

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 1412
Economic Matters

(Delegate McHale)

Finance

Insurance - Assets, Reserves, and Investments of Insurers

This bill alters the manner in which insurers report assets, reserves, and investments.

Fiscal Summary

State Effect: The bill's requirements could be handled with the existing budgeted resources of the Maryland Insurance Administration.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill adds to a determination of the financial condition of an insurer, consideration of: (1) assets in an amount not exceeding the cash surrender value of each policy; (2) collateral assignment loans and accrued interest that is 90 days or more past due on the loans in an amount not exceeding the policy; (3) the net amount of most life insurance premiums that are not more than 90 days past due; (4) the net amount of deferred life insurance premiums and annuity considerations; (5) electronic data processing equipment and operating system software, as specified in the bill, amortized over a three-year period; and (6) positive good will, as specified in the bill, amortized over a ten-year period. The bill repeals consideration of liens on policies and certificates of life insurance and annuity contracts.

The bill restricts asset consideration of: (1) interest due or accrued on a bond or evidence of indebtedness; and (2) interest due or accrued on a collateral loan. The bill repeals mandatory reserve requirements relating to workers' compensation and liability policies.

The bill requires reserve computation for unearned premium be: (1) at the option of an insurer, on a daily pro rata basis or a monthly pro rata basis if the insurance risk does not vary significantly; or (2) over the period of risk in proportion to the amount of insurance protection provided if the period of risk differs significantly from the contract period. The bill also sets requirements for a title insurer's statutory reserve or unearned premium reserve.

The bill reduces from 15% to 10% the percentage of stock owned of another certain insurer that triggers certain insurer stock valuation provisions.

Current Law: A determination of the financial condition of an insurer by the Maryland Insurance Commissioner is prescribed by statute. It includes: (1) cash that the insurer holds or controls; (2) shares or deposits in a savings and loan or building and loan association, to the extent that the account is insured by an instrumentality of the United States or Canada; (3) premium notes and policy loans in an amount not exceeding the legal reserve and other policy liabilities carried on each individual policy; (4) the net amount of uncollected deferred premiums and annuity considerations of a life insurer; (5) the amount of premiums in the course of collections that are no more than three months past due and do not include commissions; (6) deposits or equities recoverable from an underwriting association, syndicate, reinsurance fund, or suspended banking institution at values determined by the Commissioner; and (7) interest that is due or accrued on: (a) a bond; (b) evidence of indebtedness; or (c) if the interest does not exceed one year's interest, collateral loan.

A liability insurer's reserves must be 60% of the earned liability premiums for each of the three preceding years. Reserves for workers' compensation claims vary. For property and casualty and surety insurance, reserves may be computed, at the option of the insurer, on a yearly or more frequent basis.

A title insurer, in addition to other reserve requirements, must maintain a guaranty fund or unearned premium reserves ranging from 1% to 35% of an aggregate sum.

An insurer that owns 15% or more of the stock of another insurer must have its stock valued at book value as shown by the more recent of: (1) the last annual statement of the insurer; or (2) the last report on examination of the other insurer.

Background: This bill embodies the latest codification of Statutory Accounting Principles developed by the National Association of Insurance Commissioners (NAIC) to replace NAIC's older accounting practices and procedures manuals.

Additional Information

Prior Introductions: None.

Cross File: SB 881 (Senator Bromwell) – Finance.

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

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