

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 458
Finance

(Senator Feldman)

Economic Matters

Insurance - Impaired Entities - Delinquency Proceedings

This bill makes various changes to the delinquency proceedings process for an impaired insurer who is an insurer-member of a federal home loan bank (FHLB). **The bill takes effect June 1, 2021.**

Fiscal Summary

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

Local Effect: The bill does not affect local governmental operations or finances.

Small Business Effect: Minimal.

Analysis

Bill Summary: “Insurer-member” means an insurer that is a member of an FHLB.

The bill prohibits the Insurance Commissioner, after the fourteenth day following the filing of a delinquency proceeding for an insurer-member, from staying an FHLB or prohibiting it from exercising its rights regarding collateral pledged by an insurer-member. An FHLB that exercises its rights in such a manner must repurchase any outstanding capital stock as specified.

After the appointment of a receiver for an insurer and within 10 business days following a request from the receiver, an FHLB must establish specified processes and timelines related to the release of capital, repayment of fees, operation of deposits and other accounts, and possible redemption or repurchase of stock.

If requested by the receiver for an insurer-member, the FHLB must provide any options available to the insurer-member to renew or restructure a loan as specified. The receiver for an insurer-member may not void any transfer of, or any obligation to transfer, money or any other property arising under or in connection with (1) an FHLB security agreement; (2) a pledge, a security, collateral, or a guarantee agreement; or (3) any other similar arrangement or credit enhancement. The receiver may void a transfer if the transfer was made with intent to hinder, delay, or defraud the insurer-member, the receiver, or existing or future creditors.

The bill does not affect a receiver's rights related to advances to an insurer-member in delinquency proceedings under federal law.

Current Law: As the primary regulator of the insurance industry in the State, the Maryland Insurance Administration (MIA) performs actuarial evaluations, financial audits, financial examinations, and market conduct examinations to ensure that insurers remain financially solvent and comply with State laws. Depending on numerous factors, including the size of an insurer and the type of insurance it sells, an insurer domiciled in the State is required to maintain specified reserves and capital assets based on the premiums it collects and its outstanding policies, contracts, annuities, and benefit agreements.

MIA is authorized to require an insurer to take certain actions when it determines that the insurer's finances are at risk. For example, if the Insurance Commissioner determines that an insurer is in a financially hazardous condition, it may require the insurer to reduce its liability through reinsurance; the reduction, suspension, or limitation of business being accepted or renewed; or the adoption of certain governance policies. Under some circumstances, MIA is authorized to apply to the court for an order that conserves, rehabilitates, or liquidates and dissolves an insurer.

Additional Information

Prior Introductions: HB 782 of 2017, a similar bill, received a hearing in the House Economic Matters Committee, but no further action was taken. Its cross file, SB 402 of 2017, received a hearing in the Senate Finance Committee, but no further action was taken.

Cross File: HB 504 (Delegate Dumais) - Economic Matters.

Information Source(s): Maryland Insurance Administration; Judiciary (Administrative Office of the Courts); Department of Legislative Services

Fiscal Note History: First Reader - January 26, 2021
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