

PARRIS N. GLENDENING
GOVERNOR

STEVEN B. LARSEN
COMMISSIONER

KATHLEEN KENNEDY
TOWNSEND
LIEUTENANT GOVERNOR

DONNA B. IMHOFF
DEPUTY COMMISSIONER



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September 21, 2001

The Honorable Parris N. Glendening
Governor of the State of Maryland
State House
Annapolis, Maryland 21401

Dear Governor Glendening:

Section 2-110(b) of the Insurance Article of the Annotated Code of Maryland requires that at least once every five years after December 1, 1995, the Commissioner shall prepare a report recommending any changes in the capital stock and surplus requirements considered appropriate under Sections 4-104 and 4-105 of the Insurance Article. For the reasons stated below, I do not believe any changes are necessary to the minimum capital stock and surplus to qualify to engage in insurance business in the State at this time.

Chapter 270, Acts of 1991, altered the capital stock and surplus required for insurers to qualify for authority to conduct insurance business in the State of Maryland. This Act also added a provision to the capital stock requirements, (Section 4-104(g)), which required that on or after July 1, 2001 an insurer that qualified on or before June 30, 1991, must have paid in capital stock in an amount not less than 150% of that required of an insurer authorized to transact insurance business in the State on June 30, 1991. This provision required several Maryland insurers to increase their paid in capital stock and surplus levels effective July 1, 2001.

In addition, Chapter 339, Acts of 1995, enacted risk-based capital standards for insurers. Risk-based capital is a method of determining the amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. Risk-based capital provides an elastic means of setting capital requirements based on the degree of risk taken by the insurer by applying factors to various assets, premium and claims reserves items. The risk-based capital formula and factors to be applied to assets, premium and reserves are continually reviewed and modified as appropriate by the National Association of Insurance Commissioners (NAIC).

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Risk-based capital standards are codified in Title 4, Subtitle 3 of the Insurance Article, and supplement the requirements of Sections 4-104 and 4-105. In most instances the risk-based capital requirements result in capital stock and surplus that exceed the minimum amounts. Therefore, I do not believe any changes are necessary to Sections 4-104 or 4-105.

Sincerely,

A handwritten signature in black ink, appearing to read "S. B. Larsen", written in a cursive style.

Steven B. Larsen
Insurance Commissioner

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