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BILL ANALYSIS

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Senate Bill 1475 (Substitute S-1 as reported)  
Senate Bill 1476 (Substitute S-1 as reported)  
Senate Bill 1477 (Substitute S-2 as reported)  
Senate Bill 1478 (Substitute S-2 as reported)  
Sponsor: Senator Alan Sanborn (S.B. 1475)  
Senator Jim Barcia (S.B. 1476)  
Senator Jud Gilbert, II (S.B. 1477)  
Senator Buzz Thomas (S.B. 1478)  
Committee: Economic Development and Regulatory Reform

Date Completed: 10-30-08

### **RATIONALE**

The 1999 Federal Gramm-Leach-Bliley Act contained a requirement that states enact uniform provisions for licensing insurance agents and businesses. Under that Act, if at least 29 states had not adopted uniform licensing laws by November 2002, a Federal agency would have been created and given the authority to establish a licensing process for all states. In response, the National Association of Insurance Commissioners (NAIC) created the Uniform Producer's Licensing Model Act. After more than 29 states already had adopted the NAIC's uniform act, Michigan enacted Public Act 228 of 2001 to incorporate the tenets of that model legislation into Chapter 12 (Agents, Solicitors, Adjusters, and Counselors) of the Insurance Code. In order to ensure uniformity among the states, the NAIC has been conducting on-site assessments of licensing in states that have adopted the model legislation. Michigan was subject to such an assessment in December 2007. As a result, changes to the agent, or "producer" licensing requirements in Chapter 12 have been recommended.

### **CONTENT**

**The bills would amend Chapter 12 of the Insurance Code to do all of the following:**

**-- Delete the schedule for review of an insurance producer's hours of study.**

- Allow the Commissioner of Financial and Insurance Regulation to establish a schedule for review of license continuance.**
- Revise the membership of the Insurance Agent Education Advisory Council.**
- Revise the instruction that a registered insurance agent program of study must provide, by deleting the specific subjects and, in some cases, reducing the minimum number of hours.**
- Require an applicant for examination for an insurance producer license to have completed a course of study within 12 months, rather than six months, before applying.**
- Allow the exam or program of study requirements for an insurance producer license to be waived for people who had obtained various types of designations, in addition to those currently listed.**
- Require an exam for an insurance producer license to be fair and entry level.**
- Require the Commissioner to prepare and publish an annual report summarizing statistical information relating to life and health insurance producer examinations administered during the preceding calendar year.**

Senate Bill 1475 (S-1) would take effect on January 1, 2010. Senate Bills 1476 (S-1) and 1477 (S-2) would take effect six months after the date of their enactment.

### **Senate Bill 1475 (S-1)**

#### Review Schedule; Continuing Education

The Code requires an insurance producer's accrued hours of study to be reviewed for license continuance every two years, in a specific month based on the last digit of the producer's license number and the first initial of his or her last name. The bill would delete this schedule.

Under the bill, an insurance producer's accrued hours of study would have to be reviewed for license continuance every two years under a schedule established by the Commissioner. The Commissioner could establish a schedule that staggered license continuation dates to apportion them throughout the calendar year. If the system of staggered continuation were adopted, the Commissioner could extend the licensure period for some licensees.

Under the Code, before the review date of each applicable period, an insurance producer wishing to renew his or her license must attend or instruct at least 24 hours of continuing education classes approved by the Commissioner or 24 hours of home study if evidenced by successful completion of course work approved by the Commissioner. The bill would refer to home study or on-line training.

#### Advisory Council

The Code requires the Commissioner to appoint members of the Insurance Agent Education Advisory Council in the Department of Labor and Economic Growth. In addition to other specified members, the Council must include two representatives of the Michigan Association of Life Underwriters, and two representatives of the Professional Independent Insurance Agents of Michigan. The bill, instead, would require two representatives of the National Association of Insurance and Financial Advisors - Michigan, and two representatives of the Michigan Association of Insurance Agents.

### **Senate Bill 1476 (S-1)**

Currently, a registered insurance agent program of study must provide for a minimum number of hours of classroom instruction or its equivalent in home study or on-line courses, as follows:

- For a program of study for health insurance agents, 14 hours of instruction on the principles of health insurance.
- For a program of study for life insurance agents, 20 hours of instruction on the principles of life insurance.
- For a combined program of study for life and health insurance agents, 14 hours of instruction on the principles of health insurance and 20 hours on the principles of life insurance.
- For a program of study for property and casualty insurance agents and solicitors, 12 hours of instruction on the principles of property insurance and 22 hours on the principles of liability insurance.

Each of these programs of study also must provide for six hours of instruction on the requirements of the insurance laws of the State.

The bill would delete these provisions, and instead require a registered insurance agent program of study to provide for 20 hours of classroom instruction or its equivalent in home study or on-line courses for programs of study for the following:

- Health insurance producers.
- Life insurance producers.
- Property insurance producers and solicitors.
- Casualty insurance producers and solicitors.
- Personal lines producers.

A registered insurance agent program of study would have to provide for 40 hours of classroom instruction or its equivalent in home study or on-line courses for the following:

- A combined program of study for life and health insurance producers.
- A program of study for property and casualty and personal lines producers and solicitors.

### **Senate Bill 1477 (S-2)**

Under the Code, a resident individual applying for an insurance producer license must pass a written examination unless exempt under Section 1206a (which pertains to a person previously licensed for the same qualifications in another state). An exam may not be given unless the applicant has completed a registered program of study. An applicant must file with the Commissioner of Financial and Insurance Regulation a certification of completion indicating that the course of study was completed not more than six months before the Commissioner receives the application for examination. The bill would increase that period to 12 months.

The Code allows the Commissioner to waive the applicable exam or program of study requirements for a person who meets any of the criteria specified in the Code. These include having obtained one of the following designations: chartered property and casualty underwriter, chartered life underwriter, certified insurance counselor, accredited advisor in insurance, or chartered financial consultant.

The bill also would allow the Commissioner to waive the applicable exam or program of study requirements for a person who obtained any of the following designations: certified employee benefit specialist, certified financial planner, Fellow Life Management Institute, Life Underwriting Training Council Fellow, registered health underwriter, registered employee benefits consultant, health insurance associate, or associate in risk management.

The Code requires the exam to test the knowledge of the individual concerning the qualifications for which application is made, the duties and responsibilities of an insurance producer, and the insurance laws and regulations of the State. The bill also would require the exam to be "fair and entry level".

### **Senate Bill 1478 (S-2)**

The bill would require the Commissioner of Financial and Insurance Regulation, or his or her designee, to prepare and publish an annual report summarizing statistical information relating to life and health insurance producer examinations

administered during the preceding calendar year. The report would have to be prepared within six months after the bill's effective date and by April 30 each subsequent year.

The report would have to include at least all of the following information:

- The total number of examinees.
- The percentage and number of examinees who passed the exam.
- The mean scaled scores on the exam.
- The standard deviation of scaled scores on the exam.
- The correct answer rate and correlation for each test question and each test form.

MCL 500.1204b & 500.1204c (S.B. 1475)  
500.1204a (S.B. 1476)  
500.1204 (S.B. 1477)  
Proposed MCL 500.1206c (S.B. 1478)

### **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**

The NAIC's uniform licensing standards allow insurance producers in participating states to enter into new markets without additional regulatory burdens. Once an insurance producer achieves licensed status in a state that has adopted the uniform standards, he or she may request licensure in any other participating state without having to start from the beginning with that state's licensing requirements. The bills would further Michigan's goal of achieving uniformity with the national licensing system. By following up on the suggestions resulting from the 2007 NAIC assessment of Michigan's licensing provisions, the legislation would remove barriers for Michigan insurance producers to operate in other participating states. Thus, they would not be at a competitive disadvantage with producers in states where the uniform act has been adopted and reciprocity is available.

**Response:** Senate Bill 1477 (S-2) would require an exam for licensure as an insurance producer to be "fair and entry level" but that term is not defined in the Code or the bill. While there might be consensus on what would constitute entry level standards for licensure, the term "fair"

is too subjective and ambiguous to be a criterion for a licensing exam.

Legislative Analyst: Patrick Affholter

### **FISCAL IMPACT**

#### **Senate Bill 1475 (S-1) & 1476 (S-1)**

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

#### **Senate Bill 1477 (S-2)**

The bill would have no fiscal impact on the Office of Financial and Insurance Regulation (OFIR) within the Department of Labor and Economic Growth. Staff of OFIR have indicated that these changes would bring the program into conformity with national standards.

#### **Senate Bill 1478 (S-2)**

The bill would increase OFIR's costs by a minimal amount to prepare the report on examinees that would be required by the bill. The Office is funded by restricted revenue including insurance licensing and regulation fees.

Fiscal Analyst: Elizabeth Pratt  
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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.