

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 479

(Senator Klausmeier, *et al.*)

Finance

Economic Matters

Chesapeake Employers' Insurance Company - Board Structure

This bill requires the board of the Chesapeake Employers' Insurance Company (Chesapeake), to the extent practicable, to reflect the geographic and demographic, including race and gender, diversity of the State. Of the nine members, (1) at least two members must have substantial experience as officers or employees of an insurer, but they may not be employed by an insurer that is in direct competition with Chesapeake while serving on the board; (2) at least two members must be policyholders of Chesapeake; (3) at least one member must have significant experience in the investment business; (4) at least one member must have significant experience in the accounting or auditing field; and (5) at least one member must have significant experience as a representative, employee, or member of a labor union.

The bill applies prospectively and only to appointments made by the Governor to fill vacancies on the board occurring on or after the bill's October 1, 2014 effective date.

Fiscal Summary

State Effect: The bill does not affect State operations or finances.

Chesapeake Employers' Insurance Company Effect: The bill does not materially affect Chesapeake finances.

Local Effect: The bill does not affect local government operations or finances.

Small Business Effect: None.

Analysis

Current Law: Chapter 570 of 2012 converted the Injured Workers' Insurance Fund (IWIF) into a private, nonprofit, and nonstock workers' compensation insurer as of October 1, 2013. This new organization is the Chesapeake Employers' Insurance Company. Chesapeake may not be considered to be a department, unit, agency, or instrumentality of the State for any purpose. The functions, powers, duties, assets, real and personal property, accounts, liabilities, contracts, and obligations of IWIF transferred to Chesapeake. Chesapeake is required to serve as the workers' compensation insurer of last resort in the State.

Unless specifically exempted, Chesapeake is subject to the same provisions of law as other insurers that are authorized to sell workers' compensation insurance in the State, and it possesses the same powers, privileges, and immunities. The company is authorized, examined, and regulated by the Insurance Commissioner in the same manner as other property and casualty insurers in the State.

Chesapeake's board is responsible for managing its business and affairs as a private, nonprofit corporation in accordance with State law. The board consists of nine members who are appointed by the Governor with the advice and consent of the Senate. Members must be a resident of the State, and before taking office, each member must take the oath of office required by the Maryland Constitution. The term of a member is five years, and the terms are staggered. At the end of a term, a member continues to serve until a successor is appointed and qualifies. A member may not serve for more than two full terms or a total of 10 years. The Governor may remove a member for incompetence or misconduct.

Chesapeake is not subject to Title 11 of the Insurance Article, which regulates insurance rates and ratemaking procedures and requires membership with a rating organization. Instead, the board must adopt a schedule of premium rates following sound actuarial practices and ensure that the rates are not excessive, inadequate, or unfairly discriminatory. The board must determine the schedule of premium rates by classifying all policyholders by the hazard level of their occupation and setting a premium based on the level of hazard, as well as incentives to prevent employee injuries. The board must use the rating system that, in its opinion, (1) most accurately measures the hazard levels based on the number of injuries that occur for that occupation; (2) encourages the prevention of injuries; and (3) ensures the solvency of Chesapeake from year to year. The Insurance Commissioner must review these rates to determine whether Chesapeake's ratemaking practices result in actuarially sound rates.

Additional Information

Prior Introductions: None.

Cross File: HB 341 (Delegate Jameson) - Economic Matters.

Information Source(s): Maryland Insurance Administration, Injured Workers' Insurance Fund/Chesapeake Employers' Insurance Company, National Council on Compensation Insurance, Department of Legislative Services

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