

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

Senate Bill 769
Finance

(Senator Astle)

Health Insurance - Transactions Within Insurance Holding Company Systems -
Exemption

This bill exempts a nonprofit health service plan that insures fewer than 10,000 lives from certain requirements regarding transactions with insurance holding company systems.

Fiscal Summary

State Effect: None. The bill pertains exclusively to private-sector activities.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: An insurance holding company is a person that directly or indirectly controls an insurer or controls a person that controls an insurer. Each authorized insurer that is a member of an insurance holding company system is required to register with the Insurance Commissioner. Certain foreign insurers are exempt from this requirement.

Each transaction within an insurance holding company system is subject to specific standards regarding fairness, disclosure, and reasonableness. Before a domestic insurer and another member of the same insurance holding company system enter into certain transactions, the domestic insurer must notify the Commissioner in writing at least 30 days prior to the transaction. The transaction may only proceed if the Commissioner does not disapprove the transaction. These transactions include (1) a sale, purchase,

exchange, loan, extension of credit, guarantee, or investment equal to or exceeding a certain value; (2) certain loans or extensions of credit by an insurer to a person that is not an affiliate; (3) a reinsurance agreement or modification to a reinsurance agreement; (4) a management agreement, service contract, or cost-sharing arrangement; and (5) a material transaction that the Commissioner determines may adversely affect the interests of the insurer's policyholders.

A domestic insurer must notify the Commissioner, within 30 days after making any investment in one corporation, if the total investment in the corporation by the domestic insurer's insurance holding company system exceeds 10% of the corporation's voting securities. Before an insurer pays a dividend or makes a distribution to its shareholders, the insurer must notify the Commissioner. An insurer that is not a life insurer may pay an extraordinary dividend only out of earned surplus. A domestic insurer may not pay an extraordinary dividend or make any other extraordinary distribution to its shareholders unless the insurer provides notice and the Commissioner approves or does not disapprove the declaration.

Chapters 356 and 357 of 2003 modified the regulatory scheme for nonprofit health service plans, specifically CareFirst. Chapters 356 and 357 exempted nonprofit health service plans that insure between 1 and 10,000 lives or contract only for podiatric, chiropractic, pharmaceutical, dental, psychological, or optometric services from many of the requirements placed on CareFirst. These plans are exempt from reporting about their statutory mission and premium tax exemption-related activities; contributing the value of the premium tax exemption to support State health programs; and board composition, terms, and compensation requirements.

Background: According to the Maryland Insurance Administration, the bill applies to three nonprofit health service plans – CareFirst, Inc. (the holding company); Denta-Check of Maryland, Inc.; and Graphic Arts Benefit Corporation. Under the bill, these plans are exempt from requirements regarding transactions within an insurance holding company system, including Commissioner approval of certain transactions.

Additional Information

Prior Introductions: None.

Cross File: HB 718 (Delegate Donoghue) - Health and Government Operations.

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

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