

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 120

(Chair, Finance Committee)(By Request - Departmental -
Maryland Insurance Administration)

Finance

Health and Government Operations

Insurance - Credit for Reinsurance Model Law - Revisions

This departmental bill adopts changes made to the National Association of Insurance Commissioners' (NAIC) Model Act #785 "Credit for Reinsurance Model Law." Broadly, the bill authorizes the Insurance Commissioner to adopt rules and regulations governing a foreign reinsurer that is not (1) considered a reciprocal jurisdiction; (2) certified as a reinsurer in the State, or (3) certified or licensed in a specific number of states while maintaining at least \$250 million in capital and surplus, as specified.

Fiscal Summary

State Effect: The bill does not materially affect State operations or finances.

Local Effect: None.

Small Business Effect: The Maryland Insurance Administration (MIA) has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment.

Analysis

Bill Summary: Rules and regulations adopted under the bill may apply only to (1) reinsurance relating to specified types of life insurance and annuities or long-term care insurance policies and (2) a treaty containing policies issued on or after January 1, 2015, or a policy issued before that date if the risk is ceded in connection with the treaty after that date. The bill establishes other criteria for how reinsurance may be calculated under the bill and the types of reinsurance that the rules and regulations may apply to, as specified.

Current Law: Generally, in order to be certified by MIA as a reinsurer in the State, an insurer must meet specified requirements, including that the insurer (1) be domiciled and licensed to transact insurance or reinsurance in a qualified jurisdiction; (2) maintain minimum capital and surplus in an amount the Commissioner determines; (3) maintain financial strength ratings from two or more rating agencies, as specified; and (4) agree to submit to the jurisdiction of the State.

The Commissioner must assign a rating to each certified reinsurer based on factors considered relevant, giving due consideration to the financial strength ratings that have been assigned by rating agencies. The Commissioner must publish a list of all certified reinsurers and their ratings.

Chapters 100 and 101 of 2020 adopted other changes to NAIC Model Act #785. Broadly, those chapters defined “covered agreement” and “reciprocal jurisdiction,” required creation and publication of a list of reciprocal jurisdictions and authorized assuming insurers, and specified when credit must be allowed when reinsurance is ceded to an assuming insurer.

Background: Reinsurance is a contract of indemnity between a reinsurer and an insurer. In this contract, an insurance company (ceding insurer), transfers risk to the reinsurance company (assuming insurer), which assumes all or part of one or more insurance policies issued by the ceding insurer. Reinsurers themselves may also buy reinsurance protection, which is called retrocession. This is done to further spread risk and reduce the impact of catastrophic loss events.

The purpose of the NAIC Model Act is to ensure adequate regulation of insurers and reinsurers and adequate protection for those to whom they owe obligations. MIA advises that the bill reflects recent changes to the Model Act and that adopting these changes is an accreditation requirement by NAIC for Maryland’s continued acceptance as a qualifying examination agency.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Maryland Insurance Administration; Department of Legislative Services

Fiscal Note History: First Reader - January 12, 2021
rh/jc Third Reader - February 9, 2021

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Insurance – Credit for Reinsurance Model Law - Revisions

BILL NUMBER: SB 120

PREPARED BY: Maryland Insurance Administration

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

 X WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESS

OR

 WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

There is no economic impact on small business associated with this proposal.