Office of Financial and Insurance Regulation

Ottawa Building, 611 W. Ottawa St. Lansing, Michigan

WHO WE ARE

OFIR currently has 362 employees, who are responsible for the regulation of a wide variety of financial service and insurance entities and individual licensees, including:

- **Blue Cross Blue Shield**
- **25 Health Maintenance Organizations**
- **171 domestic (Michigan based) insurance companies**
- **1,458 foreign insurance companies**
- **113 state chartered banks**
- **200 state chartered credit unions**
- **1,799 investment advisers**
- **2,044 securities broker-dealers**
- **6,172 consumer finance lenders**
- **171,443 insurance agents**
- **122,642 securities agents**
- **674 payday lenders**

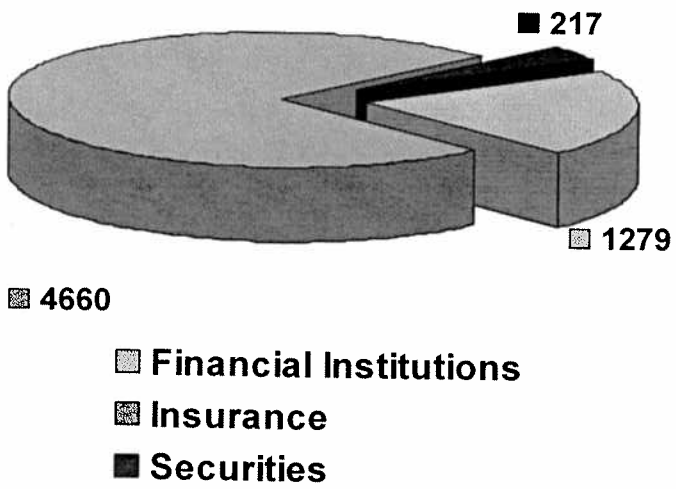
WHO ARE OFIR'S CUSTOMERS

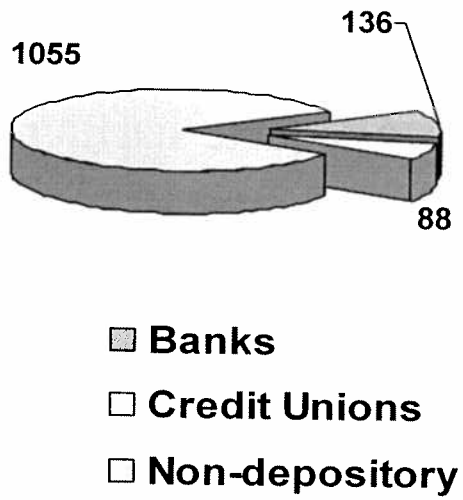
The Office of Financial and Insurance Regulation (OFIR) has a variety of customers, including:

- Michigan citizens
- Michigan Legislators and the Governor
- Other state departments and agencies
- Insurance carriers (including Blue Cross Blue Shield of Michigan, HMOs, MEWAs, surplus lines insurers, and alternative financing and delivery systems)
- Depository institutions (banks and credit unions)
- Consumer lenders
- Insurance agents; Securities agents and broker dealers
- Entities making securities offerings under Michigan law
- National regulatory associations with which OFIR participates

Working for Michigan Consumers

OFIR Consumer Services Division reviews approximately 6,000 complaints per year.





State Based Insurance Regulation

- State-based regulation
  - Coordination
  - Duplication
  - Checks and balances
    - Multiple eyes looking for problems
- Role of the NAIC

Michigan Premium Volume

Premium Volume by Type of Insurer (2009)

• Life/Health	$20,194,229,616
• Property/Casualty	$13,382,375,548
• Health	$17,129,703,860
• Fraternal	$ 416,452,946
• Title	$ 215,468,720
• All Other	$ 28,366,582
• Total	**$51,402,597,272** ($51 billion premium volume)

- **Michigan ranked 10th in overall premium volume in 2009.**

NAIC 2009 Insurance Department Resource Report

Michigan Premium Volume

2009 Premium Volume by Jurisdiction – Top 25 (in millions US $)

1 Japan	$505,956	11.32%	14 Spain	$82,775	1.85%
2 United Kingdom	$309,241	6.92%	**15 Pennsylvania**	**$81,490**	**1.82%**
3 France	$283,070	6.33%	16 India	$65,085	1.46%
4 Germany	$238,366	5.33%	17 Taiwan	$63,647	1.42%
5 Italy	$169,360	3.79%	**18 Illinois**	**$60,435**	**1.35%**
6 PR China	$163,047	3.65%	19 Australia	$60,317	1.35%
7 New York	**$150,472**	**3.37%**	**20 New Jersey**	**$56,059**	**1.25%**
8 California	**$121,196**	**2.71%**	**21 Ohio**	**$55,282**	**1.24%**
9 Florida	**$102,578**	**2.30%**	**22 Michigan**	**$51,402**	**1.16%**
10 Netherlands	$108,144	2.42%	23 Brazil	$48,760	1.09%
11 Texas	**$99,681**	**2.23%**	24 Switzerland	$48,470	1.08%
12 Canada	$98,840	2.21%	25 Ireland	$44,598	1.00%
13 South Korea	$91,963	2.06%			

Worldwide Total **$4,469,275** **($4.4 TRILLION)**

Sources: NAIC Financial Database for USA and Swiss Re Sigma No. 2/2010 for the remainder.

2009 Premium Volume -- Worldwide (An Alternative Look)

What is insurance?

What is insurance?

A contractual transfer of risk from one party to another, for a premium.

Why buy insurance?

To reduce financial exposure to potential risks.

Examples

Risk	Product
Home / Goods protection	Home insurance policy (fire, weather events, theft, premise liability)
Car accident	Auto policy (PIP, comprehensive, collision)
Medical condition	Health insurance
Income loss on death	Life insurance
Clouded real property title	Title insurance

Types of Insurance

Life Insurance

- **Permanent life insurance** (universal life, variable universal life and whole life)
  - Provides long-term financial protection.
  - Death benefit and, in some cases, value
  - Because of the savings element, premiums tend to be higher.
- **Term insurance**
  - Covers you for term of one or more years
  - Pays death benefit only if you die in that term
  - Generally offers largest insurance protection per dollar
  - Does not build up cash value
  - May not be renewable

Auto Insurance Basics

Michigan No-Fault

In 1973, automobile insurance became compulsory for drivers in Michigan with the advent of the no-fault system.

The no-fault system was adopted to:

- provide a high level of benefits available to injured motorists,
- make sure payments were made promptly, and
- reduce the proportion of premium dollars paid out for legal costs.

Auto Insurance Basics

Optional Coverage

- **Collision and Comprehensive Insurance**
  Damage to your vehicle will only be covered if you purchase collision and comprehensive coverage.

- **Collision Insurance**
  This coverage pays for repairs to your car when it is damaged in a crash. There are three basic kinds of collision insurance:

  -**Broad form** collision pays for damages regardless of fault, with a deductible that applies only if you are substantially at fault
  -**Standard collision** pays for damages regardless of fault, with a deductible that always applies
  -**Limited collision** pays only if you are not substantially at fault, and may or may not have a deductible

- **Comprehensive Insurance**
  This coverage pays for your car if it is stolen or for repairs if it is damaged by a falling object, fire, flood, vandalism, or collision with an animal.

- **Uninsured/Underinsured Motorist Coverage (UM/UIM)**
  This coverage will pay if you are seriously injured or killed by an uninsured/underinsured motorist.

Home Insurance

- **Additional Living Expenses**
  This coverage pays for additional living expenses incurred because of a loss on the property.

- **Liability**
  Protection against lawsuits, for example, from someone being injured on your property. Pays for your legal defense if you are sued.

- **Medical Payments**
  This coverage pays for immediate care, such as first aid, ambulance charge, etc., for someone who is hurt on your property.

- **Property of Others**
  Coverage against the physical damage to the property of others caused by the insured.

Other Key Pieces in the Michigan Insurance Puzzle

- **Michigan Catastrophic Claims Association (MCCA)**
  - Statutorily created auto reinsurer www.michigancatastrophic.com

    This non-profit non-governmental association was created by the state legislature in 1978 to cover automobile insurance personal injury protection (PIP) claims over a certain dollar threshold (currently $480,000) for each person injured by an automobile accident covered by a Michigan no-fault policy. An injured person submits his/her PIP claim to the responsible insurer who pays the claim and then seeks reimbursement from the MCCA for costs over the threshold. The current MCCA assessment is $143.09 per vehicle—a decade ago it was $5.60.
- **Michigan Auto Insurance Placement Facility (MAIPF)**
  - Auto residual facility

    The Michigan Automobile Insurance Placement Facility (Facility) is a non-profit non-governmental association formed by the Legislature in 1969 to provide auto insurance to Michigan consumers who cannot obtain coverage from private insurers. It will accept most people who pay the premium that it charges; however Chapter 33 of the Michigan Code allows it to refuse certain applicants based on their risk background. A person who is eligible for coverage with private insurers can also obtain coverage with the Facility.

Other Key Pieces in the Michigan Insurance Puzzle

- **Michigan Assigned Claims Facility – Secretary of State**
  - Handles claims where there is no other insurance

    The State of Michigan established the Assigned Claims Plan in 1973 to provide financial help to people injured by an uninsured driver, who have no insurance coverage of their own. The Plan is administered by the Michigan Department of State, under authority of the No-Fault Insurance Law (MCL 500.3171)

    Eligibility

    Any person (Michigan resident or not) who is injured in an accident in Michigan, either while riding in or being struck by an uninsured Michigan-registered vehicle, and who has no insurance to pay the resulting bills. If a person dies under these circumstances, a survivor may also apply to Assigned Claims for benefits.

    Motorcyclists are eligible if they have been in an accident with an uninsured motor vehicle (not another motorcycle), and do not have other insurance to cover the resulting medical expenses.

    Benefits are not available from Assigned Claims to the owner (registrant) of an uninsured car or motorcycle who was injured in an accident while driving or riding in his or her own vehicle or motorcycle. Drivers of stolen cars or motorcycles are *not eligible* for benefits.

Rate & Form Review in Michigan

	Rate Review	Form Review	Review Method	Rate Review Standards	Form Review Standards
Health Maintenance Organizations	Yes All Rates	Yes All Forms	Prior Approval – 60 Days Rates, forms, and methodologies must be filed and approved before becoming effective. **Rates must be fair, sound, and reasonable in relation to the services provided.**	500.3519	500.3501 Chapter 22, 34
Blue Cross Blue Shield of MI	Yes All Rates	Yes All Forms	Prior Approval of forms w/rates - 30 days 550.1607(1),(2),(3) using standards found in 550.1608 – 1610 Rates, forms, and methodologies must be filed and approved before becoming effective. **All lines of business (group, non-group, group conversion, Medicare supplemental) must be self-sustaining and equitable, adequate, and not excessive.** ***Exception is collective bargaining**	550.1609	550.1607
Blue Cross Blue Shield of MI	Yes All Rates	N/A	Prior Approval of rates - 90 days for individual lines and group methodologies	550.1608 - 1610	N/A

Rate & Form Review in Michigan

	Rate Review	Form Review	Review Method	Rate Review Standards	Form Review Standards
Commercial Individual Life	No	Yes All Forms	Prior Approval – 30 Days	N/A	Chapters 20, 22, and 40
Commercial Group Life	No	Yes All Forms	Prior Approval – 30 Days	N/A	Chapters 20, 22, and 44
Medicare Supplement	Yes All Rates	Yes All Forms	Prior Approval for Rates – no time limit but procedurally 30 days Prior Approval for Advertising – 45 days Prior Approval for Forms – 30 days	500.3847, 500.3849 500.2236 (time frame for rates and forms)	500.3815

- Exception is collective bargaining

Rate & Form Review in Michigan

	Rate Review	Form Review	Review Method	Rate Review Standards	Form Review Standards
Casualty Insurance,	Yes, except for Exempt Commercial policyholders.	Yes, except for Exempt Commercial policyholders.	For rates and rules, insurer can select "Prior Approval" or "File and Use" method. Forms can only be submitted "Prior Approval" and have a 30 day waiting period. 15 day waiting period before filing becomes effective for filings under 500.2406, extendable by Commissioner for additional period not to exceed 15 days. 500.2408, 500.2416, 500.2418 Alternative filings under 500.2430 subject to Commissioner's review within 15 days of rate filing (500.2430)	MCL 500.2403	MCL 500.2236, 500.2236(8); Order No. 10-005-M; Chapter 22 Generally. A few types of coverage are automatically exempt from filing.

Rate & Form Review in Michigan

	Rate Review	Form Review	Review Method	Rate Review Standards	Form Review Standards
Title Insurance	Yes, except for exempt commercial policyholders	Yes, except for exempt commercial policyholders	For rates and rules, insurer can select "Prior Approval" or "File and Use" method. Forms can only be submitted "Prior Approval" and have a 30 day waiting period. 15 day waiting period before filing becomes effective for filings under 500.2406, extendable by Commissioner for 1 additional period not to exceed 15 days. 500.2408, 500.2416, 500.2418 Alternative filings under 500.2430 subject to Commissioner's review within 15 days of rate filing (500.2430)	MCL 500.7312 MCL 500.2403	MCL 500.7313 MCL 500.2236, 500.2236(8)(e); Order No. 10-005-M; Chapter 22 Generally.
Property Insurance	Yes, except for exempt commercial policyholders	Yes, except for exempt commercial policyholders	For rates and rules, insurer can select "Prior Approval" or "File and Use" method. Forms can only be submitted "Prior Approval" and have a 30 day waiting period. 15 day waiting period before filing becomes effective for filings under 500.2608, extendable by Commissioner for 1 additional period not to exceed 15 days. 500.2608, 500.2616, 500.2620. Alternative filings under 500.2628 subject to Commissioner's review within 15 days of rate filing (500.2628).	MCL 500.2603	MCL 500.2236, 500.2236(8)(e); Order No. 10-005-M; Chapter 22 Generally. A few types of coverage are Automatically exempt from filing.

Rate Review in Michigan

- **Rate standards for insurance programs required to be filed, including home and personal auto coverage**

All rates shall be made in accordance with the following:

Rates shall not be excessive, inadequate, or unfairly discriminatory

Rate Review in Michigan

Unfairly Discriminatory

A rate for a coverage is unfairly discriminatory in relation to another rate for the same coverage if

- the differential between the rates is not reasonably justified by differences in losses, expenses, or both, or by differences in the uncertainty of loss, for the individuals or risks to which the rates apply.
- A reasonable justification shall be supported by
  - a reasonable classification system;
  - by sound actuarial principles when applicable; and
  - by actual and credible loss and expense statistics or,
  - in the case of new coverages and classifications, by reasonably anticipated loss and expense experience.

Risk Based Capital

RBC ACTION LEVELS

- **Company Action Level** 150% to 200%

  In the event of a Company Action Level Event, the commissioner shall require an insurer to prepare and submit an RBC Plan.

  Within sixty (60) days after the submission of an RBC Plan to the commissioner, the commissioner shall notify the insurer whether the RBC Plan is satisfactory.

- **Regulatory Control Level** 100% to 150%

  Require the insurer to prepare and submit an RBC Plan or, if applicable, a Revised RBC Plan;

  Subsequent to an investigation or analysis, issue a Corrective Order.

- **Authorized Control Level** 70% to 100%

  If the commissioner deems it to be in the best interests of the policyholders and creditors of the insurer and of the public, take such actions as are necessary to cause the insurer to be placed under regulatory control under Chapter 81 of the Code.

- **Mandatory Control Level** 70% ACL

  The commissioner shall take such actions as are necessary to place the insurer under regulatory control under Chapter 81 of the Code.

  The commissioner may forego action for up to ninety (90) days after the Mandatory Control Level Event if the commissioner finds there is a reasonable expectation that the Mandatory Control Level Event may be eliminated within the ninety (90) day period.

Hot Topics

- Dodd-Frank
  - FIO
  - FSOC (SIFI - "systemically important financial institutions")
- PPACA
  - High Risk Pool
  - Market Reforms
  - Medical Loss Ratios (MLR)

-Insurance Exchange Planning Process
-Michigan Exchange – run by state or feds?

- Insurance Access & Affordability – personal lines
- Anti-Fraud Initiatives
- Evolving state regulatory system in an increasingly global framework

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