



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bill 298 (Substitute S-1 as reported by the Committee of the Whole) (as enacted)
Sponsor: Senator Virgil Smith
Committee: Insurance

CONTENT

The bill would amend the Insurance Code to designate acting as or using a runner, capper, or steerer to commit insurance fraud as a "fraudulent insurance act" subject to a felony penalty; and revise the method for the establishment of home insurance rates charged by the Michigan Basic Property Insurance Association, i.e., "the pool".

Insurance Fraud. Under the Code, a person who commits a fraudulent insurance act is guilty of a felony punishable by imprisonment for up to four years and/or a fine of up to \$50,000. A person who enters into an agreement or conspiracy to commit a fraudulent insurance act is guilty of a felony, punishable by imprisonment for up to 10 years and/or a maximum fine of \$50,000. Under the bill, acting as or using a runner, capper, or steerer to commit insurance fraud also would be a fraudulent insurance act. "Runner", "capper", or "steerer" would mean a person who receives a pecuniary or other benefit from a practitioner, whether directly or indirectly, for procuring or attempting to procure a client, patient, or customer at the direction or request of, or in cooperation with, a practitioner whose intent is to obtain benefits under an insurance contract or to assert a claim against an insured or an insurer for providing services to the client, patient, or customer. The terms would not include a practitioner who procures clients, patients, or customers through the use of public media. The bill would include an unlicensed health care provider in the definition of "practitioner".

Michigan Basic. Currently, the pool's rates for home insurance must be equal to the weighted average of the 10 voluntary market insurer groups with the largest premium volume in the State. Any change in the rates for an HO 2 form replacement cost policy by those insurers that would produce a change in excess of 5% in the HO 2 pool rates for any territory must be reflected as soon as reasonably practicable in those rates.

Under the bill, instead, the rates would have to be actuarially determined and calculated to generate a total premium sufficient to cover the expected losses and expenses that the pool likely would incur during the projected period for which the rates would be effective, subject to the following:

- If the pool's actuarially indicated overall rate change were greater than 5% but less than or equal to 20%, the pool would have to take half of the actuarially indicated rate change amount.
- If the pool's actuarially indicated overall rate change were greater than 20%, the pool would have to take the full amount that exceeded 20%, plus 10%.
- If the pool's actuarially indicated overall rate change were less than 5%, the pool would have to take the entire indicated rate change amount.

MCL 500.4501 & 500.4503

Legislative Analyst: Julie Cassidy

FISCAL IMPACT

The bill would have an indeterminate fiscal impact on State and local government. To the extent that the additional prohibition led to an increase in convictions related to violations of the Insurance Code, the State and local units of government could incur increased correctional costs. Local governments would incur the costs of incarceration in local facilities, which vary by county. The State would incur the cost of felony probation at an annual average cost of \$2,500, as well as the cost of incarceration in a State facility at an average annual cost of \$34,000. Additional penal fine revenue would benefit public libraries.

Date Completed: 11-29-11

Fiscal Analyst: Matthew Grabowski

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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.