



STATE OF MICHIGAN

DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES
LANSING

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Report on Insurance Regulatory Fees

Fiscal Year Ended September 30, 2017

May 2018

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Introduction

The Department of Insurance and Financial Services (DIFS) was created by Executive Reorganization Order 2013-1 (ERO 2013-1), MCL 550.991. Among many other significant organizational changes, ERO 2013-1 transferred spending authorization related to the former Office of Financial and Insurance Regulation from the Department of Licensing and Regulatory Affairs to DIFS.

The Michigan Insurance Code (Code), MCL 500.100 *et seq.*, requires insurers to pay the cost of regulating the insurance industry in Michigan through an annual fee referred to as the Insurance Regulatory Fee. Public Act 228 of 1994 authorizes DIFS to assess, collect, and deposit the Insurance Regulatory Fee into a restricted purpose fund (Insurance Bureau Fund).

Section 224(4) of the Code, MCL 500.224(4), requires insurers to pay the Insurance Regulatory Fee instead of reimbursing DIFS for the actual and necessary expenses incurred in connection with the examination and investigation of each individual insurer. This assessment method benefits both insurers and DIFS, as it eliminates the variable nature of the cost of regulation at the individual company level while providing a consistent and stable funding source to pay for insurance regulatory activities. Fees collected and deposited into the Insurance Bureau Fund are only to be expended for insurance regulatory purposes under the Director's authority, pursuant to a legislative appropriation. Any balance remaining in this fund at the close of the fiscal year carries forward to the next fiscal year and does not revert to the state's general fund. MCL 500.225. The ending balance of the Insurance Bureau Fund at the close of Fiscal Year 2016 and carried forward to Fiscal Year 2017 was \$6,933,960.44.

Purpose of the Report

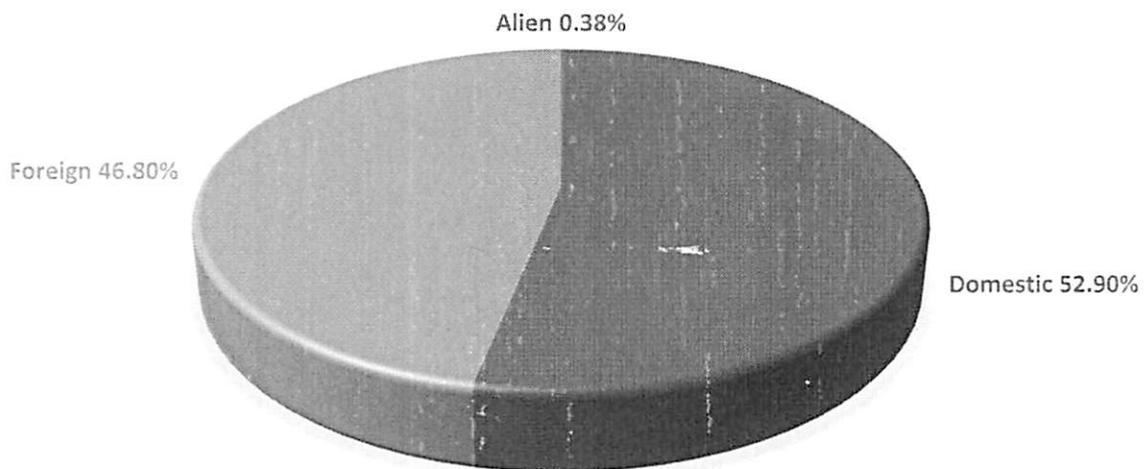
This report covers Fiscal Year 2017, the period from October 1, 2016 through September 30, 2017. Section 224a of the Code, MCL 500.224a, specifies that the Director shall annually report to the Senate and House of Representatives standing committees on insurance issues the following information:

- The revenue raised by the Insurance Regulatory Fee;
- How the Insurance Regulatory Fee collection was spread among domestic, foreign, and alien insurers;
- How the Insurance Regulatory Fees were spent in regulating the domestic, foreign, and alien insurance industry; and
- Whether new regulatory policy is needed to better protect the citizens of Michigan.

Insurance Regulatory Fee Revenue

The Insurance Regulatory Fee revenue actually collected by DIFS in Fiscal Year 2017 pursuant to Section 224 of the Code, MCL 500.224, was \$12,230,071. This amount includes assessments for 2017, as well as any past due assessments collected during the current fiscal year. Michigan domiciled insurers paid 52.90% of the total Insurance Regulatory Fee, or \$6,530,254. Foreign insurers, domiciled in a state other than Michigan, paid 46.80% of the total, or \$5,776,879, while alien (non-U.S.) insurers paid 0.30%, or \$36,796 of the Insurance Regulatory Fee.

2017 INSURANCE REGULATORY FEE REVENUE



Expenditures Funded with the Insurance Regulatory Fee

Statutory Appropriation Limitation

Pursuant to MCL 500.224(4)(a)(v), the total Insurance Regulatory Fee shall not exceed 80% of the gross appropriation for DIFS's insurance regulatory operations for a fiscal year. This is calculated as the difference between the gross appropriation for the insurance operations for the fiscal year and any restricted revenues, other than the regulatory fee itself, as identified in the gross appropriation.

This statutory requirement was met by DIFS as gross appropriation for Fiscal Year 2017 was \$34,014,700 and the Insurance Regulatory Fee appropriated was 70% or \$23,817,700. The percentage is calculated by dividing the insurance regulatory fee appropriation (\$23,817,700) by the total gross appropriation of all insurance fund sources (\$34,014,700).

Fiscal Year 2017	
Calculation of Statutory Limitation on Appropriated Insurance Regulatory Fee	
Restricted Revenue Appropriated to Fund Insurance Regulatory Operations:	Amount
Insurance Continuing Education Fees	1,085,500
Multiple Employer Welfare Arrangement Fees	282,900
Captive Insurance Fees	286,800
Insurance Regulatory Fee	23,817,700
<u>Insurance Licensing and Regulation Fee</u>	<u>8,541,800</u>
Gross Fee Appropriation for Insurance Operations	34,014,700
Gross Appropriation X 80% = Ceiling	27,211,760
<u>Less: Insurance Regulatory Fees Appropriated</u>	<u>23,817,700</u>
Excess Statutory Ceiling Over Appropriated Insurance Regulatory Fee	3,394,060

Qualified Expenditures

Statutory Expenditure Limitation

The total expenditures from the Insurance Bureau Fund for Fiscal Year 2017 was \$18,715,101. Total expenditures exceed the amount of Insurance Regulatory Fee assessments actually collected in the fiscal year because the Insurance Bureau Fund includes revenue streams from other sources (e.g. surplus lines fees, market conduct fees, insurance licensing fees, etc.).

Section 224(5) of the Code, MCL 500.224(5), requires that not less than 67% of the Insurance Regulatory Fee revenue be spent on the regulation of financial conduct, health care, and health insurance for persons under the Director's authority in Michigan. The percentage of qualifying financial conduct, health care, and health insurance expenditures in Fiscal Year 2017 was over 83% of the total expenditure, thus meeting the statutory requirement on expenditures from the fund.

Expenditures from the Insurance Bureau Fund for Fiscal Year 2017 were allocated as follows:

Regulatory Activity	Percentage
Unclassified Salaries	0.83%
Executive Director Programs	0.86%
Department Services	6.94%
Property Management	1.19%
Rent	0.00%
Worker's Compensation	0.00%
Insurance Evaluation	51.08%
Insurance rates, Forms, and Regulatory Compliance	35.73%
Information Technology Projects and Services	3.37%
TOTAL	100.0%

New Insurance Regulatory Policy

Pursuant to ERO 2013-1, all authority, powers, duties, functions and responsibilities of the Commissioner of OFIR have been transferred to the Director of DIFS. This reorganization of functions was needed due to the rapidly changing insurance and financial environment and the need to protect consumers of insurance and financial services products through public information and effective regulation.

The mission of DIFS is to provide a business climate that promotes economic growth while ensuring that the insurance and financial services industries are safe, sound, and entitled to public confidence. In addition, DIFS provides consumer protection, outreach, and education services to Michigan citizens.

The Legislature sets broad insurance policy for the regulation of insurance in Michigan. These policies are under constant review by DIFS and state insurance laws are improved and revised as needed to boost the quality of oversight of the insurers and to expand consumer protection activities. No new insurance regulatory policy is necessary to protect Michigan consumers at this time.



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