



Testimony of

American Property Casualty Insurance Association (APCIA)

Senate Finance Committee

Senate Bill 95 Property and Casualty Insurance - Parametric Insurance – Regulation

February 4, 2026

Unfavorable

The American Property Casualty Insurance Association (APCIA) is a national trade organization whose members write approximately 71% of the Maryland property-casualty insurance market. Senate Bill 95 would establish requirements for parametric insurance policies that are issued to a resident of the State and authorize the Maryland Insurance Commissioner to establish a pilot program to provide insurers participating in the pilot program additional opportunities to provide parametric insurance products. APCIA and its member companies support innovation in insurance, including the development of parametric solutions that can enhance community resilience and help close protection gaps. However, we must respectfully oppose Senate Bill 95 as drafted due to significant structural, operational, and market concerns.

I. SB 95 Is Overbroad and Functions as a Regulatory Regime, Not a Pilot Program

Although framed as establishing a parametric “pilot,” the bill in practice imposes far reaching regulatory requirements on all parametric insurance products, including those already being written in Maryland today. Only a small portion of the bill addresses true pilot concepts. The remainder would impose rate filings, underwriting guideline filings, and other administrative obligations more expansive than those applicable to many traditional insurance products.

This approach risks displacing existing commercial and surplus lines parametric products, which are functioning successfully in Maryland and nationally. The surplus lines market, in particular, is the primary innovation channel for parametric solutions. Regulating it through this bill—intentionally or not— could stifle innovation rather than foster it.

To support innovation while avoiding unintended market disruption, the bill’s scope should be limited to admitted personal lines products only and explicitly exclude surplus lines and commercial parametric offerings.

II. The Definition of “Parametric Insurance” Is Inaccurate and Unworkably Narrow

SB 95 defines parametric insurance as a product that pays “regardless of actual loss.” This is not accurate. In practice, parametric products may require both:

1. The occurrence of an objectively measurable trigger event, and
2. An actual loss to the policyholder.

The definition also restricts trigger events to natural disasters, which is inconsistent with how parametric products are used in the marketplace. Many objective triggers—such as rainfall thresholds, temperature extremes, utility outages, and travel interruptions—are not “disasters” but still serve important risk financing functions.

Additionally, the bill excludes cyber related parametric triggers with no apparent policy justification. The bill should broaden the trigger definition to include all objectively measurable events and remove exclusions that could limit future innovation.

III. Filing Requirements and Underwriting Standards Cannot Be Operationalized

SB 95 requires insurers to file:

- Rates,
- Underwriting guidelines, and
- Basis risk quantification in numeric examples.

These requirements are incompatible with how parametric insurance is designed and priced.

Rates for parametric products depend on:

- Location specific hazard modeling,
- Selected triggers,
- Chosen limits and payout structures,
- Portfolio accumulation dynamics, and
- Individualized customer needs.

Such specifically designed structures cannot be distilled into a standardized rating manual.

Similarly, underwriting guidelines cannot be meaningfully filed because each parametric contract is customized to the policyholder's exposures and objectives. Requiring template underwriting standards would eliminate the flexibility that makes parametric products viable.

Quantifying basis risk numerically is not possible in the manner contemplated in the bill. Catastrophe models represent only a subset of potential loss drivers, and many policyholders lack complete data on their uninsured exposures—the very gap parametric products are designed to address.

IV. Confidentiality Protections Are Insufficient

Parametric insurance relies heavily on:

- Proprietary indices,
- Modeling methodologies,
- Third party data logic, and
- Trigger algorithms.

SB 95 does not provide adequate confidentiality protections for these materials. As written, insurers may be compelled to reveal proprietary information that cannot be publicly disclosed without compromising trade secrets or triggering federal regulatory implications.

V. The Bill Risks Reducing Availability of Parametric Products in Maryland

Because SB 95 imposes obligations that parametric products cannot meet, the bill would likely reduce, not expand, the availability of these innovative tools. This could:

- Drive existing providers out of the Maryland market,
- Limit options for commercial entities seeking risk financing alternatives, and
- Delay adoption of new resilience and recovery tools.

Several provisions may unintentionally create moral hazard by requiring payments where no physical damage occurs, particularly in personal lines. Other provisions imply new staffing, claims, and customer service burdens that are difficult to operationalize under parametric frameworks.

The “pilot” features of the bill are also insufficiently defined—including audit scope, reporting expectations, and eligible insured groups—making participation unlikely.

VI. Federal Regulatory Considerations Must Be Addressed

There is longstanding ambiguity under the Dodd Frank Act regarding whether certain parametric structures could be characterized as derivatives. SB 95 does not resolve this issue and does not define parametric insurance as insurance under Maryland law.

VII. The Bill’s Policy Objectives Are Unclear

It is not clear what specific market problem SB 95 is intended to solve. Maryland’s existing parametric market is predominantly commercial, and the bill appears targeted toward personal lines uses that are uncommon today.

Parametric insurance is not a replacement for traditional indemnity insurance. It provides rapid, predictable liquidity, not loss adjustment. The bill’s structure suggests a belief that parametrics are ready for commodification, but the global market is not yet at that stage.

A statutory approach that is too prescriptive could hinder promising applications for:

- Community resilience,
- Disaster response financing,
- Protection gap reduction, and
- Public sector risk management.

Other jurisdictions’ experience—such as Puerto Rico—may help inform any Maryland approach. Puerto Rico’s framework showed that rigid definitions, extensive filing obligations, and unclear treatment of federal derivative considerations can suppress participation by carriers and reinsurers. Maryland can avoid similar pitfalls by grounding its approach in those lessons and by tailoring legislation to support innovation, protect proprietary information, and preserve flexibility in product design.

Conclusion

APCIA appreciates the General Assembly’s interest in fostering innovation and strengthening resilience. However, SB 95, as drafted, would likely have the opposite effect by imposing regulatory constraints incompatible with parametric product design. APCIA, for those reasons urges the Committee to provide an

unfavorable report on Senate Bill 95. Attached is some information about parametric insurance and situations when it is used. We look forward to working with the sponsor, Senator Ellis and the Maryland Insurance Administration, to address this new and evolving coverage to further foster this new product.

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