPTER** 29.

5 (c) The catastrophic claims association created under chapter  
6 31.

7 (d) The Michigan automobile insurance placement facility  
8 created under chapter 33.

9 (e) The Michigan life and health insurance guaranty  
10 association created under chapter 77.

11 (f) The property and casualty guaranty association created  
12 under chapter 79.

13 (g) The assigned claims facility created under section 3171.

14 Sec. 3104. (1) An unincorporated, nonprofit association to be  
15 known as the catastrophic claims association, hereinafter referred  
16 to as the association, is created. Each insurer engaged in writing  
17 insurance coverages that provide the security required by section  
18 3101(1) within this state, as a condition of its authority to  
19 transact insurance in this state, shall be a member of the  
20 association and ~~shall be~~ **IS** bound by the plan of operation of the  
21 association. Each insurer engaged in writing insurance coverages  
22 that provide the security required by section 3103(1) within this  
23 state, as a condition of its authority to transact insurance in  
24 this state, shall be considered a member of the association, but  
25 only for purposes of premiums under subsection (7) (d). Except as  
26 expressly provided in this section, the association is not subject  
27 to any laws of this state with respect to insurers, but in all

1 other respects the association is subject to the laws of this state  
2 to the extent that the association would be if it were an insurer  
3 organized and subsisting under chapter 50.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

24 (6) If a member has been merged or consolidated into another  
25 insurer or another insurer has reinsured a member's entire business  
26 that provides the security required by section 3101(1) in this  
27 state, the member and successors in interest of the member remain

1 liable for the member's obligations.

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

4 (a) Assume 100% of all liability as provided in subsection  
5 (2).

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

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

20 (d) In a manner provided for in the plan of operation,  
21 calculate and charge to members of the association a total premium  
22 sufficient to cover the expected losses and expenses of the  
23 association that the association will likely incur during the  
24 period for which the premium is applicable. The premium shall  
25 include an amount to cover incurred but not reported losses for the  
26 period and may be adjusted for any excess or deficient premiums  
27 from previous periods. Excesses or deficiencies from previous

1 periods may be fully adjusted in a single period or may be adjusted  
2 over several periods in a manner provided for in the plan of  
3 operation. Each member shall be charged an amount equal to that  
4 member's total written car years of insurance providing the  
5 security required by section 3101(1) or 3103(1), or both, written  
6 in this state during the period to which the premium applies,  
7 multiplied by the average premium per car. The average premium per  
8 car shall be the total premium calculated divided by the total  
9 written car years of insurance providing the security required by  
10 section 3101(1) or 3103(1) written in this state of all members  
11 during the period to which the premium applies. A member shall be  
12 charged a premium for a historic vehicle that is insured with the  
13 member of 20% of the premium charged for a car insured with the  
14 member. As used in this subdivision:

15 (i) "Car" includes a motorcycle but does not include a historic  
16 vehicle.

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

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

23 (i) Require payment of the premium in full within 45 days after  
24 the premium charge.

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

27 (f) Receive and distribute all sums required by the operation

1 of the association.

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

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

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

19 (b) Reinsure all or any portion of its potential liability  
20 with reinsurers licensed to transact insurance in this state or  
21 approved by the commissioner.

22 (c) Provide for appropriate housing, equipment, and personnel  
23 as may be necessary to assure the efficient operation of the  
24 association.

25 (d) Pursuant to the plan of operation, adopt reasonable rules  
26 for the administration of the association, enforce those rules, and  
27 delegate authority, as the board considers necessary to assure the



1 proper administration and operation of the association consistent  
2 with the plan of operation.

3 (e) Contract for goods and services, including independent  
4 claims management, actuarial, investment, and legal services, from  
5 others within or without this state to assure the efficient  
6 operation of the association.

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

9 (g) Perform other acts not specifically enumerated in this  
10 section that are necessary or proper to accomplish the purposes of  
11 the association and that are not inconsistent with this section or  
12 the plan of operation.

13 (9) A board of directors is created, hereinafter referred to  
14 as the board, which ~~shall be~~ **IS** responsible for the operation of  
15 the association consistent with the plan of operation and this  
16 section.

17 (10) The plan of operation shall provide for all of the  
18 following:

19 (a) The establishment of necessary facilities.

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

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

23 (d) Procedures governing the actual payment of premiums to the  
24 association.

25 (e) Reimbursement of each member of the board by the  
26 association for actual and necessary expenses incurred on  
27 association business.

1 (f) The investment policy of the association.

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

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

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

15 (13) The board shall consist of 5 directors, and the  
16 commissioner shall be an ex officio member of the board without  
17 vote.

18 (14) Each director shall be appointed by the commissioner and  
19 shall serve until that member's successor is selected and  
20 qualified. The chairperson of the board shall be elected by the  
21 board. A vacancy on the board shall be filled by the commissioner  
22 consistent with the plan of operation.

23 (15) After the board is appointed, the board shall meet as  
24 often as the chairperson, the commissioner, or the plan of  
25 operation shall require, or at the request of any 3 members of the  
26 board. The chairperson shall retain the right to vote on all  
27 issues. Four members of the board constitute a quorum.

1           (16) An annual report of the operations of the association in  
2 a form and detail as may be determined by the board shall be  
3 furnished to each member.

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

14           (18) The plan of operation, unless approved sooner in writing,  
15 shall be considered to meet the requirements of this section if it  
16 is not disapproved by written order of the commissioner within 30  
17 days after the date of its submission. Before disapproval of all or  
18 any part of the proposed plan of operation, the commissioner shall  
19 notify the board in what respect the plan of operation fails to  
20 meet the requirements and objectives of this section. If the board  
21 fails to submit a revised plan of operation that meets the  
22 requirements and objectives of this section within the 30-day  
23 period, the commissioner shall enter an order accordingly and shall  
24 immediately formulate and place into effect a plan consistent with  
25 the requirements and objectives of this section.

26           (19) The proposed plan of operation or amendments to the plan  
27 of operation are subject to majority approval by the board,

1 ratified by a majority of the membership having a vote, with voting  
2 rights being apportioned according to the premiums charged in  
3 subsection (7)(d) and are subject to approval by the commissioner.

4 (20) Upon approval by the commissioner and ratification by the  
5 members of the plan submitted, or upon the promulgation of a plan  
6 by the commissioner, each insurer authorized to write insurance  
7 providing the security required by section 3101(1) in this state,  
8 as provided in this section, is bound by and shall formally  
9 subscribe to and participate in the plan approved as a condition of  
10 maintaining its authority to transact insurance in this state.

11 (21) The association is subject to all the reporting, loss  
12 reserve, and investment requirements of the commissioner to the  
13 same extent as would a member of the association.

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

17 (23) The commissioner or an authorized representative of the  
18 commissioner may visit the association at any time and examine any  
19 and all the association's affairs.

20 (24) The association does not have liability for losses  
21 occurring before July 1, 1978.

22 **(25) THE BUSINESS THAT THE BOARD MAY PERFORM SHALL BE**  
23 **CONDUCTED AT A MEETING OF THE BOARD AS IF THE BOARD WERE A PUBLIC**  
24 **BODY UNDER THE OPEN MEETINGS ACT, 1976 PA 267, MCL 15.261 TO**  
25 **15.275.**

26 **(26) A WRITING PREPARED, OWNED, USED, IN THE POSSESSION OF, OR**  
27 **RETAINED BY THE BOARD IN THE PERFORMANCE OF AN OFFICIAL FUNCTION IS**

1 SUBJECT TO THE FREEDOM OF INFORMATION ACT, 1976 PA 442, MCL 15.231  
2 TO 15.246, AS IF THE BOARD WERE A PUBLIC BODY UNDER THE FREEDOM OF  
3 INFORMATION ACT, 1976 PA 442, MCL 15.231 TO 15.246.

4 (27) AN INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT APPOINTED BY  
5 THE COMMISSIONER SHALL ANNUALLY CONDUCT AND DELIVER TO THE  
6 COMMISSIONER AND TO THE SENATE AND HOUSE OF REPRESENTATIVES  
7 STANDING COMMITTEES ON INSURANCE ISSUES AN AUDIT OF THE  
8 ASSOCIATION. IN CONDUCTING THE AUDIT, THE APPOINTED CERTIFIED  
9 PUBLIC ACCOUNTANT SHALL HAVE ACCESS TO ALL RECORDS OF THE  
10 ASSOCIATION. EACH AUDIT REQUIRED BY THIS SUBSECTION SHALL INCLUDE A  
11 DETERMINATION OF WHETHER THE ASSOCIATION IS LIKELY TO BE ABLE TO  
12 CONTINUE TO MEET ITS OBLIGATIONS.

13 (28) ~~(25)~~As used in this section:

14 (a) "Consumer price index" means the percentage of change in  
15 the consumer price index for all urban consumers in the United  
16 States city average for all items for the 24 months prior to  
17 October 1 of the year prior to the July 1 effective date of the  
18 biennial adjustment under subsection (2)(k) as reported by the  
19 United States department of labor, bureau of labor statistics, and  
20 as certified by the commissioner.

21 (b) "Motor vehicle accident policy" means a policy providing  
22 the coverages required under section 3101(1).

23 (c) "Ultimate loss" means the actual loss amounts that a  
24 member is obligated to pay and that are paid or payable by the  
25 member, and do not include claim expenses. An ultimate loss is  
26 incurred by the association on the date that the loss occurs.

27 Enacting section 1. This amendatory act does not take effect

- 1 unless Senate Bill No.\_\_\_\_ or House Bill No.\_\_\_\_ (request no.
- 2 01119'09 a) of the 95th Legislature is enacted into law.