

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

INSURANCE BUREAU

PROPERTY AND CASUALTY INSURANCE COMPANY RESERVES

(By authority conferred on the commissioner of insurance by sections 810, 815, and 815a of Act No. 218 of the Public Acts of 1956, as amended, being SS500.810, 500.815, and 500.815a of the Michigan Compiled Laws)

R 500.1231 Property and casualty insurers; case basis and bulk loss reserves.

Rule 1. All property and casualty insurers, including mortgage and land contract guaranty insurers, shall compute and maintain adequate case basis and bulk loss reserves. The method used to determine the loss reserve shall accurately reflect loss frequency and loss severity and shall include components for claims reported and unpaid and for claims incurred but not reported.

History: 1982 AACCS.

R 500.1232 Mortgage and land contract guaranty insurers; unearned premium reserves.

Rule 2. (1) The unearned premium reserve for premiums paid in advance on mortgage and land contract guaranty insurance policies covering a risk period of more than 1 year shall be calculated based upon the annual unearned premium factor specified in table 1.

(2) On premiums paid in advance for coverage period in excess of 15 years, the unearned portion of the premium during the first 15 years of coverage shall be the premium collected minus an amount equal to the premium that would have been earned had the applicable premiums for 15 years' coverage been received. The premium remaining after 15 years shall be released from the unearned premium reserve pro rata over the remaining term of coverage.

History: 1982 AACCS.

R 500.1233 Mortgage and land contract guaranty insurers; contingency loss reserves.

Rule 3. (1) Mortgage and land contract guaranty insurers shall establish and maintain a contingency loss reserve for the purpose of protecting insureds against the effect of adverse economic cycles and to permit mortgage guaranty insurers to comply with section 832(e) of the internal revenue code of 1954, as amended.

(2) The annual contribution to the contingency reserve shall be 50% of the earned premium reported in the fire and casualty annual statement.

(3) The contingency reserve shall be maintained for 120 months. That portion of the contingency reserve established and maintained for more than 120 months shall be released and shall no longer constitute part of the contingency reserve.

(4) The total contingency reserve shall be reported as a liability in the financial statement. The change in contingency reserve for the year shall be reported in the financial statement as a deduction from underwriting income. Appropriate entries shall be made in the underwriting and investment exhibit--statement of income of the financial statement of the insurer.

History: 1982 AACCS.

R 500.1234 Table 1.

Rule 4. Table 1 reads as follows:

**Figure for 500.1234**

Contract year current at valuation date	Unearned premiums factor to be applied to premiums in force on valuation date														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2-year coverage period	88.7%	38.7%													
3-year coverage period	93.9%	66.7%	22.9%												
4-year coverage period	95.7%	76.4%	45.2%	14.5%											
5-year coverage period	96.5%	81.0%	56.0%	31.3%	9.8%										
6-year coverage period	97.0%	83.7%	62.2%	41.1%	22.7%	7.1%									
7-year coverage period	97.3%	85.4%	66.2%	47.4%	31.0%	17.1%	5.4%								
8-year coverage period	97.5%	86.5%	68.8%	51.3%	36.2%	23.3%	12.5%	3.8%							
9-year coverage period	97.7%	87.3%	70.4%	53.8%	39.4%	27.2%	16.9%	8.6%	2.5%						
10-year coverage period	97.7%	87.6%	71.3%	55.3%	41.3%	29.5%	19.6%	11.6%	5.6%	1.6%					
11-year coverage period	97.8%	87.9%	71.9%	56.1%	42.5%	30.9%	21.2%	13.3%	7.5%	3.4%	0.9%				
12-year coverage period	97.8%	88.1%	72.3%	56.7%	43.2%	31.8%	22.1%	14.4%	8.6%	4.6%	2.1%	0.6%			
13-year coverage period	97.8%	88.1%	72.5%	57.1%	43.7%	32.3%	22.8%	15.1%	9.3%	5.4%	2.9%	1.3%	0.4%		
14-year coverage period	97.8%	88.2%	72.6%	57.2%	43.9%	32.7%	23.2%	15.5%	9.9%	6.0%	3.5%	1.9%	0.9%	0.3%	
15-year coverage period	97.8%	88.2%	72.6%	57.3%	44.0%	32.8%	23.3%	15.7%	10.1%	6.2%	3.7%	2.1%	1.1%	0.5%	0.1%

History: 1982 AACS.