Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 69 (Chair, Health and Government Operations Committee)
Health and Government Operations Finance

Insurance - Insurers - Audits, Investments, and Operations

This departmental bill makes various changes to requirements regarding financial audits, investments, and other operations as they relate to the following carriers operating in the State: insurers, nonprofit health service plans, dental plan organizations (DPOs), managed care organizations, and health maintenance organizations (HMOs).

Fiscal Summary

State Effect: The bill's requirements can be handled with existing resources. New penalties for DPOs are not expected to affect State finances.

Local Effect: None.

Small Business Effect: The Maryland Insurance Administration (MIA) has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Bill Summary: The bill's six major provisions:

1. specify the criteria that nonlife insurers must consider with respect to investments in securities lending transactions;
2. alter the length of time during which a partner in an accounting firm responsible for preparing an audited financial report for an insurer may act in the same or similar capacity for the insurer and the insurer's subsidies or affiliates;

3. authorize the Insurance Commissioner to require an insurer, nonprofit health service plan, DPO, managed care organization, or HMO to file an audited financial report earlier than the statutory deadline, with 90 days advance notice;
4. alter the criteria against which an insurer's financial condition and results of operations can be compared to determine if the insurer is operating in a hazardous financial manner;
5. modify the nonprofit health service plan audited financial reporting requirement; and
6. move up the date by which a DPO is required to file a statement of its financial condition and make the annual statement filing requirements and applicable penalties for a DPO consistent with requirements for other insurers.

Current Law/Background: State law currently places limits and guidelines on securities lending transactions by life insurers. However, the law is silent on these transactions for other kinds of insurers. MIA advises that specifying the criteria that nonlife insurers must consider with respect to these transactions is necessary for the protection of all insurance policyholders against potentially risky investments.

The National Association of Insurance Commissioners (NAIC) has made changes to its model regarding audit partner rotation. Allowing a partner in an accounting firm responsible for preparing an audited financial report for an insurer to act in that capacity for five rather than seven years incorporates those changes to State law.

Insurers, nonprofit health services plans, DPOs, managed care organizations, and HMOs must file an audited financial report with the Commissioner each year, according to various deadlines. MIA advises that, while the current reporting deadlines have not been a problem, there may be a time when it is necessary for the Commissioner to request and scrutinize a financial report earlier than the statutory deadline if an insurer is in peril. The bill gives the Commissioner that flexibility.

NAIC has made changes to its model regulation regarding the Commissioner's authority for companies deemed to be in a hazardous financial condition. Therefore, the bill outlines standards which the Commissioner may use for identifying insurers found to be in such condition as to render the continuance of their business hazardous to policyholders, creditors, or the general public and conforms the law to the NAIC model regulation.

Statute requires nonprofit health service plans to file audited financial reports for each affiliate and subsidiary owned by or under the control of the nonprofit health service plan during the immediately preceding calendar year. However, a nonprofit health service plan is not required to file such a report for the business entity. MIA advises that requiring a nonprofit health service plan to file this report for the business entity makes the filing and reporting requirements consistent with those for HMOs, authorized insurers, and subsidiaries of nonprofit health service plans.

State law requires a DPO to file a report that covers the activities of the organization for the preceding calendar year only. MIA advises that this reporting requirement was established when DPOs were much smaller entities. Now, large carriers have acquired DPOs and DPOs have grown in size and membership. The bill's changes to the reporting requirements for DPOs make them consistent with those of HMOs, authorized insurers, and nonprofit health service plans. MIA advises that the changes will provide MIA the information necessary to ensure the continued viability and stability of the dental plan market.

MIA advises that several insurers already comply with provisions of the bill.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): CareFirst Blue Cross/Blue Shield, Department of Health and Mental Hygiene, Maryland Insurance Administration, Department of Legislative Services

Fiscal Note History: First Reader - January 26, 2010
a/mwc

Analysis by: Sarah K. Volker

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

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Insurers – Insurers – Audits, Investments, and Operations

BILL NUMBER: SB 69

PREPARED BY: Maryland Insurance Administration

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

__X__ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

___ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation will have no impact on small business in Maryland.