SB0928 - MIA - Support - FINAL.pdf
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Date: **March 15, 2023**

Bill # / Title: **Senate Bill 928 - Insurance – Credit for Reinsurance Model Law – Reciprocal Jurisdictions**

Committee: **Senate Rules Committee**

Position: **Support**

The Maryland Insurance Administration (MIA) appreciates the opportunity to provide this written testimony in support of Senate Bill 928, which makes technical revisions to §5-917 of the Insurance Article relating to the credit for reinsurance rules that apply to reinsurers who are domiciled in reciprocal jurisdictions who are the subject of Covered Agreements.

For context, reinsurance, often referred to as "insurance for insurance companies," is a contract between a reinsurer and an insurer. When an insurer gives up business to a licensed reinsurer, it is permitted under regulatory accounting rules to recognize a reduction in its liabilities in the amount of ceded liabilities, if the reinsurer meets certain requirements. This is called "credit for reinsurance." Historically, a reinsurer that is not licensed in the U.S. has been required to post 100% collateral as security that it will meet its obligations under the reinsurance agreement in order for the insurer to take credit for the reinsurance.

In 2017, the United States entered into bilateral agreements with the European Union and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance, which are known as the "Covered Agreements." The covered agreements eliminated reinsurance collateral requirements as a condition of a domestic insurer's receipt of credit for reinsurance for EU and UK reinsurers that met certain requirements. In 2019, in response to the 2017 Covered Agreements, NAIC was required to revise NAIC Model #785 to implement the collateral provisions of the Covered Agreements, which pre-empt state law. The revisions reflect the joint work of state insurance regulators and the U.S. Treasury Department, working through the Federal Insurance Office (FIO).

In 2020, the General Assembly passed legislation incorporating the 2019 revisions into Maryland law. Maryland SB 928 corrects an inconsistency perceived by the FIO between §5-917(b) of the Insurance Article and the 2019 revisions to the NAIC Model. The NAIC 2019 revisions include language that provide that the state insurance regulator is expressly prohibited from removing jurisdictions subject to a covered agreement (i.e., EU and UK) and accredited U.S. jurisdictions from the list of reciprocal jurisdictions. While this language was included in the 2020 legislative changes in other sections of subtitle 9 of Title 5, FIO does not consider Maryland to be in full compliance with the 2019 revisions because this language is not expressly included within §5-917(b).

The MIA has no objection to adding the language of prohibition to §5-917(b), as that is consistent with the MIA's current interpretation and application of the law. Model #785 is a NAIC accreditation standard which means that our state's adoption of the Model is a condition of our good standing with the NAIC. The MIA, therefore, requests a favorable report on SB 928. Thank you for the opportunity to provide this written testimony in support of SB 928. The MIA is available to provide additional information and assistance to the Committee.