

FOCUS



OFIS

Newsletter of the Michigan Office of Financial and Insurance Services

OFIS Kicks Off Newsletter

The Office of Financial and Insurance Services (OFIS) kicked off its official newsletter, with the issuance of the first edition. This newsletter will be provided to those interested in the activities of OFIS, whether they are consumer-oriented or of a regulatory nature.

OFIS is led by Linda A. Watters, who was named Commissioner of OFIS by Governor Jennifer M. Granholm on April 11, 2003. As Commissioner, she is responsible for the regulation of 139 banks, about 170 domestic insurance companies (including Blue Cross Blue Shield and 30 HMOs), 260 credit unions, about 1,300 foreign insurance companies, 1,583 investment advisors, 2,164 securities broker-dealers, 6,000 consumer finance lenders, 75,000 insurance agents, 120,715 securities agents, 5 savings banks and 4

Business and Industrial Development Companies.

Prior to her appointment as Commissioner, Commissioner Watters worked in the Detroit business community for 25 years, including 14 years in the banking industry. She was the President and Chief Executive Officer of Detroit Commerce Bank, and she held many other positions in the banking industry.

OFIS is part of the Michigan Department of Labor and Economic Growth and is primarily fee-funded, requiring minimal public tax dollars for its regulatory and consumer assistance activities. OFIS has insurance, financial institutions and securities information available online at the OFIS web site, www.michigan.gov/ofis. All information is also available through the OFIS toll free number, 877-999-6442.

Insurance Base Rate and Credit Scoring Rules



OFIS has taken the next step in implementing the new rules regarding lowering insurance base rates for home and auto insurance, as well as eliminating the usage of insurance credit scoring. The rule package has been presented to the legislative Joint Committee on

Administrative Rules (JCAR).

The rules require insurers to reduce the base premium rates charged to all policyholders. In recent years, insurers have increased base rates in order to provide discounts to those policyholders with better credit scores. For new and renewal policies effective on or after July 1, 2005, an insurer will have to perform a simple calculation based on the premium charged in the prior calendar year. This reduction in base rates will result in lower premiums for the majority of consumers.

The rules also prohibit insurers from using credit scores in premium calculations. OFIS Commissioner

Watters has determined that this practice does not reduce loss to insurance companies and is not allowed by Michigan law without a contested case hearing.

JCAR has 15 legislative session days to consider the rule and file a notice of objection. If JCAR does not object, the rules will be filed with the Secretary of State and take effect. If JCAR does object, the Legislature has 15 session days to pass a bill through both houses rejecting the rules. If a bill is not passed in this time, or if a bill is passed and vetoed by the Governor, the rules are filed with the Secretary of State and take effect.

What's Inside:

2 Commissioner's Corner, Bid-Rigging, MI Bank Examiner System

3 New Chief Deputy, Consumer Protection Info

4 New Securities Manager, Bulletins

5 Credit Unions, How to Subscribe

Commissioner's Corner

Welcome to the first edition of *Focus on OFIS*, the quarterly newsletter published by the Office of Financial and Insurance Services (OFIS). This newsletter will provide readers with information of interest to those in the Michigan financial services industry. Articles will touch on issues of all areas within the agency – spanning insurance, consumer finance, depository institutions, regulation and much more.

OFIS offers assistance to consumers with questions or complaints about financial institutions such as credit unions, insurance companies, banks, securities, and HMOs. Most consumers are not aware of the complex changes occurring in the financial industry, and can learn much from the OFIS website or calling our toll free number at 1-877-999-6442. OFIS also works closely with the various industries to provide proper regulation and oversight.

I hope that this newsletter provides information that is useful, and helps to further open the lines of communication between citizens and government.

Sincerely,



Linda A. Watters
OFIS Commissioner



Bid-Rigging

As you may have heard, New York Attorney General Elliot Spitzer recently settled with a major insurance company accused of bid-rigging. This has led to a comprehensive review of insurance companies nationwide who allegedly steer certain bids, and are compensated as a result by the agents and brokers that receive the business. This is done without informing the customers of the practice.

OFIS has opened up an investigation to see if these practices are happening in Michigan. Commissioner Watters has required certain insurance companies to provide information about how bids are given out and how much compensation the companies receive from these agents. She will analyze this information and share it with the National Association of Insurance Commissioners for a more detailed review (in conjunction with other states nationwide).

MI Bank Examiner System Inspires National Model

Many states in recent years have experienced a shortage of examiners. In addition, in some states, there is too little work in certain specialties to occupy an examiner full-time or to keep their skills fresh.

As a result of the early retirement offered to state employees in 2002, Michigan was forced to contract for examination assistance. This was highly successful and is now being used as a model by the Conference of State Bank Supervisors, which has created a national pool of experienced examiners. This pool assists state departments in obtaining bank examination skills in areas such as capital markets, information technology, trust, and loan review. The pool consists of retired state and federal bank examiners as well as currently employed examiners whose departments are willing to make them available to assist other regulators who need their skills. The Michigan-developed request for proposal is also being used as a model to help other states contract for assistance.

LaVolette Selected As Chief Deputy Commissioner

Commissioner Linda A. Watters recently announced that Richard (Dick) Lavolette has been selected to fill the position of Chief Deputy Commissioner in charge of the Office of Financial Evaluation (OFE) for OFIS.



In assuming the Chief Deputy Commissioner position, Lavolette leaves his position as Senior Attorney with the agency. He has been with the agency for over ten years and with the State of Michigan for more than 30 years. While with OFIS and its predecessor, Lavolette lead the state's effort in drafting the Savings Bank Act and drafted and edited various sections of the Banking Code of 1999 and the Credit Union Act. He also worked on proposed legislation and amendments involving mortgage lending, money transmitting, and various

other statutes impacting financial institutions.

OFIS operates under two distinct offices - the Office of Financial Evaluation (OFE) and the Office of Policy, Conduct and Consumer Assistance. OFE, which Lavolette will head, includes the Bank and Trust Division, the Credit Union Division, the Enterprise Monitoring Division, and the Supervisory Affairs and Insurance Monitoring Division.

Lavolette earned Bachelor of Science and a Master of Arts in Education degrees from Northern Michigan University. He received his Juris Doctorate from Wayne State University Law School and is active in numerous continuing education programs. A resident of Dimondale with his wife Patricia, Lavolette is a member of the State Bar of Michigan, the Chair of the 2005 Conference of State Bank Supervisors Legal Seminar, past president of the Charlotte Board of Education, and current president of the Charlotte Optimist Club and a member of numerous other professional and civic organizations.

Consumer Industry Info Online

Do you want to file a consumer complaint against an entity regulated by OFIS, or see prohibition orders and other enforcement actions made on behalf of consumers? Want assistance finding affordable auto or home insurance? Need information about discount health care plans? Want to know more about insurance companies and their policies?

Need to see industry bulletins issued by OFIS? Looking for appropriate state laws and rules governing regulation? Looking for Commissioner's Orders, rulings and communications? Need industry-related forms?

Answers to all of these questions and much more can be found at the OFIS website at www.michigan.gov/ofis.

Consumer Protection Orders

Commissioner Watters has the authority under Michigan law to order businesses and individuals operating illegally in certain industries to cease and desist. This includes insurance, securities, and consumer finance industries, but does not include banking. Through a Commissioner's Order, OFIS is able to revoke licenses and fine those who defraud Michigan consumers. A person who violates a Cease and Desist order is subject to civil fines and license revocation. For example, an insurer may be fined \$10,000 for each violation. Commissioner's enforcement orders are usually issued as a result of a consumer complaint.

Commissioner Watters also participates in national associations related to OFIS activities. Through these efforts, OFIS is actively involved in negotiating settlements with national companies that have taken advantage of Michigan residents. These settlements have returned millions of dollars to consumers and the State of Michigan.

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Linda Cena Takes Over as New OFIS Securities Manager

Commissioner Linda A. Watters announced the hiring of Linda Cena as the new Securities Manager for OFIS and said that Ms. Cena's "expertise in the securities area and her professional experience will be a great asset to the people of Michigan."

Ms. Cena is an accomplished professional with an extensive background in the insurance and securities industry. Ms. Cena has worked in Michigan for Jackson National Life Insurance Company (JNLI) for the last 10 years, where



she was also a key participant in the development of a securities broker/dealer division for JNLI. She supervised a staff that supported the operations of 150 registered representatives and all employees who were security registered. She also supervised a staff that recruited, licensed, and handled Regulatory Element Continuing Education for over 1,000 registered representatives (including licensure, renewals and appropriate documentation and correspondence). Ms. Cena reviewed and approved all business transactions and performed audits to ensure compliance with licensing and regulatory requirements. Before her service with JNLI, Ms. Cena served as Regional Manager, Division Manager, and Registered

Representative for First Investors Corporation of New York for 12 years. She currently lives in Mason, Michigan and has a Bachelor's degree from Michigan State University.

As Securities Manager for OFIS, Ms. Cena will be responsible for the overall direction, development, management and evaluation of the Securities section of OFIS. She will direct and oversee the review of complex registration and exemption applications under the Michigan Uniform Securities Act, which requires the balancing of fairness and disclosure standards with the legitimate capital formation needs of businesses making securities offerings. She will also be responsible for the statewide examination and investigation of securities entities as required by state and federal regulations. Ms. Cena will be leading a staff of 16 full time employees and three students in the Securities section.

Bulletins & Letters Recently Released

(Bulletins and letters can be viewed on the OFIS website at www.michigan.gov/ofis under the Bulletins section.)

January 21, 2005 - Medigap or Medicare Supplemental Coverage of Outpatient Mental Health Services Subject to the Mental Health Payment Reduction (Bulletin No. 2005-01-INS)

January 5, 2005 - Gramm-Leach-Bliley Act of 1999 (GLBA) (Letter No. 2005-CU-01)

December 3, 2004 - 2004 Third Quarter Financial Results for State-Chartered Credit Unions (Letter No. 2004-CU-09)

October 20, 2004 - Creation of a Credit Union Division Public Website (Letter No. 2004-CU-08)

September 29, 2004 - Revision of Date for Rules That Would Reduce Base Rates and Ban Insurance Credit Scoring (Bulletin No. 2004-06-INS)

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New Credit Union Rules Promulgated

In order to implement the recently updated Michigan Credit Union Act, to assure that Credit Unions operate in conformity with the new law and in a safe and sound manner, OFIS recently promulgated new credit union rules. OFIS also rescinded a series of old, outdated credit unions rules. These rules deal with a variety of operational activities of credit unions. They will:

- ✓ assure the Commissioner always has access to records kept for credit unions by record-keeping companies, assuring efficient regulation of credit union activities.
- ✓ authorize issuance of different classes of shares and certain investments (for corporate credit unions).
- ✓ specify record keeping and accounting requirements.
- ✓ establish overdraft standards, consistent with prior rules.
- ✓ specify requirements for delinquent loans and loan and lease loss activity and records.

Many of the prior rules (which were rescinded) were incorporated into the new Michigan Credit Union Act, or into bulletins and letters issued by OFIS. Some prior rules were included in this rule set, though, because they have minor changes.

The promulgated rule is available for perusal at www.michigan.gov/ofis following the Industry Services to the Credit Unions web page.

3rd Quarter CU Info

The Office of Financial and Insurance Services (OFIS) compiles call report information to monitor Michigan state-chartered credit unions, both individually, and in the aggregate. OFIS has issued the Third Quarter Financial Results to all Michigan state-chartered credit unions.

Overall, the financial condition of Michigan state-chartered credit unions remains strong. Directors and management teams must monitor the financial condition of their credit unions on an ongoing basis. Sound risk management includes timely identification of potential risks and adverse trends, and taking appropriate steps to ensure risks are properly managed.

More detailed third quarter information (including charts and graphs) about Michigan credit unions can be found by reading Credit Union Letter 2004-CU-09 posted on the OFIS web site at www.michigan.gov/ofis under Industry Services/Credit Union/Credit Union Letters. If you have questions, please contact the Credit Union Division at 517-373-6930.



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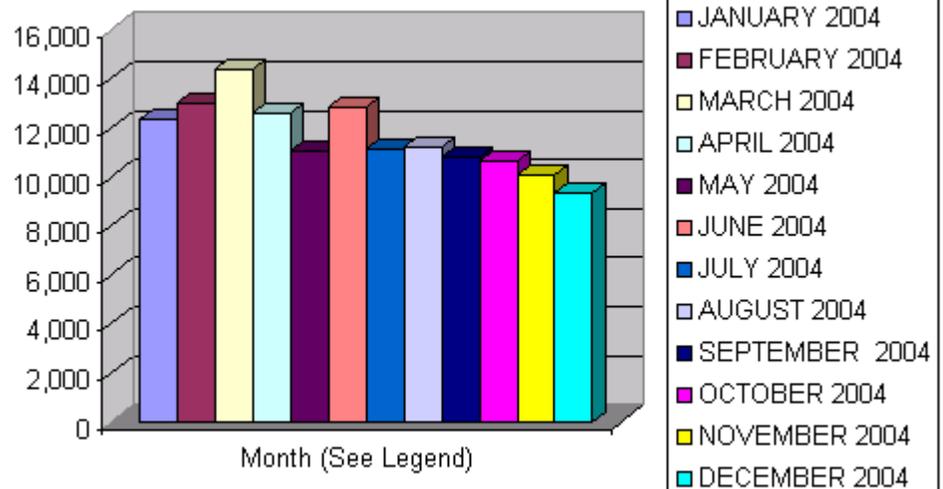
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OFIS Consumer Protection: Communications Center Calls Received

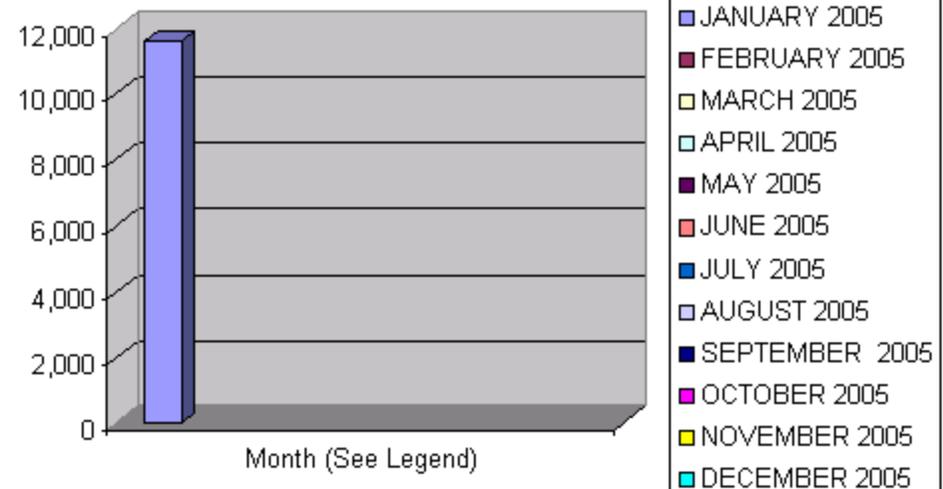
2004 Calls

<u>JANUARY 2004</u>	12,367
<u>FEBRUARY 2004</u>	13,005
<u>MARCH 2004</u>	14,403
<u>APRIL 2004</u>	12,588
<u>MAY 2004</u>	11,040
<u>JUNE 2004</u>	12,841
<u>JULY 2004</u>	11,124
<u>AUGUST 2004</u>	11,197
<u>SEPTEMBER 2004</u>	10,791
<u>OCTOBER 2004</u>	10,636
<u>NOVEMBER 2004</u>	10,061
<u>DECEMBER 2004</u>	9,358



2005 Calls

<u>JANUARY 2005</u>	11,615
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Consumers Dollars Recovered

2004:
\$8,765,576.50

2005 (so far):
January \$1,188,930

OFIS consumer protection actions often result in money recovered for Michigan and Michigan consumers. These recoveries include dollars recovered by OFIS for consumer complaint filed involving insurance, securities, banks, credit unions, mortgage companies.