

EMERGENCY BILL

C3

7lr1960

CF 7lr2968

By: Delegate Donoghue

Introduced and read first time: February 19, 1997

Assigned to: Economic Matters

Committee Report: Favorable with amendments

House action: Adopted

Read second time: March 13, 1997

CHAPTER _____

1 AN ACT concerning

2 **Insurance Regulation - Domestic Mutual Companies and Stock Companies**

3 FOR the purpose of eliminating the maximum interest rate allowed for certain loans to
4 mutual companies under certain circumstances; repealing a certain prohibition
5 against a commission or promotion expense being paid in connection with a loan or
6 advance to a stock insurer or mutual insurer under certain circumstances; altering a
7 certain requirement that agreements involving mergers or consolidations of certain
8 domestic mutual insurers be submitted to members and subject to a certain vote by
9 members; authorizing a domestic mutual insurance company to acquire or form a
10 subsidiary holding company under certain circumstances; making this Act an
11 emergency measure; and generally relating to regulation of mutual insurers and
12 stock insurers.

13 BY repealing and reenacting, with amendments,
14 Article 48A - Insurance Code
15 Section 266(a) and 272(a)
16 Annotated Code of Maryland
17 (1994 Replacement Volume and 1996 Supplement)

18 BY adding to
19 Article 48A - Insurance Code
20 Section 493(d)
21 Annotated Code of Maryland
22 (1994 Replacement Volume and 1996 Supplement)

23 BY repealing and reenacting, with amendments,
24 Article - Insurance

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1 Section 3-116, 3-123(b), and 7-201
 2 Annotated Code of Maryland
 3 (1995 Volume and 1996 Supplement)
 4 (As enacted by Chapter 36 of the Acts of the General Assembly of 1995)

5 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
 6 MARYLAND, That the Laws of Maryland read as follows:

7 **Article 48A - Insurance Code**

8 266.

9 (a) (1) Any director, officer or member of any stock [or mutual] insurer, or any
 10 other person, may loan or advance to such insurer any sum or sums of money necessary to
 11 enable it to comply with any surplus requirements, or any other requirements of the law,
 12 and such moneys, and such interest thereon as may have been agreed upon, not exceeding
 13 six percent per annum, shall be payable only out of the surplus remaining after providing
 14 for all reserves and other liabilities, and such advance shall not otherwise be a liability or
 15 claim against the insurer or any of its assets.

16 (2) ANY DIRECTOR, OFFICER OR MEMBER OF ANY MUTUAL INSURER,
 17 OR ANY OTHER PERSON, MAY LOAN OR ADVANCE TO SUCH INSURER ANY SUM OR
 18 SUMS OF MONEY NECESSARY TO ENABLE IT TO COMPLY WITH ANY SURPLUS
 19 REQUIREMENTS, OR ANY OTHER REQUIREMENTS OF THE LAW, AND, SUBJECT TO
 20 THE APPROVAL OF THE COMMISSIONER, SUCH MONEYS, AND SUCH INTEREST
 21 THEREON AS MAY HAVE BEEN AGREED UPON SHALL BE PAYABLE ONLY OUT OF
 22 THE INSURER'S REALIZED EARNED SURPLUS IN EXCESS OF ITS MINIMUM REQUIRED
 23 SURPLUS, AND SUCH ADVANCE SHALL NOT OTHERWISE BE A LIABILITY OR CLAIM
 24 AGAINST THE INSURER OR ANY OF ITS ASSETS.

25 (3) ~~No commission or promotion expenses shall be paid in connection with~~
 26 ~~the advance of any such money to the insurer, and the amount of such advance~~ THE
 27 AMOUNT OF THE ADVANCE OF ANY MONEY TO A STOCK INSURER OR A MUTUAL
 28 INSURER UNDER THIS SUBSECTION shall be reported in each annual statement OF THE
 29 INSURER.

30 272.

31 (a) Any mutual insurance company or companies organized under the laws of any
 32 state of the United States may merge or consolidate with one or more domestic mutual
 33 insurance companies, to form a domestic mutual insurance company, and the surviving
 34 company may be a continuation of the corporate existence of one or more of the domestic
 35 parties to the agreement. Insurers merging or consolidating under this section shall enter
 36 into a written agreement prescribing the terms and conditions of the merger and setting
 37 forth the name of the surviving company and its amended certificate of incorporation
 38 which shall contain the provisions required by this article respecting the organization of a
 39 mutual insurer. Such agreement shall be approved by the vote of a majority of the board
 40 of directors of each company and such agreement shall be submitted to a meeting of
 41 members and approved by the votes of at least two thirds of those members of each
 42 company who[are present and voting at the meeting] VOTE ON THE PLAN IN PERSON,
 43 BY PROXY, OR BY MAIL. Notice shall be mailed to the members of the company not less

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1 than twenty days before the date of the meeting of the time, place and purpose of the
2 meeting or in lieu thereof, notice shall be published at least once a week for three
3 successive weeks in some newspaper printed in the county in which the company has its
4 principal office and in addition thereto, in some newspaper printed in either of the two
5 largest cities in each state in which the company shall be licensed to do business.

6 Such agreement, executed under corporate seal by officers of the company
7 authorized for the purpose, and with evidence of its adoption shall be submitted to the
8 Commissioner. If it appears that the requirements of this section have been complied
9 with, the Commissioner shall so certify and approve the agreement by his endorsement
10 thereon. One of the duplicates shall thereupon be filed in his office and the other
11 duplicate shall be delivered to the continuing company.

12 493.

13 (D) SUBJECT TO THE APPROVAL OF THE COMMISSIONER AND TO THE
14 PROVISIONS OF THE SUBTITLE, A DOMESTIC MUTUAL INSURANCE COMPANY MAY
15 ACQUIRE OR FORM A SUBSIDIARY INSURANCE HOLDING COMPANY.

16 SECTION 2. AND BE IT FURTHER ENACTED, That the Laws of Maryland
17 read as follows:

18 **Article - Insurance**

19 3-116.

20 (a) (1) (I) A director, officer, or member of a stock insurer [or mutual
21 insurer] or any other person may lend or advance to the stock insurer [or mutual
22 insurer] any money necessary to enable it to comply with a surplus requirement or any
23 other requirement of law.

24 [(2)] (II) Interest on the loan or advance TO A STOCK INSURER may not
25 exceed 6% per year.

26 [(b)] (2) A loan or advance UNDER THIS SUBSECTION and any interest on it:

27 [(1)] (I) is payable only out of the surplus remaining after the stock insurer
28 [or mutual insurer] provides for all reserves and other liabilities; and

29 [(2)] (II) is not otherwise a liability or claim against the stock insurer [or
30 mutual insurer] or any of its assets.

31 (B) (1) A DIRECTOR, OFFICER, OR MEMBER OF A MUTUAL INSURER OR ANY
32 OTHER PERSON MAY LEND OR ADVANCE TO THE MUTUAL INSURER ANY MONEY
33 NECESSARY TO ENABLE IT TO COMPLY WITH A SURPLUS REQUIREMENT OR ANY
34 OTHER REQUIREMENT OF LAW.

35 (2) SUBJECT TO THE APPROVAL OF THE COMMISSIONER, A LOAN OR
36 ADVANCE UNDER THIS SUBSECTION AND ANY INTEREST ON IT AS MAY HAVE BEEN
37 AGREED ON IS PAYABLE ONLY OUT OF THE INSURER'S REALIZED EARNED SURPLUS
38 IN EXCESS OF ITS MINIMUM REQUIRED SURPLUS.

39 (3) A LOAN OR ADVANCE UNDER THIS SUBSECTION IS NOT OTHERWISE
40 A LIABILITY OR CLAIM AGAINST THE MUTUAL INSURER OR ANY OF ITS ASSETS.

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1 ~~(e) A commission or promotion expense may not be paid in connection with a~~
2 ~~loan or advance made under this section.~~

3 ~~(d) (C)~~ In each annual statement, a stock insurer or mutual insurer shall report
4 the amount of each loan or advance made under this section.

5 ~~(e) (D)~~ If a loan or advance is made to a stock insurer or mutual insurer under
6 a notice of deficiency made by the Commissioner under § 3-109 of this subtitle, the loan
7 or advance may not be repaid or withdrawn without the express written consent of the
8 Commissioner.

9 3-123.

10 (b) (1) Mutual insurers consolidating or merging to form a domestic mutual
11 insurer under this section shall enter into a written agreement that:

12 (i) prescribes the terms and conditions of the consolidation or merger;

13 (ii) states the name of the successor mutual insurer; and

14 (iii) includes the successor mutual insurer's amended certificate of
15 incorporation, which shall contain the provisions required by this article for the
16 organization of a mutual insurer.

17 (2) The agreement shall be:

18 (i) approved by the vote of a majority of the board of directors of each
19 mutual insurer; and

20 (ii) submitted to a meeting of members and approved by vote of at
21 least two-thirds of those members of each mutual insurer who[are present and voting at
22 the meeting] VOTE ON THE PLAN IN PERSON, BY PROXY, OR BY MAIL.

23 (3) Notice of the time, place, and purpose of the meeting shall be:

24 (i) mailed to the members of each mutual insurer not less than 20
25 days before the date of the meeting; or

26 (ii) published at least once a week for 3 successive weeks in:

27 1. a newspaper printed in the county where each mutual insurer
28 has its principal office; and

29 2. a newspaper printed in one of the two largest cities in each
30 state where the successor mutual insurer will be licensed to do business.

31 (4) The agreement shall be:

32 (i) executed in duplicate original under corporate seal by officers
33 authorized to do so on behalf of each of the mutual insurers; and

34 (ii) submitted, with evidence of its approval, to the Commissioner.

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1 (5) If it appears to the Commissioner that the requirements of this section
2 have been complied with, the Commissioner shall certify approval of the agreement by
3 endorsing it.

4 (6) A duplicate original of the agreement shall be filed with the
5 Commissioner and a duplicate original of the agreement shall be delivered to the
6 successor mutual insurer.

7 7-201.

8 (A) In addition to any other investment allowed elsewhere in this article, a
9 domestic insurer, either alone or with another person, may invest in or otherwise acquire
10 a subsidiary that engages in or is registered to engage in one or more of the following
11 insurance businesses or business activities that are ancillary to an insurance business:

12 (1) conducting an insurance business that is authorized by the jurisdiction
13 where the subsidiary is incorporated;

14 (2) acting as an insurance agency for its parent, its parent's insurer
15 subsidiaries, or its parent's intermediate insurer subsidiaries;

16 (3) investing, reinvesting, or trading in securities for itself, its affiliate, its
17 parent, or another subsidiary of its parent;

18 (4) managing an investment company that is subject to the Investment
19 Company Act of 1940, including managing related sales and services of the investment
20 company;

21 (5) acting as a broker-dealer that is subject to the Securities Exchange Act
22 of 1934;

23 (6) providing investment advice to governments, governmental units,
24 corporations, or other organizations or groups;

25 (7) performing other services related to the operations of an insurance
26 business, including actuarial, loss prevention, safety engineering, data processing,
27 accounting, claims, appraisal, and collection services;

28 (8) owning and managing assets that its parent may own and manage;

29 (9) acting as administrative agent for a governmental unit that performs an
30 insurance function;

31 (10) financing insurance premiums;

32 (11) conducting any other business activity that is reasonably ancillary to an
33 insurance business; or

34 (12) owning one or more corporations engaged exclusively in or organized to
35 engage exclusively in one or more of the business activities specified in this section.

36 (B) SUBJECT TO THE APPROVAL OF THE COMMISSIONER AND TO THE
37 PROVISIONS OF THIS TITLE, A DOMESTIC MUTUAL INSURER MAY ACQUIRE OR FORM
38 A SUBSIDIARY INSURANCE HOLDING COMPANY.

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1 SECTION 3. AND BE IT FURTHER ENACTED, That Section 1 of this Act is
2 an emergency measure, is necessary for the immediate preservation of the public health
3 and safety, has been passed by a yea and nay vote supported by three-fifths of all the
4 members elected to each of the two Houses of the General Assembly, and shall take
5 effect from the date it is enacted.

6 SECTION 4. AND BE IT FURTHER ENACTED, That Section 2 of this Act shall
7 take effect October 1, 1997.