

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 513
Economic Matters

(Delegate Doory, *et al.*)

Finance

Insurance - Loans and Advances Made to Stock Insurers and Mutual Insurers

This bill treats loans and advances made to stock insurers and mutual insurers identically. It repeals the restriction on the interest rate on a loan or advance to a stock insurer. The bill also provides that the instrument evidencing a loan or advance must be approved as to form and content by the Maryland Insurance Commissioner and contain specified provisions. Proceeds of a loan or advance must be in the form of cash or other admitted assets having readily determinable values and liquidity satisfactory to the Commissioner. Finally, the bill repeals the provision requiring the Commissioner's written consent for the repayment or withdrawal of a loan or advance under a notice of deficiency.

Fiscal Summary

State Effect: The bill would not substantively change the activities or operations of the Maryland Insurance Administration.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: A director, officer, member of a mutual insurer or a stock insurer, or any other person, may lend or advance any money necessary to enable the insurer to comply with a surplus requirement or any other requirement of law.

Interest on a loan or advance to a stock insurer may not exceed 6% per year. A loan or advance to a stock insurer and any interest on it: (1) is payable only out of the surplus remaining after the insurer provides for all reserves and other liabilities; and (2) is not otherwise a liability or claim against the insurer or any of its assets.

For a mutual insurer, a loan or advance and any interest on it: (1) is payable only out of the insurer's realized earned surplus that exceeds its minimum required surplus; (2) is not otherwise a liability or claim against the insurer or any of its assets; and (3) is subject to the approval of the Commissioner. There is no limit on the interest rate that may be charged on a loan or advance to a mutual insurer.

If a loan or advance is made to a stock insurer or a mutual insurer under a notice of deficiency made by the Commissioner, the loan or advance may not be repaid or withdrawn without the Commissioner's express written consent.

Background: Currently, the market interest rate on a surplus note (like a loan to an insurer) exceeds the 6% interest rate limit on loans or advances to stock insurers.

Additional Information

Prior Introductions: None.

Cross File: SB 251 (Senators Kelley and Gladden) – Finance.

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

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