Bulletin No. 98-01

Michigan Catastrophic Claims Association Surplus Return

Issued and entered April 10, 1998 by D. A. D'Annunzio, Acting Commissioner of Insurance

On March 18, 1998, the Michigan Catastrophic Claims Association (MCCA) voted to return $1.2 billion of its surplus to its member insurance companies. The action occurred because the association's surplus increased beyond a level necessary to cover its expected losses and expenses. This increase in surplus was due to lower than expected claims and medical cost inflation, and a higher than expected return on its investments.

The MCCA will complete the return of surplus to its member companies on or before June 30, 1998. Because policyholders are the ultimate payers of the MCCA premium by way of a pass-through of the charge by the member companies, and because this situation is unique and not contemplated by the MCCA Plan of Operation or the Michigan Insurance Code, equity demands that this extraordinary return of MCCA surplus be passed through to policyholders directly and promptly.

Given that the underlying purpose of the return of surplus is to effectively give policyholders an immediate return of premium overcharges, it would be inappropriate for insurers to keep the lump sum payment or to return it to policyholders gradually. Returning the premium gradually can result in a windfall in investment income, as well as create inequities in the marketplace. For example, it would create an unfair competitive advantage for companies choosing to use the money and the investment income it generates to lower rate levels rather than returning the money promptly. It is therefore expected that the return of surplus will be passed through to policyholders directly and promptly in the amount of $180 per vehicle.

The Commissioner is fully aware of the difficulty in identifying every policyholder in the state of Michigan without using a "snapshot" of the market on a particular date. Because the MCCA Board voted on March 18, 1998, returning the surplus to policyholders insured as of March 18, 1998 is logical and eliminates the potential for insureds to move from company to company in order to collect an amount higher than the per car surplus return agreed upon by the MCCA Board.