Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 777 (as reported without amendment)
Sponsor: Senator Rebekah Warren
Committee: Families, Seniors and Human Services

CONTENT

The bill would add Chapter 41C (Life Insurance and Annuity Replacement) to the Insurance Code to do the following:

-- Establish procedures for insurance producers and insurers to determine whether an applicant for a life insurance policy or contract or annuity had an existing policy.
-- Prescribe requirements regarding the notification of an applicant or policy or contract owner of his or her rights regarding replacement policies and contracts.
-- Prescribe requirements regarding the disclosure and documentation of sales materials used by an insurance producer in connection with a replacement.
-- Require notification of a person's existing insurer in connection with a replacement.
-- Require an insurer to maintain a system of supervision and control to ensure compliance with Chapter 41C, and monitor each of its producer's existing policy and contract replacements.
-- Prescribe specific requirements for replacing insurers and existing insurers.
-- Establish insurer requirements in the case of an application initiated as a result of a direct response solicitation.
-- Prescribe penalties for a violation of Chapter 41C, and provide that a violation would be an unfair trade practice under the Code.

Proposed MCL 500.4191-500.4199 Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would likely have a small fiscal impact on the Department of Licensing and Regulatory Affairs. Under current law, people who engage in unfair practices prohibited under the Insurance Code can be subject to penalties of up to $500 per violation, for an aggregate total of up to $5,000. If the violation was willful, the maximum total penalties can add up to $25,000. Under the bill, insurers or insurance producers who violated Chapter 41C would be subject to these penalties. To the extent that these new regulations resulted in additional violations, the Department could collect additional penalty revenue. Penalty revenue would be credited to the Insurance Licensing and Regulation Fund.

Additionally, the bill would require the Office of Financial and Insurance Regulation to adopt forms to satisfy various notice requirements of the bill. Some small administrative costs could be associated with this, though the bill would require the forms to substantially follow those published by the National Association of Insurance Commissioners, so much of the development cost could be mitigated.

Date Completed: 10-27-11 Fiscal Analyst: Josh Sefton