

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 554

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

Finance

Insurance - Reinsurers - Fees

This departmental bill requires the Insurance Commissioner to collect and certified reinsurers to pay a fee for filing an annual statement. It also clarifies that accredited reinsurers (formerly known as accepted reinsurers) must pay the fee. The annual fee for certified reinsurers and accredited reinsurers is \$1,000.

Fiscal Summary

State Effect: Maryland Insurance Administration (MIA) special fund revenues increase by \$1,000 annually for each certified reinsurer in the State. Expenditures are not affected.

Local Effect: None.

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/Background: Reinsurance is a contract made between an insurance company and a third party to protect the insurance company against losses. For example, an insurer may sell 500 policies, each with a \$100,000 policy limit. In this circumstance, an insurer could lose \$50 million if all policies were to pay out at the same time. For this reason, an insurance company may purchase reinsurance from a third party to assume some of the risk of a large payout.

Among other things, Chapter 321 of 2013 authorized credit to be allowed when reinsurance is ceded to an assuming insurer that has been certified by the Commissioner as a reinsurer in the State and secures its obligations in accordance with the law. An assuming insurer must meet the following requirements before being considered eligible for certification:

- be domiciled and licensed to transact insurance or reinsurance in a qualified jurisdiction;
- maintain minimum capital and surplus, or its equivalent, in an amount the Commissioner determines in accordance with regulations the Commissioner adopts;
- maintain financial strength ratings from two or more rating agencies that the Commissioner considers acceptable;
- agree to submit to the State’s jurisdiction;
- appoint the Commissioner as its agent for service of process in the State;
- agree to provide security for all of the assuming insurer’s liabilities attributable to reinsurance ceded by U.S. ceding insurers if it resists enforcement of a final U.S. judgment;
- agree to meet application information filing requirements as the Commissioner determines for the initial application for certification and on an ongoing basis; and
- satisfy any other requirements for certification that the Commissioner considers relevant.

Chapter 321 of 2013 changed the name “accepted reinsurer” to “accredited reinsurer”; however, it did not make conforming changes to fee provisions. Even so, MIA has continued to collect fee revenue from accredited reinsurers and advises that the bill fixes this inadvertent omission. Chapter 321 of 2013 also created a new type of reinsurer known as “certified reinsurers,” but did not include a provision to authorize MIA to collect fees from these new entities.

MIA advises that, in the State, there are currently 52 accredited reinsurers and one certified reinsurer; however, the applications for two additional certified reinsurers are pending.

State Fiscal Effect: MIA advises that there is currently one certified reinsurer in the State and there are two pending applications that may take effect July 1, 2015. *For illustrative purposes*, assuming the two applicants are approved and there are no other certified reinsurer applicants in the State, MIA special fund revenues increase \$3,000 annually totaling \$15,000 over a five-year period.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 8, 2015
md/ljm

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Insurance – Reinsurer - Fees

BILL NUMBER: SB 554

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