

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 19

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

Finance

Economic Matters

Insurance - Surplus Lines Insurers, Surplus Lines Brokers, and Reinsurers

This departmental bill simplifies the renewal process for a surplus lines insurer by repealing specified financial and compliance certification filing requirements and instead allowing the insurer to renew its authorization by (1) filing a renewal application; (2) paying the applicable fee; and (3) submitting any additional information required by the Insurance Commissioner. Filing of the financial and compliance certifications is still required when a surplus lines insurer applies for initial approval. A surplus lines insurer's renewal application must be signed by an officer of the insurer certifying that the insurer is in compliance with the applicable laws of its domiciliary jurisdiction. The bill also alters an annual reporting requirement related to premium taxes so that only surplus lines brokers that have transacted business in the State during the reporting period must report, instead of requiring all surplus lines brokers to do so.

Fiscal Summary

State Effect: Although the bill is not expected to materially affect State finances, the Maryland Insurance Administration (MIA) may realize staffing efficiencies due to the bill's simplification of the renewal process for surplus lines insurers and reporting requirements for surplus lines brokers.

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

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

Analysis

Current Law:

Surplus Lines Insurers

Insurance in the State may be purchased from an unauthorized insurer as a surplus line only under certain specified circumstances. For example, surplus lines insurance must be purchased from a qualified surplus lines broker, and before such a purchase takes place, a diligent search must be made among the authorized insurers that are writing the particular kind and class of insurance in the State to see if the insurance being sought is already available.

The Commissioner may not approve an insurer as a qualified surplus lines insurer unless the insurer is authorized in its domiciliary jurisdiction to write the type of insurance it seeks to write as a surplus line and meets or exceeds a specified minimum for capital and surplus. Each year and when initially applying for renewal, the insurer must file with the Commissioner (1) a written request for approval; (2) a certified copy of its annual statement that shows specified information; and (3) a certificate of compliance issued by the insurance department of the insurer's state of domicile.

Under Title 3 of the Insurance Article, surplus lines insurance is subject to a premium receipts tax of 3% on all gross premiums, less any returned premiums, charged for surplus lines insurance. Revenues generally accrue to the general fund.

Surplus Lines Brokers

Unless licensed or authorized in his or her home state, to act as a surplus lines broker in Maryland, a person must obtain a certificate of qualification from MIA. An applicant for a certificate must be qualified as an insurance producer for property and casualty insurance, and be competent and trustworthy, as determined by the Commissioner.

By March 15 and September 15 of each year, or at any other time specified by the Commissioner, each surplus lines broker must file a report on his or her business that is subject to the premium tax and pay the tax that is owed.

Background: All of the 153 surplus lines insurers authorized in the State must annually file a paper renewal application. MIA advises that, under the bill, it can authorize these insurers to complete an online application, saving time for both the insurers and MIA itself. Furthermore, MIA advises that the simplified renewal process does not adversely affect its authority to regulate surplus lines insurers because (1) it has access to National Association of Insurance Commissioners' resources to ensure the insurers remain active and in good

standing and (2) the Commissioner may require additional information from insurers if necessary.

During the second half of 2015, there were 2,450 active surplus lines brokers in Maryland; however, only 486 (20%) had business to report and taxes due to MIA. MIA advises that, by amending the current tax reporting requirements for brokers, it can use its resources more productively instead of tracking the receipt of or processing reports showing nothing from brokers with no business. MIA advises that 21 other states do not require a surplus lines broker to file if there is nothing to report.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - January 10, 2017
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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Insurance – Surplus Lines

BILL NUMBER: SB 19

PREPARED BY:
(Dept./Agency) Maryland Insurance Administration

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

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