

**Department of Legislative Services**  
Maryland General Assembly  
2003 Session

**FISCAL AND POLICY NOTE**

House Bill 1037 (Delegate Bromwell)

Health and Government Operations

Finance

---

**Life Insurers - Board of Directors - Investments Practices**

---

This bill alters the manner in which a Maryland-based life insurer's board of directors must manage the insurer's investments. The bill also restricts the percentage of a life insurer's total investment of its reserves that may be made in lower and medium grade investments.

---

**Fiscal Summary**

**State Effect:** Enforcement could be handled with the existing budgeted resources of the Maryland Insurance Administration.

**Local Effect:** None.

**Small Business Effect:** None.

---

**Analysis**

**Bill Summary:** The bill requires a Maryland life insurer's board to adopt a written plan for acquiring and holding investments and engaging in investment practices. The bill's required plan must specify guidelines for: (1) the quality, maturity, and diversification of investments; and (2) investment strategies that assure that investments and investment practices are appropriate. The bill requires the life insurer's board to supervise and direct any investments under the bill. Investments must be certified at least annually and monitored at least quarterly.

The aggregate amount of lower and medium grade investments may not exceed 20% of the insurer's admitted assets, and the aggregate amount of lower grade investments may not exceed 10%. The aggregate amount of investments rated five or six by the Securities Valuation Office of the National Association of Insurance Commissioners may not exceed 3% of admitted assets, and the aggregate amount rated six may not exceed 1%. The aggregate amount of lower and medium grade investments that receive a lower cash income than the yield for U.S. Department of the Treasury issues may not exceed 1% of admitted assets.

A life insurer's investment amount is limited to 1% of admitted assets in which: (1) the aggregate amount of medium and lower grade investments issued, assumed, guaranteed, accepted, or insured by any one person; or (2) any asset-backed securities secured by or evidencing an interest in a single asset or pool of assets. A life insurer's investment amount is limited to one-half of 1% of admitted assets in which: (1) the aggregate amount of lower grade investments issued, assumed, guaranteed, accepted, or insured by any one person; or (2) any asset-backed securities secured by or evidencing an interest in a single asset or pool of assets.

**Current Law:** A life insurer may not make an investment or loan unless it is authorized by the insurer's board of directors or a committee authorized by the board to supervise or make investments and loans. Such a committee must record its minutes and submit regular reports to the board. The bill repeals these provisions.

A Maryland life insurer must maintain its entire reserve amount, less the amount of uncollected and deferred premiums. The reserve amount includes: (1) the net present value of all outstanding policies, less reinsurance; (2) reserves for accidental death and total and permanent disability benefits, less reinsurance; (3) the present value of supplementary contracts; (4) liabilities on canceled policies under specified conditions and on outstanding policy claims and losses; and (5) any additional reserves reasonably required by the Maryland Insurance Commissioner. Allowable investment vehicles include specified interest bearing bonds, interests in equipment, dividend-paying corporate stocks, loans secured by first mortgages or deeds of trust, ground rents, collateral loans, commercial real estate, fixed income on investments and policy loans, derivative transactions, money market mutual funds, and foreign investments under specified circumstances.

---

## Additional Information

**Prior Introductions:** None.

**Cross File:** SB 600 (Senator Astle) – Finance.

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

**Fiscal Note History:** First Reader - February 27, 2003  
ncs/jr

---

Analysis by: Ryan Wilson

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510