SB 59

Department of Legislative Services
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 59 (Chair, Finance Committee)(By Request - Departmental - Insurance Administration, Maryland)

Finance Health and Government Operations

Insurance - Company Action Level Events - Health Insurers

This departmental bill subjects health insurers to additional regulation by the Maryland Insurance Administration (MIA) by altering when a company action level event occurs for health insurers.

Fiscal Summary

State Effect: The Maryland Insurance Administration (MIA) can handle the bill's requirements with existing budgeted resources.

Local Effect: None.

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

Analysis

Bill Summary: A company action level event for a health insurer occurs when total adjusted capital (1) is greater than or equal to its company action level risk-based capital (RBC); (2) is less than the product of its authorized control level RBC and 3.0; and (3) triggers the trend test calculation in the health RBC instructions.

Current Law: Title 4, Subtitle 3 of the Insurance Article specifies RBC standards for insurers intended to safeguard the solvency of insurance businesses in the State. Insurers must maintain an amount of capital in excess of minimum levels, which vary by company, and must file annual reports on their RBC levels. The four RBC levels, in order from highest to lowest, are company action, regulatory action, authorized control, and mandatory control. As RBC levels decline, mandatory reporting and restructuring requirements are triggered for insurers, and the Commissioner is authorized to take specific corrective actions.

Each domestic insurer has to prepare and submit to the Commissioner a report of its RBC levels for the preceding calendar year. Each report must also be filed with the National Association of Insurance Commissioners (NAIC). If the Commissioner determines that the filed RBC report is inaccurate, the Commissioner adjusts the RBC report to correct the inaccuracy and notifies the insurer of the adjustment, including a statement of the reason for the adjustment.

A company action level event for an insurer (other than life or property and casualty insurers) occurs when an insurer files an RBC report that indicates the insurer's total adjusted capital is greater than or equal to its regulatory action level RBC and less than its company action level RBC.

In the event of a company action level event, an insurer must develop and submit a plan to the Commissioner. The plan has to (1) identify the conditions that contribute to the company action level event; (2) contain proposals of corrective actions that would result in the elimination of the event; (3) provide financial projections for the current year and four succeeding years; (4) identify key assumptions that impact the insurer's projections; and (5) identify the quality of the problems associated with the insurer's business.

Background: NAIC developed RBC standards as a measure of the capital surplus an insurer should retain in relation to its size and risk profile. RBC is calculated by applying factors to various assets, premiums, and company reserves. The factors applied in the capital requirements calculation are higher for items with the greatest underlying risk and lower for safer items.

In 2009, NAIC revised its model act for health insurer RBC and added a trend test. Under this trend test, a health insurer's capital must be between its company action level RBC requirement (200% of its authorized control level RBC requirement) and 300% of its authorized control level RBC requirement. In addition, the insurer must have a combined ratio (a ratio of expenses to premiums) greater than 105%. A ratio in excess of 100% shows that the insurer's premiums are insufficient to cover operating expenses, while a ratio above 105% indicates deterioration worthy of regulatory action. According to MIA, the addition of the trend test is intended to help identify insurers with deteriorating financial conditions earlier in order to reduce the likelihood that the insurer will ultimately be placed into conservation, rehabilitation, or liquidation.

The bill keeps State law consistent with required NAIC standards. Chapter 375 of 2009 added a similar trend test requirement for property and casualty insurers.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - January 21, 2011
mc/mwc

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Insurance – Company Action Level Events – Health Insurers

BILL NUMBER: SB 59

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.