

# SENATE BILL 479

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CF HB 341

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By: **Senators Klausmeier, Colburn, Kittleman, ~~and Robey,~~ Robey, Currie, Middleton, Feldman, Glassman, Kelley, Mathias, Pugh, and Ramirez**

Introduced and read first time: January 27, 2014

Assigned to: Finance

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Committee Report: Favorable with amendments

Senate action: Adopted

Read second time: February 21, 2014

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## CHAPTER \_\_\_\_\_

1 AN ACT concerning

2 **Chesapeake Employers' Insurance Company – Rates and Board Structure**

3 FOR the purpose of authorizing the Chesapeake Employers' Insurance Company to  
4 take certain actions relating to a subsidiary ~~for certain purposes~~ subject to  
5 certain requirements and under certain circumstances; specifying a certain  
6 condition of being an authorized insurer; altering the selection and appointment  
7 process for the members of the Board for the Chesapeake Employers' Insurance  
8 Company; requiring, to the extent practicable, that the Board reflect a certain  
9 diversity of the State; specifying the qualifications for the members of the  
10 Board; repealing a requirement that certain appointees take a certain oath  
11 before taking office as members of the Board; altering the means for staggering  
12 the terms of members of the Board; authorizing the Governor to remove only  
13 certain members for incompetence or misconduct; authorizing the Board to  
14 remove certain members under certain circumstances; requiring a certain  
15 designated rating organization to create a certain exception in its classification  
16 system for certain authorized insurers; authorizing the Company to remain  
17 exempt from certain insurance rate making requirements until a certain date;  
18 repealing certain provisions of law that exempt the Company from certain  
19 aspects of the insurance rate making process; repealing a provision of law that  
20 requires the Board to set rates in a certain manner; declaring the intent of the  
21 General Assembly that a rating organization, in consultation with the  
22 Company, shall create a certain exception in its classification system for  
23 authorized insurers; requiring the terms of certain members to be extended  
24 until a certain date; specifying the process for appointing or selecting a certain

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**EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.**

[Brackets] indicate matter deleted from existing law.

Underlining indicates amendments to bill.

~~Strike out~~ indicates matter stricken from the bill by amendment or deleted from the law by amendment.



1 member of the Board; renumbering certain provisions; making other conforming  
 2 changes; providing for delayed effective dates for certain provisions of this Act;  
 3 and generally relating to the Chesapeake Employers' Insurance Company.

4 BY repealing and reenacting, with amendments,  
 5 Article – Insurance  
 6 Section 11–202, 11–303, 24–306, and 24–307  
 7 Annotated Code of Maryland  
 8 (2011 Replacement Volume and 2013 Supplement)

9 BY adding to  
 10 Article – Insurance  
 11 Section 11–331 and 11–332  
 12 Annotated Code of Maryland  
 13 (2011 Replacement Volume and 2013 Supplement)

14 BY repealing  
 15 Article – Insurance  
 16 Section 24–305  
 17 Annotated Code of Maryland  
 18 (2011 Replacement Volume and 2013 Supplement)

19 BY renumbering  
 20 Article – Insurance  
 21 Section 24–306 through 24–312, respectively  
 22 to be Section 24–305 through 24–311, respectively  
 23 Annotated Code of Maryland  
 24 (2011 Replacement Volume and 2013 Supplement)

25 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF  
 26 MARYLAND, That the Laws of Maryland read as follows:

27 **Article – Insurance**

28 24–306.

29 (a) The Company:

30 (1) shall be an authorized insurer; and

31 (2) ~~on and after October 1, 2013~~ **AS A CONDITION OF BEING AN**  
 32 **AUTHORIZED INSURER**, shall be the workers' compensation insurer of last resort for  
 33 employers covered under Title 9 of the Labor and Employment Article.

34 (b) Before October 1, 2013, the Fund shall serve as the workers'  
 35 compensation insurer of last resort for workers' compensation insurance and as a

1 competitive workers' compensation insurer under the same terms and conditions as  
2 the Fund served before October 1, 2012.

3 (c) The Company may not cancel or refuse to renew or issue a policy except  
4 for:

5 (1) nonpayment of a premium for current or prior policies issued by  
6 the Fund or the Company;

7 (2) failure to provide payroll information to the Fund or the Company;  
8 or

9 (3) failure to cooperate in any payroll audit conducted by the Fund or  
10 the Company.

11 (d) The Company may engage only in the business of workers' compensation  
12 insurance in accordance with State law.

13 (E) ~~THE~~ SUBJECT TO THE REQUIREMENTS OF TITLE 7 OF THIS  
14 ARTICLE, THE COMPANY MAY ESTABLISH, OWN, OR CONTROL OR ACQUIRE A  
15 SUBSIDIARY FOR ANY LAWFUL PURPOSE IF THE SUBSIDIARY:

16 (1) IS WHOLLY OWNED BY THE COMPANY;

17 (2) ENGAGES IN A BUSINESS ACTIVITY THAT IS ANCILLARY TO  
18 THE WORKERS' COMPENSATION INSURANCE BUSINESS; AND

19 (3) IS OPERATED FOR THE PURPOSE OF BENEFITING THE  
20 COMPANY.

21 24-307.

22 (a) (1) There is a Board for the Chesapeake Employers' Insurance  
23 Company.

24 (2) The Board shall manage the business and affairs of the Company  
25 as a private, nonprofit corporation in accordance with State law.

26 (b) (1) The Board shall consist of nine members [appointed by the  
27 Governor with the advice and consent of the Senate].

28 (2) **OF THE NINE MEMBERS:**

29 (I) **TWO PUBLIC MEMBERS SHALL BE APPOINTED BY THE**  
30 **GOVERNOR WITH THE ADVICE AND CONSENT OF THE SENATE; AND**

1                   **(II) SEVEN MEMBERS SHALL BE SELECTED BY THE**  
2 **POLICYHOLDERS UNDER PROCEDURES PROVIDED IN THE BYLAWS OF THE**  
3 **BOARD.**

4                   **(3) TO THE EXTENT PRACTICABLE, THE BOARD SHALL REFLECT**  
5 **THE GEOGRAPHIC AND DEMOGRAPHIC, INCLUDING RACE AND GENDER,**  
6 **DIVERSITY OF THE STATE.**

7                   **(4) THE BYLAWS OF THE BOARD SHALL PROVIDE THAT:**

8                   **(I) AT LEAST TWO MEMBERS SHALL HAVE SUBSTANTIAL**  
9 **EXPERIENCE AS OFFICERS OR EMPLOYEES OF AN INSURER, BUT MAY NOT BE**  
10 **EMPLOYED BY AN INSURER THAT IS IN DIRECT COMPETITION WITH THE**  
11 **COMPANY WHILE SERVING ON THE BOARD;**

12                   **(II) AT LEAST TWO MEMBERS SHALL BE POLICYHOLDERS OF**  
13 **THE COMPANY;**

14                   **(III) AT LEAST ONE MEMBER SHALL HAVE SIGNIFICANT**  
15 **EXPERIENCE IN THE INVESTMENT BUSINESS; AND**

16                   **(IV) AT LEAST ONE MEMBER SHALL HAVE SIGNIFICANT**  
17 **EXPERIENCE AS A REPRESENTATIVE, EMPLOYEE, OR MEMBER OF A LABOR**  
18 **UNION.**

19                   (c) Each member shall be a resident of the State.

20                   [(d) Before taking office, each appointee to the Board shall take the oath  
21 required by Article I, § 9 of the Maryland Constitution.]

22                   **[(e)] (D) (1) The term of a member is 5 years.**

23                   (2) The terms of members are staggered as [required by the terms  
24 provided for members of the Board for the Fund on October 1, 1991] **PROVIDED IN**  
25 **THE BYLAWS ADOPTED BY THE BOARD.**

26                   (3) At the end of a term, a member continues to serve until a successor  
27 is appointed and qualifies.

28                   (4) A member who is appointed after a term has begun serves only for  
29 the rest of the term and until a successor is appointed and qualifies.

30                   (5) A member may not serve for more than:

31                   (i) two full terms; or

1 (ii) a total of 10 years.

2 [(f)] (E) (1) The Governor may remove a member WHO HAS BEEN  
3 APPOINTED BY THE GOVERNOR for incompetence or misconduct.

4 (2) THE BOARD MAY REMOVE A MEMBER WHO HAS BEEN  
5 SELECTED BY THE POLICYHOLDERS FOR MISCONDUCT, INCOMPETENCE, OR  
6 DERELICTION OF DUTIES.

7 [(g)] (F) The Board shall adopt rules, bylaws, and procedures.

8 SECTION 2. AND BE IT FURTHER ENACTED, That the Laws of Maryland  
9 read as follows:

10 **Article – Insurance**

11 **11-331.**

12 ON OR BEFORE OCTOBER 1, 2015, AND EACH YEAR THEREAFTER UNTIL  
13 OCTOBER 1, 2019, THE RATING ORGANIZATION THAT THE MARYLAND  
14 INSURANCE COMMISSIONER DESIGNATES UNDER § 11-329 OF THIS SUBTITLE,  
15 IN CONSULTATION WITH THE CHESAPEAKE EMPLOYERS' INSURANCE  
16 COMPANY, SHALL SUBMIT A REPORT TO THE SENATE FINANCE COMMITTEE  
17 AND THE HOUSE ECONOMIC MATTERS COMMITTEE, IN ACCORDANCE WITH §  
18 2-1246 OF THE STATE GOVERNMENT ARTICLE, ON THE PROGRESS THAT THE  
19 CHESAPEAKE EMPLOYERS' INSURANCE COMPANY HAS MADE IN PREPARING TO  
20 BECOME A MEMBER OF THE RATING ORGANIZATION.

21 SECTION 3. AND BE IT FURTHER ENACTED, That the Laws of Maryland  
22 read as follows:

23 **Article – Insurance**

24 **11-332.**

25 THE RATING ORGANIZATION THAT THE COMMISSIONER DESIGNATES  
26 UNDER § 11-329 OF THIS SUBTITLE SHALL CREATE AND MAINTAIN AN  
27 EXCEPTION IN ITS CLASSIFICATION SYSTEM TO ALLOW ANY AUTHORIZED  
28 INSURER IN THE STATE TO USE A SINGLE CLASSIFICATION CODE FOR  
29 GOVERNMENTAL OCCUPATIONS THAT ARE NOT INCLUDED IN POLICE,  
30 FIREFIGHTER, AND CLERICAL CLASSIFICATIONS.

31 SECTION 4. AND BE IT FURTHER ENACTED, That the Laws of Maryland  
32 read as follows:

**Article – Insurance**

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11–202.

(a) (1) This subtitle applies to all types of insurers.

(2) Except as provided in subsection (b) of this section, this subtitle applies to:

(i) property insurance;

(ii) casualty insurance;

(iii) surety insurance;

(iv) marine insurance; and

(v) wet marine and transportation insurance.

(b) This subtitle does not apply to:

(1) reinsurance, except as provided in § 11–222 of this subtitle;

(2) insurance of vessels or craft or their cargoes, marine protection and indemnity insurance, or insurance of other risks commonly insured under policies of marine insurance, as distinguished from inland marine insurance;

(3) insurance against loss of or damage to aircraft including their accessories and equipment, or insurance against liability, other than workers' compensation insurance or employer's liability insurance, arising out of the ownership, maintenance, or use of aircraft; **OR**

(4) title insurance]; or

(5) the Chesapeake Employers' Insurance Company].

(c) If a kind of insurance, subdivision or combination of kinds of insurance, or type of coverage is subject to this subtitle and is also subject to regulation by another rate regulatory provision of the statutes of the State, an insurer to which both provisions are otherwise applicable shall file with the Commissioner a designation as to which rate regulatory provision is applicable to it with respect to that kind of insurance, subdivision or combination of kinds of insurance, or type of coverage.

11–303.

1 (a) Notwithstanding Subtitle 2 of this title, this subtitle applies to the  
2 establishment of rates for all types of insurance except:

3 (1) life insurance;

4 (2) annuities;

5 (3) health insurance;

6 (4) marine insurance described in § 11–202(b)(2) of this title;

7 (5) aircraft insurance described in § 11–202(b)(3) of this title;

8 (6) reinsurance;

9 (7) insurance provided under the Maryland Automobile Insurance  
10 Fund;

11 [(8) insurance provided under the Chesapeake Employers' Insurance  
12 Company;]

13 [(9) (8) title insurance;

14 [(10) (9) medical malpractice insurance;

15 [(11) (10) any form or plan of insurance regulated under § 27–217 of  
16 this article; and

17 [(12) (11) surety insurance.

18 (b) If and to the extent that the Commissioner finds that the application of  
19 any or all of the provisions of this subtitle is unnecessary to achieve the purposes of  
20 this subtitle, the Commissioner by rule may exempt a person or class of persons or a  
21 line or lines of insurance from any or all of those provisions.

22 [24–305.

23 (a) The Company is not subject to Title 11 of this article.

24 (b) The Board shall:

25 (1) adopt a schedule of premium rates in accordance with sound  
26 actuarial practices; and

27 (2) ensure that the rates are not excessive, inadequate, or unfairly  
28 discriminatory.

1 (c) (1) The Board shall determine the schedule of premium rates by:

2 (i) classifying all of the policyholders of the Company on the  
3 basis of the respective level of hazard of their enterprises; and

4 (ii) setting a premium rate for each class on the basis of:

5 1. its level of hazard; and

6 2. incentives to prevent injuries to employees.

7 (2) To determine the schedule of premium rates, the Board shall use  
8 the rating system that, in the opinion of the Board:

9 (i) most accurately measures the level of hazard for each  
10 policyholder on the basis of the number of injuries that occur in the enterprises of the  
11 policyholder;

12 (ii) encourages the prevention of injuries; and

13 (iii) ensures the solvency of the Company from year to year.

14 (3) The Board may set minimum premium rates for policies issued by  
15 the Company.

16 (d) The Commissioner shall review the Company's rates as part of an  
17 examination under § 2-205 of this article to determine whether the Company's rate  
18 making practices produce actuarially sound rates.]

19 SECTION 5. AND BE IT FURTHER ENACTED, That Section(s) 24-306  
20 through 24-312, respectively, of Article – Insurance of the Annotated Code of  
21 Maryland be renumbered to be Section(s) 24-305 through 24-311, respectively.

22 SECTION 6. AND BE IT FURTHER ENACTED, That, notwithstanding any  
23 other provision of law, it is the intent of the General Assembly that on or before  
24 January 1, 2019, the rating organization that the Maryland Insurance Commissioner  
25 designates under § 11-329 of the Insurance Article, in consultation with the  
26 Chesapeake Employers' Insurance Company, shall create an exception in its  
27 classification system, as required under § 11-332 as enacted by Section 3 of this Act,  
28 to allow any authorized insurer in Maryland to use a single classification code for  
29 governmental occupations that are not included in police, firefighter, and clerical  
30 classifications.

31 SECTION 7. AND BE IT FURTHER ENACTED, That:



1 (a) Notwithstanding § 24–307 of the Insurance Article as enacted by Section  
2 1 of this Act, the term of any member who is on the Board of the Chesapeake  
3 Employers’ Insurance Company on the effective date of this Act, shall be extended  
4 until September 30, 2019.

5 (b) (1) Except as provided in paragraph (2) of this subsection,  
6 policyholders shall select a successor to fill a vacancy that occurs on the Board before  
7 October 1, 2019, as provided in § 24–307(b)(2) of the Insurance Article as enacted by  
8 Section 1 of this Act.

9 (2) If a vacancy occurs on the Board before October 1, 2019, and the  
10 Board includes seven members selected by the policyholders, the Governor shall  
11 appoint a successor to fill the vacancy as provided in § 24–307(b)(2) of the Insurance  
12 Article as enacted by Section 1 of this Act.

13 SECTION 8. AND BE IT FURTHER ENACTED, That Section 2 of this Act shall  
14 take effect October 1, 2014. It shall remain effective for a period of 6 years and, at the  
15 end of October 1, 2020, with no further action required by the General Assembly,  
16 Section 2 of this Act shall be abrogated and of no further force and effect.

17 SECTION 9. AND BE IT FURTHER ENACTED, That Section 3 of this Act shall  
18 take effect January 1, 2019.

19 SECTION 10. AND BE IT FURTHER ENACTED, That Sections 4 and 5 of this  
20 Act shall take effect January 1, 2020.

21 SECTION 11. AND BE IT FURTHER ENACTED, That, except as provided in  
22 Sections 9 and 10 of this Act, this Act shall take effect October 1, 2014.

Approved:

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Governor.

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President of the Senate.

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Speaker of the House of Delegates.