Department of Legislative Services

Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

House Bill 724 (Chair, Health and Government Operations Committee)(By Request - Departmental - Insurance Administration, Maryland)

Health and Government Operations

Insurance - Risk Based Capital Standards - Fraternal Benefit Societies and Life Insurers

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This departmental bill requires that a fraternal benefit society meet specified risk-based capital (RBC) requirements and be subject to both a company action level event and a mandatory control level event. The bill also raises the minimum level of total adjusted capital that triggers a company action level event for a life insurer or fraternal benefit society.

Fiscal Summary

State Effect: Enforcement can be handled with existing resources. No impact on revenues.

Local Effect: None.

Small Business Effect: The Maryland Insurance Administration (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: A life insurer's RBC must be determined by the formula found in the RBC instructions developed and adopted by the National Association of Insurance Commissioners (NAIC). By applying the factors as described by the RBC instructions, the formula must take into account and may adjust for the covariance between (1) the risk to the life insurer's assets; (2) the risk of adverse insurance experience to the life insurer's liabilities and obligations; (3) the interest rate risk to the life insurer's business; and (4) all other business risks and relevant risks described in the RBC instructions.

A company action level event for a life insurer may occur under any of four circumstances: (1) when the insurer files an RBC report that indicates that the insurer has total adjusted capital that is at least equal to its regulatory action level RBC and less than its company action level RBC; (2) when a life insurer's total adjusted capital is at least equal to its company action level RBC, is less than its authorized control level RBC multiplied by 2.5, and has a negative trend (as determined by a trend test calculation in the RBC instructions); (3) the Insurance Commissioner notifies an insurer of an adjusted RBC report that indicates a triggering event under one of the first two circumstances; or (4) if an insurer requests a hearing to challenge an adjusted RBC report that indicates a triggering event under one of the first two circumstances, the Commissioner notifies the insurer that the Commissioner has rejected the insurer's challenge.

A mandatory control level event occurs when (1) an insurer, including a life insurer, files an RBC report that indicates that the insurer has total adjusted capital that is less than its mandatory control level RBC; (2) the Commissioner notifies the insurer of an adjusted RBC report that indicates such an event; or (3) if an insurer loses a challenge to an adjusted RBC report after a hearing and the Commissioner notifies the insurer that the Commissioner has rejected the challenge.

If a mandatory control level event occurs to a life insurer, the Commissioner must take any action that may be necessary to place the life insurer under conservation, rehabilitation, or liquidation as allowed by Title 9 of the Insurance Article, which concerns impaired entities. The Commissioner may wait for up to 90 days after the occurrence of the mandatory control level event if the Commissioner determines there is a reasonable expectation the event may be eliminated within that 90-day period. In the event the Commissioner does take any action to place the life insurer under conservation, rehabilitation, or liquidation, the insurer is entitled to the protections afforded to insurers under Title 9 with respect to summary proceedings.

An incorporated society, order, or supreme lodge without capital stock is a fraternal benefit society if it (1) is conducted solely for the benefit of its members and their beneficiaries; (2) is not conducted for profit; (3) is operated on a lodge system with ritualistic form of work; (4) has a representative form of government; and (5) provides for benefits to be paid according to statute.

Background: The Risk Based Capital for Insurers Model Act is a model law developed by NAIC, which has been codified in the Insurance Article. MIA advises that NAIC recently updated its model and this bill reflects those updates as pertains to fraternal benefit societies and the modified company action level criteria. Current State law is based on the NAIC model law; thus, it includes safeguards similar to those in other states. Although not yet an accreditation standard, the changes to the model law will likely become an accreditation standard within the next few years.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 19, 2013
mlm/ljm

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Insurance – Risk Based Capital – Fraternal Benefit Societies and Life Insurers

BILL NUMBER: HB 724

PREPARED BY: Maryland Insurance Administration

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

__X__ 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

The proposed legislation will have no impact on small business in Maryland.