Maryland General Assembly
Department of Legislative Services

Proposed Regulation
Maryland Insurance Administration

(DLS Control No. 16-019)

Overview and Legal and Fiscal Impact

The regulation corrects an erroneous cross-reference to § 1-101(bb) of the Insurance Article in COMAR 31.05.06.02B(5) in accordance with a recommendation in the Evaluation Report for the Maryland Insurance Administration.

The regulation presents no legal issues of concern.

There is no fiscal impact on State or local agencies.

Regulation of COMAR Affected

Maryland Insurance Administration:

Assets, Liabilities, Reserves, and Investments of Insurers: Investments of Life Insurers and Property and Casualty Insurers in High Yield/High Risk: COMAR 31.05.06.02

Legal Analysis

Summary of Regulation

The regulation corrects an erroneous cross-reference to § 1-101(bb) of the Insurance Article in COMAR 31.05.06.02B(5) in accordance with a recommendation in the Evaluation Report for the administration. The regulation alters § 1-101(bb) of the Insurance Article to be § 1-101(dd) of the Insurance Article in the cross-reference to the section in the Insurance Article that defines a "person".

Legal Issues

The regulation presents no legal issues of concern.

Statutory Authority and Legislative Intent

The administration cites §§ 2-109, 4-103(c), 5-502, 5-506, 5-507, 5-511, 5-605, 5-606, and 5-608 of the Insurance Article as statutory authority for the regulation. Section 2-109 authorizes the Maryland Insurance Commissioner to adopt regulations to carry out specified provisions of law. In addition to any other capital and surplus requirements for an insurer, § 4-103(c) requires each insurer's assets and surplus as regards policyholders to be reasonable in relation to the

insurer's outstanding liabilities and adequate to its financial needs. Section 5-502 requires the investment portfolio of a foreign life insurer or alien life insurer to be (1) as allowed by the laws of its domicile and (2) of a quality substantially as high as that required for similar funds of like domestic life insurers. In addition to investments excluded under other provisions of law, § 5-506 prohibits a life insurer from directly or indirectly investing in or lending its funds on the security of (1) an investment or security that the Commissioner finds is designed to evade a prohibition of the Insurance Article or (2) issued shares of the life insurer's capital stock, except for the purposes of mutualization under Title 3, Subtitle 1 of the Insurance Article or in connection with a plan approved by the Commissioner for purchase of the shares by employees or insurance producers of the life insurer. In addition, a life insurer may not directly or indirectly make a loan to an officer or director of the life insurer, except (1) a policy loan or (2) a bona fide mortgage loan on the principal residence of the officer of director that has been approved or ratified by the board of directors of the life insurer. With specified exceptions and unless the Commissioner approves, § 5-507 prohibits a life insurer from having at one time any combination of investments in or loans on the security of the obligations, property, or securities of one person in an aggregate amount exceeding 10% of the admitted assets of the life insurer.

Section 5-511 specifies the types of investments the reserve investments of a life insurer may include, for example, (1) cash or deposits in checking or savings accounts, under certificates of deposit, or in any other form in a national or State bank or trust company; (2) interest bearing bonds of a state, a province of Canada, a county or incorporated city of a state, or a municipality of Canada; and (3) ground rents in any state. In addition to investments otherwise excluded under the Insurance Article, § 5-605 prohibits an insurer from directly or indirectly investing in or lending its funds on security of specified investments and loans, for example, obligations, stock, or other securities of a corporation, association, or other business unit that is insolvent at the time of the acquisition or loan, except securities eligible for investment under § 5-608 of the Insurance Article. With certain exceptions, § 5-606 prohibits an insurer from having more than 10% of its total admitted assets invested in or lent on the securities of one person. Section 5-608 specifies the classes of assets the reserve investments of an insurer may include, for example, obligations issued or guaranteed by the African Development Bank, the Asian Development Bank, the International Bank for Reconstruction and Development, or the International Finance Corporation.

This authority is correct and complete. The regulation complies with the legislative intent of the law.

Fiscal Analysis

There is no fiscal impact on State or local agencies.

Agency Estimate of Projected Fiscal Impact

The administration advises that the regulation has no impact on State or local governments. The Department of Legislative Services concurs.

Impact on Budget

There is no impact on the State operating or capital budget.

Agency Estimate of Projected Small Business Impact

The administration advises that the regulation has minimal or no economic impact on small businesses in the State. The Department of Legislative Services concurs.

Contact Information

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