

# SENATE BILL 745

K1, C4

EMERGENCY BILL  
ENROLLED BILL

(2lr1711)

— Finance/Economic Matters —

Introduced by ~~Senator Middleton~~ Senators Middleton, Kelley, and Klausmeier

Read and Examined by Proofreaders:

\_\_\_\_\_  
Proofreader.

\_\_\_\_\_  
Proofreader.

Sealed with the Great Seal and presented to the Governor, for his approval this

\_\_\_\_\_ day of \_\_\_\_\_ at \_\_\_\_\_ o'clock, \_\_\_\_\_ M.

\_\_\_\_\_  
President.

CHAPTER \_\_\_\_\_

1 AN ACT concerning

2 **Injured Workers' Insurance Fund – Conversion to Chesapeake Employers'**  
3 **Insurance Company**

4 FOR the purpose of converting the Injured Workers' Insurance Fund into a statutorily  
5 created, private, nonprofit, and nonstock workers' compensation insurer to be  
6 named the Chesapeake Employers' Insurance Company; requiring the Company  
7 to file certain documents and take certain actions before a certain transfer date;  
8 providing that the Company has certain powers, privileges, and immunities  
9 granted by and is subject to certain provisions imposed on certain insurers;  
10 requiring the Company to be authorized, examined, and regulated by the  
11 Maryland Insurance Commissioner in a certain matter and to a certain extent  
12 and to be subject to certain provisions of law; providing that the Company is a  
13 member of the Property and Casualty Insurance Guaranty Corporation;  
14 requiring the Company to be an authorized insurer and, on and after a certain  
15 date, a certain insurer of last resort; requiring the Fund, before a certain date.

**EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.**

[Brackets] indicate matter deleted from existing law.

Underlining indicates amendments to bill.

~~Strike out~~ indicates matter stricken from the bill by amendment or deleted from the law by amendment.

*Italics* indicate opposite chamber / conference committee amendments.



## SENATE BILL 745

1 to serve as the workers' compensation insurer of last resort and as a competitive  
2 workers' compensation insurer under certain terms and conditions; specifying  
3 the circumstances under which the Company may cancel or refuse to renew or  
4 issue a policy; authorizing the Company to engage only in a certain business;  
5 establishing the Board for the Chesapeake Employers' Insurance Company;  
6 requiring the Board to adopt a certain schedule of premium rates; requiring the  
7 Commissioner to review certain rates for a certain purpose; requiring the Board  
8 to manage the business and affairs of the Company as a private, nonprofit  
9 corporation; specifying the qualifications and terms of members of the Board;  
10 requiring the Board to adopt rules, bylaws, and procedures; authorizing the  
11 Board to declare a policyholder dividend in a certain form under certain  
12 circumstances; providing that the Company is independent of State government  
13 and that the employees of the Company are not State employees and not  
14 members of the State Retirement and Pension System; providing that the  
15 money of the Company is not part of the General Fund of the State; providing  
16 that the State may not budget for or provide General Fund appropriations to  
17 the Company; providing that the debts, claims, obligations, and liabilities of the  
18 Company are not a debt of the State or a pledge of the credit of the State;  
19 requiring the Board to attempt to use minority business enterprises under  
20 certain circumstances for certain brokerage and investment management  
21 services; requiring the Board to submit a certain report on or before a certain  
22 date each year; requiring, on a certain date, that certain functions, powers,  
23 duties, assets, property, accounts, liabilities, contracts, and obligations be  
24 irrevocably transferred to the Company; prohibiting a certain contract or  
25 agreement with the State from being transferred or assigned to the Company  
26 until a certain time; requiring the Fund to retain certain assets; prohibiting the  
27 Company from being converted to a mutual or stock company, being sold, or  
28 being dissolved; providing that the Fund is an instrumentality of the State;  
29 requiring, on and after a certain date, the Company, and not the Fund, to serve  
30 as a certain insurer of last resort in a certain manner before a certain date;  
31 providing that the Fund shall continue to exist on and after a certain date;  
32 prohibiting the Fund from issuing certain policies or engaging in a certain  
33 business ~~except through the Company~~ on and after a certain date; authorizing  
34 the Fund to continue to be a certain third party administrator on and after a  
35 certain date; requiring the Company to utilize certain employees; ~~authorizing~~  
36 requiring the Fund to utilize certain employees; requiring the Fund to maintain  
37 a certain payroll and human resources system and be responsible for paying  
38 certain taxes and contributions and paying for certain benefits; providing that  
39 employees of the Fund may be assigned to perform certain functions of the  
40 Company; requiring the Company and the Fund to execute a certain agreement;  
41 prohibiting the Fund from hiring certain employees on and after a certain date;  
42 authorizing certain employees to remain employees of the Fund and continue to  
43 be State employees on and after a certain date; providing that certain  
44 employees of the Fund may not be required to be employees of the Company;  
45 authorizing certain employees to make a certain election; requiring the Board  
46 for the Fund to manage the business and affairs of the Fund in a certain  
47 manner; providing that members of the Board for the Fund continue to serve a

1 certain term and serve on the Board for the Company under certain terms and  
2 conditions; requiring the Board for the Fund to be subject to certain rules,  
3 bylaws, and procedures; ~~authorizing~~ requiring the President of the Fund to be  
4 the President of the Company; requiring the Fund to remain in existence under  
5 certain circumstances; providing for the termination of the Fund; repealing  
6 certain provisions relating to the Fund that are obsolete upon the conversion of  
7 the Fund to the Company; requiring the Fund to pay, on and after a certain  
8 date, certain amounts to the Employees' Retirement System or the Employees'  
9 Pension System on behalf of certain employees; requiring the Fund to pay a  
10 certain withdrawal liability contribution beginning on or before a certain date  
11 and each year thereafter; defining certain terms; stating certain findings of the  
12 General Assembly; providing that the Company is the successor of the Fund, the  
13 Board for the Company is the successor of the Board for the Fund, and the  
14 President of the Company is the successor of the President of the Fund;  
15 requiring that certain names and titles of certain agencies and officials mean  
16 the names and titles of the successor agency or official; providing that certain  
17 forms and documents may be used by the Company; ~~providing that certain~~  
18 ~~functions, powers, duties, equipment, assets, and liabilities be transferred to the~~  
19 ~~Company on a certain date; providing that compliance with certain provisions of~~  
20 ~~law is not required until a certain time~~ requiring the Maryland Insurance  
21 Administration to study, in consultation with certain persons and entities,  
22 whether the Company should be subject to a certain rating law; requiring the  
23 Administration to report on or before a certain date on certain findings and  
24 recommendations; ~~defining certain terms; stating a certain intent of the General~~  
25 ~~Assembly;~~ requiring the publisher of the Annotated Code, in consultation with  
26 the Department of Legislative Services, to make certain corrections in the Code;  
27 requiring the Administration to contract with a certain firm to conduct a certain  
28 study; requiring the study to consider the fair value of certain financial  
29 contributions and benefits; specifying the items that the study is required to  
30 consider in determining a certain fair value; requiring a certain firm, in  
31 conducting a certain study, to consult with certain persons; requiring the  
32 Administration to require a certain firm to report certain findings and  
33 conclusions to the Administration before a certain date; requiring the  
34 Administration to report the firm's findings and conclusions to certain  
35 legislative committees on or before a certain date; requiring the Administration  
36 to contract with certain consultants to conduct a certain assessment under  
37 certain circumstances; providing that the Company shall owe a certain debt to  
38 the General Fund under certain circumstances; specifying the manner in which  
39 the Company must pay the debt; requiring the Fund to be responsible for the  
40 payment of the costs of a certain study and a certain assessment; requiring the  
41 Fund and the Board of Trustees for the State Retirement and Pension System to  
42 enter into a certain agreement on or before a certain date; requiring the Fund to  
43 be responsible for the payment of certain costs incurred in calculating ~~a~~ certain  
44 ~~liability~~ liabilities; requiring the Fund to begin paying a certain amount to the  
45 State Employee and Retiree Health and Welfare Benefits Fund on or before a  
46 certain date; requiring the Injured Workers' Insurance Fund and the Department  
47 of Budget and Management, on or before a certain date, to enter into a

1 memorandum of agreement establishing the terms, conditions, and schedule for  
 2 certain payments by the Fund; making this Act an emergency measure;  
 3 providing for the effective dates of certain provisions of this Act; and generally  
 4 relating to the conversion of the Injured Workers' Insurance Fund to the  
 5 Chesapeake Employers' Insurance Company.

6 BY adding to

7 Article – Insurance

8 Section 24–301 through ~~24–311~~ 24–312 to be under the new subtitle “Subtitle 3.

9 Chesapeake Employers' Insurance Company” and the amended title

10 “Title 24. State Created Mutual Societies and Other Entities”

11 Annotated Code of Maryland

12 (2011 Replacement Volume)

13 BY repealing and reenacting, with amendments,

14 Article – Labor and Employment

15 Section 10–101, 10–104, 10–107, 10–109, and 10–113

16 Annotated Code of Maryland

17 (2008 Replacement Volume and 2011 Supplement)

18 BY repealing

19 Article – Labor and Employment

20 The part designation “Part I. Definitions” immediately preceding Section

21 10–101; and Section 10–105, 10–106, and 10–108 and the part “Part II.

22 Fund”; 10–110, 10–111, 10–112, and 10–114 and the part “Part III.

23 Board”; 10–117, 10–118, 10–120, 10–121, 10–122, 10–125, 10–126, and

24 10–127 and the part “Part IV. Purposes and Administration of Fund”;

25 10–130, 10–131, 10–132, 10–133, 10–134, 10–135, 10–136, 10–137, and

26 10–138 and the part “Part V. Insurance Program”; and 10–141 and the

27 part “Part VI. Prohibited Acts; Penalty”

28 Annotated Code of Maryland

29 (2008 Replacement Volume and 2011 Supplement)

30 BY adding to

31 Article – Labor and Employment

32 Section 10–103 and 10–107

33 Annotated Code of Maryland

34 (2008 Replacement Volume and 2011 Supplement)

35 BY adding to

36 Article – State Personnel and Pensions

37 Section 21–307(p)

38 Annotated Code of Maryland

39 (2009 Replacement Volume and 2011 Supplement)

40 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF  
 41 MARYLAND, That the Laws of Maryland read as follows:

## 1 Article - Insurance

2 Title 24. State Created Mutual Societies AND OTHER ENTITIES.

3 SUBTITLE 3. CHESAPEAKE EMPLOYERS' INSURANCE COMPANY.

4 24-301.

5 (A) IN THIS SUBTITLE THE FOLLOWING WORDS HAVE THE MEANINGS  
6 INDICATED.7 (B) "BOARD" MEANS THE BOARD FOR THE CHESAPEAKE EMPLOYERS'  
8 INSURANCE COMPANY.9 (C) "COMPANY" MEANS THE CHESAPEAKE EMPLOYERS' INSURANCE  
10 COMPANY.11 (D) "FUND" MEANS THE INJURED WORKERS' INSURANCE FUND  
12 ESTABLISHED UNDER TITLE 10 OF THE LABOR AND EMPLOYMENT ARTICLE.

13 24-302.

14 THE GENERAL ASSEMBLY FINDS AND DETERMINES THAT:

15 (1) EMPLOYERS' ACCESS TO AFFORDABLE WORKERS'  
16 COMPENSATION INSURANCE IS OF UTMOST IMPORTANCE TO THE ECONOMY OF  
17 THE STATE;18 (2) THE FUND HAS BEEN THE STATE'S INSURER OF LAST RESORT  
19 FOR WORKERS' COMPENSATION INSURANCE SINCE 1914;20 (3) SINCE ITS CREATION, THE FUND WAS PERMITTED TO  
21 COMPETE WITH THE PRIVATE INSURANCE MARKET; HOWEVER, THE FUND DID  
22 NOT BECOME AN EFFECTIVE COMPETITIVE INSURER UNTIL THE GENERAL  
23 ASSEMBLY EXEMPTED THE FUND FROM MOST LAWS THAT APPLY TO STATE  
24 GOVERNMENT AGENCIES AND REQUIRED THE FUND TO BE A REGULATED  
25 INSURER;26 (4) THE MOST EFFECTIVE WAY TO ENSURE THAT MARYLAND'S  
27 WORKERS' COMPENSATION SYSTEM REMAINS STABLE AND AFFORDABLE IS TO  
28 ENCOURAGE AND CREATE AS MUCH COMPETITION IN THE MARKETPLACE AS  
29 POSSIBLE;

1           (5) THE LONG-TERM COMPETITIVE SUCCESS OF THE FUND  
2 WOULD BE ENHANCED IF THE FINAL BARRIERS TO FULL COMPETITION WERE  
3 ELIMINATED BY CONVERTING THE FUND INTO A FULLY COMPETITIVE, FULLY  
4 REGULATED, PRIVATE INSURER;

5           (6) CONVERTING THE FUND INTO A PRIVATE, NONSTOCK,  
6 NONPROFIT INSURER WOULD LEVEL THE COMPETITIVE PLAYING FIELD FOR ALL  
7 WORKERS' COMPENSATION INSURERS OPERATING IN THE STATE;

8           (7) CONVERTING THE FUND INTO A PRIVATE, NONSTOCK,  
9 NONPROFIT INSURER WOULD PROVIDE ASSURANCE TO MARYLAND EMPLOYERS  
10 THAT THE FINANCIAL SUCCESS OF THE FUND WOULD INURE TO THEIR BENEFIT  
11 AS POLICYHOLDERS THROUGH DIVIDENDS AND LOWER RATES AND THAT  
12 SURPLUS FUNDS COULD NOT BE TRANSFERRED TO THE STATE'S GENERAL  
13 FUND;

14           (8) THE INTERESTS OF THE STATE WOULD BE PROTECTED IF THE  
15 FUND'S STATUTORY PURPOSE OF INSURER OF LAST RESORT FOR WORKERS'  
16 COMPENSATION INSURANCE IS PRESERVED AND THE GOVERNOR RETAINS THE  
17 RIGHT TO APPOINT THE MEMBERS OF THE BOARD OF THE NEW COMPANY;

18           (9) (I) THE INTERESTS OF THE EMPLOYEES OF THE FUND  
19 WOULD BE SATISFIED BY ENSURING THAT CURRENT EMPLOYEES HAVE THE  
20 OPTION TO REMAIN STATE EMPLOYEES OF THE FUND AFTER THE CONVERSION  
21 OF THE FUND TO A PRIVATE, NONSTOCK, NONPROFIT INSURER; AND

22                   (II) THE INTERESTS OF EMPLOYEES OF THE FUND WOULD  
23 FURTHER BE SATISFIED BY ENSURING THAT CURRENT LONG-TERM STATE  
24 EMPLOYEES WHO REMAIN STATE EMPLOYEES OF THE FUND AFTER THE  
25 CONVERSION OF THE FUND TO A PRIVATE, NONSTOCK, NONPROFIT INSURER  
26 SHALL REMAIN IN THE STATE RETIREMENT SYSTEM AND, THEREFORE, WOULD  
27 NOT BE UNFAIRLY PENALIZED BY BEING PREMATURELY FORCED OUT OF THE  
28 STATE RETIREMENT SYSTEM DUE TO THE CONVERSION; AND

29           (10) THE INTERESTS OF THE RESIDENTS OF THE STATE, BOTH  
30 EMPLOYERS AND EMPLOYEES, WILL BE BEST MET BY CONVERTING THE FUND  
31 INTO A PRIVATE, NONSTOCK, NONPROFIT, FULLY REGULATED, COMPETITIVE  
32 INSURER.

33 24-303.

34 (A) THERE IS A CHESAPEAKE EMPLOYERS' INSURANCE COMPANY.

35 (B) THE COMPANY SHALL BE:

1           (1) A PRIVATE, NONPROFIT, NONSTOCK ~~COMPANY~~ CORPORATION  
2 ORGANIZED UNDER STATE LAW; AND

3           (2) SUBJECT TO THE APPLICABLE PROVISIONS OF THE  
4 CORPORATIONS AND ASSOCIATIONS ARTICLE AS A NONSTOCK ~~COMPANY~~  
5 CORPORATION.

6           (C) BEFORE ~~MARCH~~ OCTOBER 1, 2013, THE COMPANY SHALL:

7           (1) FILE ARTICLES OF INCORPORATION UNDER THE  
8 CORPORATIONS AND ASSOCIATIONS ARTICLE; AND

9           (2) TAKE ALL STEPS NECESSARY TO BE A PRIVATE, NONPROFIT,  
10 NONSTOCK ~~COMPANY~~ CORPORATION ORGANIZED UNDER STATE LAW.

11 24-304.

12           (A) BEFORE ~~MARCH~~ OCTOBER 1, 2013, THE COMPANY SHALL:

13           (1) FILE AN APPLICATION FOR A CERTIFICATE OF AUTHORITY  
14 UNDER THIS ARTICLE AND A STATEMENT OF THE RISK-BASED CAPITAL LEVELS  
15 OF THE COMPANY AS OF THE DATE OF THE APPLICATION PREPARED IN  
16 ACCORDANCE WITH § 4-303 OF THIS ARTICLE; AND

17           (2) TAKE ALL STEPS NECESSARY TO BE AN AUTHORIZED  
18 DOMESTIC INSURER UNDER STATE LAW.

19           (B) ON APPROVAL OF THE APPLICATION FOR A CERTIFICATE OF  
20 AUTHORITY, THE COMMISSIONER SHALL ISSUE TO THE COMPANY A  
21 CERTIFICATE OF AUTHORITY THAT AUTHORIZES THE COMPANY TO ISSUE  
22 POLICIES UNDER TITLE 9 OF THE LABOR AND EMPLOYMENT ARTICLE.

23           (C) EXCEPT AS OTHERWISE PROVIDED IN THIS SUBTITLE, THE  
24 COMPANY HAS THE POWERS, PRIVILEGES, AND IMMUNITIES GRANTED BY AND  
25 IS SUBJECT TO THE PROVISIONS APPLICABLE TO INSURERS AUTHORIZED TO  
26 WRITE WORKERS' COMPENSATION INSURANCE UNDER THIS ARTICLE.

27           (D) EXCEPT AS OTHERWISE PROVIDED IN THIS SUBTITLE, THE  
28 COMPANY SHALL BE:

29           (1) AUTHORIZED, EXAMINED, AND REGULATED BY THE  
30 COMMISSIONER IN THE SAME MANNER AND TO THE SAME EXTENT AS OTHER  
31 AUTHORIZED PROPERTY AND CASUALTY INSURERS; AND

1           (2) SUBJECT TO EACH PROVISION OF THIS ARTICLE THAT IS  
2 APPLICABLE TO OTHER AUTHORIZED PROPERTY AND CASUALTY INSURERS.

3           ~~(D)~~ (E)       THE COMPANY IS A MEMBER OF THE PROPERTY AND  
4 CASUALTY INSURANCE GUARANTY CORPORATION.

5 24-305.

6           (A)   THE COMPANY IS NOT SUBJECT TO TITLE 11 OF THIS ARTICLE.

7           (B)   THE BOARD SHALL:

8                   (1)   ADOPT A SCHEDULE OF PREMIUM RATES IN ACCORDANCE  
9 WITH SOUND ACTUARIAL PRACTICES; AND

10                   (2)   ENSURE THAT THE RATES ARE NOT EXCESSIVE, INADEQUATE,  
11 OR UNFAIRLY DISCRIMINATORY.

12           (C)   (1)   THE BOARD SHALL DETERMINE THE SCHEDULE OF PREMIUM  
13 RATES BY:

14                           (I)   CLASSIFYING ALL OF THE POLICYHOLDERS OF THE  
15 COMPANY ON THE BASIS OF THE RESPECTIVE LEVEL OF HAZARD OF THEIR  
16 ENTERPRISES; AND

17                           (II)   SETTING A PREMIUM RATE FOR EACH CLASS ON THE  
18 BASIS OF:

19                                   1.   ITS LEVEL OF HAZARD; AND

20                                   2.   INCENTIVES TO PREVENT INJURIES TO  
21 EMPLOYEES.

22                   (2)   TO DETERMINE THE SCHEDULE OF PREMIUM RATES, THE  
23 BOARD SHALL USE THE RATING SYSTEM THAT, IN THE OPINION OF THE BOARD:

24                           (I)   MOST ACCURATELY MEASURES THE LEVEL OF HAZARD  
25 FOR EACH POLICYHOLDER ON THE BASIS OF THE NUMBER OF INJURIES THAT  
26 OCCUR IN THE ENTERPRISES OF THE POLICYHOLDER;

27                           (II)   ENCOURAGES THE PREVENTION OF INJURIES; AND

1                    (III) ENSURES THE SOLVENCY OF THE COMPANY FROM YEAR  
2 TO YEAR.

3                    (3) THE BOARD MAY SET MINIMUM PREMIUM RATES FOR  
4 POLICIES ISSUED BY THE COMPANY.

5                    (D) THE COMMISSIONER SHALL REVIEW THE COMPANY'S RATES AS  
6 PART OF AN EXAMINATION UNDER § 2-205 OF THIS ARTICLE TO DETERMINE  
7 WHETHER THE COMPANY'S RATE MAKING PRACTICES PRODUCE ACTUARIALLY  
8 SOUND RATES.

9 24-306.

10                  (A) THE COMPANY ~~SHALL BE~~:

11                    (1) SHALL BE AN AUTHORIZED INSURER; AND

12                    (2) ON AND AFTER OCTOBER 1, 2013, SHALL BE THE WORKERS'  
13 COMPENSATION INSURER OF LAST RESORT FOR EMPLOYERS COVERED UNDER  
14 TITLE 9 OF THE LABOR AND EMPLOYMENT ARTICLE.

15                    (B) BEFORE OCTOBER 1, 2013, THE FUND SHALL SERVE AS THE  
16 WORKERS' COMPENSATION INSURER OF LAST RESORT FOR WORKERS'  
17 COMPENSATION INSURANCE AND AS A COMPETITIVE WORKERS' COMPENSATION  
18 INSURER UNDER THE SAME TERMS AND CONDITIONS AS THE FUND SERVED  
19 BEFORE OCTOBER 1, 2012.

20                  ~~(B)~~ (C) THE COMPANY MAY NOT CANCEL OR REFUSE TO RENEW OR  
21 ISSUE A POLICY EXCEPT FOR:

22                    (1) NONPAYMENT OF A PREMIUM FOR CURRENT OR PRIOR  
23 POLICIES ISSUED BY THE FUND OR THE COMPANY;

24                    (2) FAILURE TO PROVIDE PAYROLL INFORMATION TO THE FUND  
25 OR THE COMPANY; OR

26                    (3) FAILURE TO COOPERATE IN ANY PAYROLL AUDIT CONDUCTED  
27 BY THE FUND OR THE COMPANY.

28                  ~~(C)~~ (D) THE COMPANY MAY ENGAGE ONLY IN THE BUSINESS OF  
29 WORKERS' COMPENSATION INSURANCE IN ACCORDANCE WITH STATE LAW.

30 ~~24-306.~~ 24-307.

1 (A) (1) THERE IS A BOARD FOR THE CHESAPEAKE EMPLOYERS'  
2 INSURANCE COMPANY.

3 (2) THE BOARD SHALL MANAGE THE BUSINESS AND AFFAIRS OF  
4 THE COMPANY AS A PRIVATE, NONPROFIT CORPORATION IN ACCORDANCE WITH  
5 STATE LAW.

6 (B) THE BOARD SHALL CONSIST OF NINE MEMBERS APPOINTED BY THE  
7 GOVERNOR WITH THE ADVICE AND CONSENT OF THE SENATE.

8 (C) EACH MEMBER SHALL BE A ~~CITIZEN~~ RESIDENT OF THE STATE.

9 (D) BEFORE TAKING OFFICE, EACH APPOINTEE TO THE BOARD SHALL  
10 TAKE THE OATH REQUIRED BY ARTICLE I, § 9 OF THE MARYLAND  
11 CONSTITUTION.

12 (E) (1) THE TERM OF A MEMBER IS 5 YEARS.

13 (2) THE TERMS OF MEMBERS ARE STAGGERED AS REQUIRED BY  
14 THE TERMS PROVIDED FOR MEMBERS OF THE BOARD FOR THE FUND ON  
15 OCTOBER 1, 1991.

16 (3) AT THE END OF A TERM, A MEMBER CONTINUES TO SERVE  
17 UNTIL A SUCCESSOR IS APPOINTED AND QUALIFIES.

18 (4) A MEMBER WHO IS APPOINTED AFTER A TERM HAS BEGUN  
19 SERVES ONLY FOR THE REST OF THE TERM AND UNTIL A SUCCESSOR IS  
20 APPOINTED AND QUALIFIES.

21 (5) A MEMBER MAY NOT SERVE FOR MORE THAN:

22 (I) TWO FULL TERMS; OR

23 (II) A TOTAL OF 10 YEARS.

24 (F) THE GOVERNOR MAY REMOVE A MEMBER FOR INCOMPETENCE OR  
25 MISCONDUCT.

26 (G) THE BOARD SHALL ADOPT RULES, BYLAWS, AND PROCEDURES.

27 ~~24-307.~~ 24-308.

1           (A) SUBJECT TO SUBSECTION (B) OF THIS SECTION, THE BOARD MAY  
2 DECLARE A POLICYHOLDER DIVIDEND IN THE FORM OF A CASH REFUND OR  
3 CREDIT TO:

4           (1) A POLICYHOLDER BASED ON THE ACTUAL LOSS RATIO THAT IS  
5 BETTER THAN THE LOSS RATIO USED TO CALCULATE THE POLICYHOLDER'S  
6 PREMIUM; OR

7           (2) ALL POLICYHOLDERS WHOSE LOSS RATIO CONTRIBUTED TO  
8 THE COMPANY'S SURPLUS FOR THAT YEAR.

9           (B) (1) THE BOARD MAY NOT ISSUE A POLICYHOLDER DIVIDEND  
10 UNDER SUBSECTION ~~(A)~~ (A)(2) OF THIS SECTION UNLESS THE COMMISSIONER  
11 HAS APPROVED THE POLICYHOLDER DIVIDEND.

12           (2) IN DETERMINING WHETHER TO APPROVE THE POLICYHOLDER  
13 DIVIDEND UNDER PARAGRAPH (1) OF THIS SUBSECTION, THE COMMISSIONER  
14 SHALL CONSIDER:

15                   (I) THE COMPANY'S SURPLUS;

16                   (II) MATERIAL CHANGES IN PREMIUM RATES, CLAIMS,  
17 MARKET SHARE, OR TYPES OF INSURED RISKS;

18                   (III) THE METHODOLOGY THE BOARD USED TO DETERMINE  
19 THAT POLICYHOLDERS ARE ELIGIBLE FOR THE POLICYHOLDER DIVIDEND; AND

20                   (IV) ANY OTHER FACTOR THE COMMISSIONER CONSIDERS  
21 RELEVANT.

22 ~~24-308.~~ 24-309.

23           (A) THE COMPANY IS NOT AND MAY NOT BE DEEMED TO BE A  
24 DEPARTMENT, UNIT, AGENCY, OR INSTRUMENTALITY OF THE STATE FOR ANY  
25 PURPOSE.

26           (B) EMPLOYEES OF THE COMPANY ARE NOT:

27                   (1) EMPLOYEES OF THE STATE; OR

28                   (2) MEMBERS OF THE STATE RETIREMENT AND PENSION  
29 SYSTEM.

1 (C) ALL DEBTS, CLAIMS, OBLIGATIONS, AND LIABILITIES OF THE  
2 COMPANY, WHENEVER INCURRED, SHALL BE THE DEBTS, CLAIMS,  
3 OBLIGATIONS, AND LIABILITIES OF THE COMPANY ONLY AND NOT OF THE  
4 STATE OR THE STATE'S DEPARTMENTS, UNITS, AGENCIES,  
5 INSTRUMENTALITIES, OFFICERS, OR EMPLOYEES.

6 (D) (1) MONEY OF THE COMPANY IS NOT PART OF THE GENERAL  
7 FUND OF THE STATE.

8 (2) THE STATE MAY NOT BUDGET FOR OR PROVIDE GENERAL  
9 FUND APPROPRIATIONS TO THE COMPANY.

10 (3) THE DEBTS, CLAIMS, OBLIGATIONS, AND LIABILITIES OF THE  
11 COMPANY ARE NOT A DEBT OF THE STATE OR A PLEDGE OF THE CREDIT OF THE  
12 STATE.

13 ~~24-309.~~ 24-310.

14 (A) CONSISTENT WITH MINORITY BUSINESS PURCHASING STANDARDS  
15 APPLICABLE TO UNITS OF STATE GOVERNMENT UNDER THE STATE FINANCE  
16 AND PROCUREMENT ARTICLE AND CONSISTENT WITH THE FIDUCIARY DUTIES  
17 OF THE BOARD, THE BOARD SHALL ATTEMPT TO USE TO THE GREATEST EXTENT  
18 FEASIBLE MINORITY BUSINESS ENTERPRISES TO PROVIDE BROKERAGE AND  
19 INVESTMENT MANAGEMENT SERVICES TO THE BOARD.

20 (B) FOR PURPOSES OF THIS SECTION, BROKERAGE AND INVESTMENT  
21 MANAGEMENT SERVICES SHALL INCLUDE SERVICES RELATING TO ALL  
22 ALLOCATED ASSET CLASSES.

23 (C) (1) TO ASSIST THE BOARD IN ACHIEVING THE GOAL DESCRIBED  
24 UNDER SUBSECTION (A) OF THIS SECTION, THE BOARD SHALL UNDERTAKE  
25 MEASURES TO REMOVE ANY BARRIERS THAT LIMIT FULL PARTICIPATION BY  
26 MINORITY BUSINESS ENTERPRISES IN BROKERAGE AND INVESTMENT  
27 MANAGEMENT SERVICES OPPORTUNITIES AFFORDED BY THE COMPANY.

28 (2) THE MEASURES UNDERTAKEN BY THE BOARD SHALL  
29 INCLUDE THE USE OF A WIDE VARIETY OF MEDIA, INCLUDING THE BOARD'S  
30 WEB SITE, TO PROVIDE NOTICE TO A BROAD AND VARIED RANGE OF POTENTIAL  
31 PROVIDERS ABOUT THE BROKERAGE AND INVESTMENT MANAGEMENT SERVICES  
32 OPPORTUNITIES AFFORDED BY THE COMPANY.

33 (D) IN CONJUNCTION WITH THE GOVERNOR'S OFFICE OF MINORITY  
34 AFFAIRS, THE BOARD SHALL DEVELOP GUIDELINES TO ASSIST IT IN  
35 IDENTIFYING AND EVALUATING QUALIFIED MINORITY BUSINESS ENTERPRISES

1 IN ORDER TO HELP THE COMPANY ACHIEVE THE OBJECTIVE FOR GREATER USE  
2 OF MINORITY BUSINESS ENTERPRISES FOR BROKERAGE AND INVESTMENT  
3 MANAGEMENT SERVICES.

4 (E) ON OR BEFORE SEPTEMBER 1 EACH YEAR, THE BOARD SHALL  
5 SUBMIT A REPORT TO THE GOVERNOR'S OFFICE OF MINORITY AFFAIRS AND,  
6 ~~SUBJECT TO~~ IN ACCORDANCE WITH § 2-1246 OF THE STATE GOVERNMENT  
7 ARTICLE, THE GENERAL ASSEMBLY ON:

8 (1) THE IDENTITY OF THE MINORITY BUSINESS ENTERPRISE  
9 BROKERAGE AND INVESTMENT MANAGEMENT SERVICES FIRMS USED BY THE  
10 BOARD IN THE IMMEDIATELY PRECEDING FISCAL YEAR;

11 (2) THE PERCENTAGE AND DOLLAR VALUE OF THE COMPANY  
12 ASSETS THAT ARE UNDER THE INVESTMENT CONTROL OF MINORITY BUSINESS  
13 ENTERPRISE BROKERAGE AND INVESTMENT MANAGEMENT SERVICES FIRMS;  
14 AND

15 (3) THE MEASURES THE BOARD UNDERTOOK IN THE  
16 IMMEDIATELY PRECEDING FISCAL YEAR IN ACCORDANCE WITH SUBSECTION  
17 (C)(2) OF THIS SECTION.

18 ~~24-310.~~ 24-311.

19 (A) EXCEPT AS PROVIDED IN ~~SUBSECTION (B)~~ SUBSECTIONS (B) AND (C)  
20 OF THIS SECTION, ON ~~MARCH~~ OCTOBER 1, 2013, ALL THE FUNCTIONS, POWERS,  
21 DUTIES, ASSETS, REAL AND PERSONAL PROPERTY, ACCOUNTS, LIABILITIES,  
22 CONTRACTS, AND OBLIGATIONS OF THE FUND SHALL BE IRREVOCABLY  
23 TRANSFERRED TO THE COMPANY, INCLUDING LIABILITY FOR ALL CLAIMS,  
24 WHETHER KNOWN OR UNKNOWN, ARISING OUT OF ANY INSURANCE POLICY  
25 PREVIOUSLY ISSUED BY THE FUND.

26 (B) ANY CONTRACT OR AGREEMENT WITH THE STATE FOR THE THIRD  
27 PARTY ADMINISTRATION OF THE STATE'S SELF-INSURED WORKERS'  
28 COMPENSATION PROGRAM FOR STATE EMPLOYEES MAY NOT BE TRANSFERRED  
29 OR ASSIGNED TO THE COMPANY UNTIL THE FUND NO LONGER HAS EMPLOYEES.

30 (C) THE FUND SHALL RETAIN THOSE ASSETS NECESSARY TO PERFORM  
31 ITS DUTIES UNDER TITLE 10 OF THE LABOR AND EMPLOYMENT ARTICLE.

32 ~~24-311.~~ 24-312.

33 THE COMPANY MAY NOT:



## [Part II. Fund.]

1  
2 [10-104.] 10-102.

3 (A) (1) There is an Injured Workers' Insurance Fund.

4 (2) THE FUND IS AN INSTRUMENTALITY OF THE STATE.

5 (B) ~~BEFORE MARCH 1, 2013~~ ON AND AFTER OCTOBER 1, 2013, THE  
6 COMPANY, AND NOT THE FUND, SHALL SERVE AS THE WORKERS'  
7 COMPENSATION INSURER OF LAST RESORT FOR WORKERS' COMPENSATION  
8 INSURANCE ~~AND AS A COMPETITIVE WORKERS' COMPENSATION INSURER~~  
9 ~~UNDER THE SAME TERMS AND CONDITIONS AS THE FUND SERVED BEFORE~~  
10 ~~OCTOBER 1, 2012.~~

11 (C) ON AND AFTER ~~MARCH~~ OCTOBER 1, 2013, THE FUND:

12 (1) SHALL CONTINUE TO EXIST; BUT

13 (2) MAY NOT ISSUE NEW POLICIES OR OTHERWISE ENGAGE IN  
14 THE BUSINESS OF INSURANCE ~~EXCEPT THROUGH THE COMPANY.~~

15 (D) ON AND AFTER ~~MARCH~~ OCTOBER 1, 2013, THE FUND MAY  
16 CONTINUE TO BE THE THIRD PARTY ADMINISTRATOR FOR THE STATE'S  
17 SELF-INSURED WORKERS' COMPENSATION PROGRAM FOR STATE EMPLOYEES  
18 UNDER A CONTRACT WITH THE STATE.

19 (E) (1) ~~IN~~ SUBJECT TO SUBSECTION (F) OF THIS SECTION, IN THE  
20 OPERATION OF THE COMPANY, THE COMPANY SHALL UTILIZE EMPLOYEES OF  
21 ~~THE FUND AND~~ THE COMPANY.

22 (2) IN THE OPERATION OF THE FUND, THE FUND ~~MAY~~ SHALL  
23 UTILIZE EMPLOYEES OF THE FUND ~~OR THE COMPANY.~~

24 (3) THE FUND SHALL:

25 (I) MAINTAIN A PAYROLL AND HUMAN RESOURCES SYSTEM;

26 AND

27 (II) BE RESPONSIBLE FOR PAYING:

28 1. THE EMPLOYER PORTION OF ANY PAYROLL OR  
29 OTHER TAXES AND RETIREMENT OR PENSION CONTRIBUTIONS FOR EMPLOYEES  
30 OF THE FUND; AND



1 (IV) SHALL BE SUBJECT TO EACH LAW THAT APPLIED TO  
2 EMPLOYEES OF THE FUND IMMEDIATELY BEFORE ~~MARCH~~ OCTOBER 1, 2013;

3 (V) SHALL BE SUBJECT TO THE SAME TERMS AND  
4 CONDITIONS OF EMPLOYMENT AS EXISTED IMMEDIATELY BEFORE ~~MARCH~~  
5 OCTOBER 1, 2013, INCLUDING BENEFITS, LEAVE, AND PAY GRADE;

6 (VI) SHALL REMAIN IN THE STATE RETIREMENT SYSTEM  
7 ONLY IF THEY REMAIN EMPLOYEES OF THE FUND;

8 (VII) EXCEPT FOR CHANGES IN BENEFITS OR COMPENSATION  
9 APPLICABLE TO STATE EMPLOYEES GENERALLY, MAY NOT BE DENIED ANY  
10 COMPENSATION OR BENEFIT PROVIDED TO EMPLOYEES OF THE FUND AS OF  
11 ~~MARCH~~ OCTOBER 1, 2013;

12 (VIII) MAY NOT BE DENIED A PROMOTION, BASED ON THE  
13 EMPLOYEE'S STATUS AS AN EMPLOYEE OF THE FUND; AND

14 (IX) SUBJECT TO SUBSECTION (B) OF THIS SECTION, MAY  
15 ELECT TO BE AN EMPLOYEE OF THE COMPANY.

16 (B) IF AN EMPLOYEE OF THE FUND INTENDS TO ELECT TO BE AN  
17 EMPLOYEE OF THE COMPANY UNDER SUBSECTION (A)(2)(IX) OF THIS SECTION,  
18 THE COMPANY SHALL:

19 (1) REQUIRE THE EMPLOYEE TO MAKE THE ELECTION IN  
20 WRITING; AND

21 (2) PROVIDE THE EMPLOYEE WITH INFORMATION THAT:

22 (I) STATES THAT THE ELECTION OF THE EMPLOYEE TO  
23 BECOME AN EMPLOYEE OF THE COMPANY IS VOLUNTARY AND IRREVOCABLE;  
24 AND

25 (II) FULLY ~~DISCLOSURES~~ DISCLOSES THE TERMS OF  
26 EMPLOYMENT WITH THE COMPANY.

27 (C) AN EMPLOYEE OF THE COMPANY MAY NOT ELECT TO BE AN  
28 EMPLOYEE OF THE FUND.

29 [10-105.

30 (a) Except for Title 3, Subtitle 1, Title 8, Subtitle 3, and Title 11 of the  
31 Insurance Article and as otherwise provided by law, the Fund is subject to the

1 Insurance Article to the same extent as an authorized domestic workers' compensation  
2 insurer.

3 (b) Notwithstanding subsection (a) of this section, the Fund shall register  
4 with the Commissioner and be subject to the provisions of Title 8, Subtitle 3 of the  
5 Insurance Article if the Fund operates as an administrator, as defined in § 8-301 of  
6 the Insurance Article.]

7 [10-106.

8 (a) Subject to subsection (b) of this section, the Fund shall operate in a  
9 manner similar to an authorized domestic workers' compensation insurer.

10 (b) The Fund shall:

11 (1) serve as a competitive insurer in the marketplace;

12 (2) guarantee the availability of workers' compensation insurance in  
13 the State;

14 (3) serve as the workers' compensation insurer of last resort; and

15 (4) engage only in the business of workers' compensation insurance in  
16 accordance with State law.]

17 [10-107.] 10-104.

18 (a) The Fund is independent of all State units.

19 (b) (1) Except as provided in paragraph (2) of this subsection and  
20 elsewhere in this subtitle, the Fund is not subject to any law, including § 6-106 of the  
21 State Government Article, that affects governmental units.

22 (2) The Fund is subject to:

23 (i) Title 10, Subtitle 6, Part III of the State Government Article;

24 (ii) Title 12 of the State Government Article;

25 (iii) the Maryland Public Ethics Law; and

26 (iv) Title 5, Subtitle 3 of the State Personnel and Pensions  
27 Article.

28 (3) Paragraph (1) of this subsection does not affect the exemption from  
29 property tax under § 7-210 of the Tax - Property Article.



- 1 (b) Each member shall be a citizen of the State.
- 2 (c) Before taking office, each appointee to the Board shall take the oath  
3 required by Article I, § 9 of the Maryland Constitution.
- 4 (d) (1) The term of a member is 5 years.
- 5 (2) The terms of members are staggered as required by the terms  
6 provided for members of the Board on October 1, 1991.
- 7 (3) At the end of a term, a member continues to serve until a successor  
8 is appointed and qualifies.
- 9 (4) A member who is appointed after a term has begun serves only for  
10 the rest of the term and until a successor is appointed and qualifies.
- 11 (5) A member may not serve for more than:
- 12 (i) two full terms; or
- 13 (ii) a total of 10 years.
- 14 (e) The Governor may remove a member for incompetence or misconduct.]  
15 [10-111.
- 16 (a) From among its members, the Board annually shall elect a chairman, a  
17 vice chairman, and a secretary.
- 18 (b) The manner of election of officers shall be as the Board determines.]  
19 [10-112.
- 20 (a) The Board may not act on any matter unless at least 5 members concur.
- 21 (b) Each member of the Board shall devote the time needed to carry out the  
22 duties of office.
- 23 (c) The Board shall determine the times and places of its meetings.
- 24 (d) (1) Each member of the Board is entitled to:
- 25 (i) the salary provided in the budget of the Board; and
- 26 (ii) reimbursement for reasonable expenses:

1 1. incurred in the performance of the Board member's  
2 duties; and

3 2. as provided in the budget of the Board.

4 (2) Each member of the Board shall be paid biweekly.]

5 [10-113.] **10-106.**

6 (a) (1) The Board[:

7 (1)] shall appoint a President of the Fund[;

8 (2) shall appoint or employ attorneys to advise and represent the Fund  
9 in all legal matters and, where necessary, to sue or defend suits in the name of the  
10 Fund; and

11 (3) may employ other staff].

12 (2) **THE PRESIDENT OF THE FUND ~~MAY~~ SHALL BE THE**  
13 **PRESIDENT OF THE COMPANY.**

14 (b) (1) Except as provided in paragraph (2) of this subsection, employees  
15 of the Fund are special appointments.

16 (2) A classified employee of the Fund hired before July 1, 1990 in a  
17 nonprofessional or nontechnical position shall remain a member of the classified  
18 service or its equivalent in the State Personnel Management System as long as the  
19 employee remains in a nonprofessional or nontechnical position with the Fund.

20 (c) (1) The Board shall set compensation for its employees.

21 (2) Except as otherwise provided in this subtitle, an employee of the  
22 Fund is not subject to any law, regulation, or executive order governing State  
23 employee compensation, including furloughs, salary reductions, or any other General  
24 Fund cost savings measure.

25 (d) (1) This subsection does not apply to the layoff of an employee because  
26 of lack of work.

27 (2) An employee of the Fund may not be permanently removed unless:

28 (i) written charges are filed;

29 (ii) the employee has an opportunity for a hearing in accordance  
30 with Title 10, Subtitle 2 of the State Government Article; and

1 (iii) there is cause for removal.

2 10-107.

3 ~~THE~~ NOTWITHSTANDING ANY OTHER LAW TO THE CONTRARY, THE FUND  
4 SHALL REMAIN IN EXISTENCE UNTIL IT:

5 (1) ~~SHALL REMAIN IN EXISTENCE SO LONG AS THE FUND~~  
6 ~~CONTINUES TO HAVE NO LONGER HAS ANY EMPLOYEES; AND~~

7 (2) ~~MAY BE~~ IS ~~TERMINATED ONLY~~ BY THE REPEAL OF THIS  
8 SUBTITLE.

9 [10-114.

10 (a) The Board may adopt any policy to carry out this subtitle.

11 (b) (1) The Board shall have a plan to promote the services of the Fund to  
12 employers in the State.

13 (2) As part of the plan, the Board may prepare a pamphlet about the  
14 Fund and provide copies to each county for distribution to businesses with personal  
15 property tax bills.]

16 [Part IV. Purposes and Administration of Fund.]

17 [10-117.

18 The Board:

19 (1) shall use the Fund to insure employers against liability under Title  
20 9 of this article; and

21 (2) may use the Fund:

22 (i) to provide employer's liability insurance; and

23 (ii) on behalf of a policyholder, to pay benefits equal to benefits  
24 allowed under:

25 1. a compensation law of another state; or

26 2. a federal compensation law.]

27 [10-118.

1 (a) The Fund shall consist of:

2 (1) premiums for insurance that the Fund issues;

3 (2) income from investments under § 10-122 of this subtitle;

4 (3) interests on deposits or investments of money from the Fund; and

5 (4) the money that the Attorney General collects under § 10-133(c) of  
6 this subtitle on debts.

7 (b) The Fund shall include each security or other property that is acquired  
8 with money of the Fund.

9 (c) The Board shall use the Fund to pay all of the expenses under this  
10 subtitle, including losses on insurance that the Fund issues.]

11 [10-120.

12 (a) The Board shall administer the Fund.

13 (b) (1) The Board shall prepare capital and operating budgets for the  
14 Fund.

15 (2) For information only, the Board shall submit the budgets to the  
16 Senate Budget and Taxation Committee and the House Appropriations Committee.

17 (c) The Board shall issue receipts for money that the Fund receives.]

18 [10-121.

19 The Board shall keep reserves and surplus in accordance with the Insurance  
20 Article.]

21 [10-122.

22 (a) Consistent with minority business purchasing standards applicable to  
23 units of State government under the State Finance and Procurement Article and  
24 consistent with the fiduciary duties of the Board, the Board shall attempt to use to the  
25 greatest extent feasible minority business enterprises to provide brokerage and  
26 investment management services to the Board.

27 (b) For purposes of this section, brokerage and investment management  
28 services shall include services relating to all allocated asset classes.

1           (c)   (1)   To assist it in achieving the goal described under subsection (a) of  
2 this section, the Board shall undertake measures to remove any barriers that limit full  
3 participation by minority business enterprises in brokerage and investment  
4 management services opportunities afforded by the Fund.

5           (2)   The measures undertaken by the Board shall include the use of a  
6 wide variety of media, including the Board's website, to provide notice to a broad and  
7 varied range of potential providers about the brokerage and investment management  
8 services opportunities afforded by the Fund.

9           (d)   In conjunction with the Governor's Office of Minority Affairs, the Board  
10 shall develop guidelines to assist it in identifying and evaluating qualified minority  
11 business enterprises in order to help the Fund achieve the objective for greater use of  
12 minority business enterprises for brokerage and investment management services.

13           (e)   On or before September 1 each year, the Board shall submit a report to  
14 the Governor's Office of Minority Affairs and, subject to § 2-1246 of the State  
15 Government Article, the General Assembly on:

16           (1)   the identity of the minority business enterprise brokerage and  
17 investment management services firms used by the Board in the immediately  
18 preceding fiscal year;

19           (2)   the percentage and dollar value of the Fund assets that are under  
20 the investment control of minority business enterprise brokerage and investment  
21 management services firms; and

22           (3)   the measures the Board undertook in the immediately preceding  
23 fiscal year in accordance with subsection (c)(2) of this section.]

24 [10-125.

25           (a)   The Fund shall be examined by the Commissioner in accordance with  
26 Title 2, Subtitle 2 (Enforcement) of the Insurance Article.

27           (b)   As part of an examination under § 2-205 of the Insurance Article, the  
28 Commissioner shall, at least once every 5 years, determine whether the Fund's rate  
29 making practices produce actuarially sound rates.]

30 [10-126.

31           (a)   Within 90 days after the close of each fiscal year, the Board shall submit  
32 to the Governor an annual report that includes a detailed statement of:

33           (1)   the condition and expenses of the Fund in detail;

- 1 (2) growth of the Fund;
- 2 (3) changes in earned premiums of the Fund;
- 3 (4) changes in the number of policyholders of the Fund;
- 4 (5) the degree of the Fund's personnel flexibility;
- 5 (6) trends in the overall market share; and
- 6 (7) trends in the premium to expense ratio.

7 (b) (1) On or before October 1 of each year, the Fund shall submit to the  
8 Governor:

9 (i) a copy of each policy form that the Fund will use during the  
10 next calendar year;

11 (ii) the schedule of premium rates that the Fund will charge for  
12 the next calendar year;

13 (iii) information about provision for claim payment, as defined in  
14 § 11-330(a) of the Insurance Article, for each class for which the Fund writes coverage;  
15 and

16 (iv) other information that the Governor requests about  
17 premium rates, including classes, financial information, and losses.

18 (2) (i) Information required under paragraph (1)(ii) through (iv) of  
19 this subsection shall be submitted on the form that the Governor requires.

20 (ii) The form shall conform as closely as possible to the form  
21 that a rating organization uses to comply with §§ 11-307, 11-329, and 11-330 of the  
22 Insurance Article.]

23 [10-127.

24 If the General Assembly repeals this subtitle, money in the Fund at the time of  
25 repeal shall be distributed:

26 (1) as the General Assembly provides; or

27 (2) if the General Assembly does not provide for distribution, as justice  
28 requires, with due regard for existing obligations for compensation.]

29 [Part V. Insurance Program.]

1 [10-130.

2 (a) The Board shall adopt a schedule of premium rates in accordance with  
3 sound actuarial practices and shall ensure that the rates are not excessive,  
4 inadequate, or unfairly discriminatory.

5 (b) The Commissioner shall review the Fund's rates as part of an  
6 examination under § 2-205 of the Insurance Article to determine whether the Fund's  
7 rate making practices produce actuarially sound rates.

8 (c) (1) The Board shall determine the schedule by:

9 (i) classifying all of the policyholders on the basis of the  
10 respective level of hazard of their enterprises; and

11 (ii) setting a premium rate for each class on the basis of:

12 1. its level of hazard; and

13 2. incentives to prevent injuries to employees.

14 (2) To determine the schedule, the Board shall use the rating system  
15 that, in the opinion of the Board:

16 (i) most accurately measures the level of hazard for each  
17 policyholder on the basis of the number of injuries that occur in the enterprises of the  
18 policyholder;

19 (ii) encourages the prevention of injuries; and

20 (iii) ensures the solvency of the Fund from year to year.

21 (3) The Board may set minimum premium rates.

22 (d) (1) The Board shall state premium rates as a percentage of the gross  
23 annual wages of employees to whom Title 9 of this article applies.

24 (2) For employees who work partly in and partly outside the State, the  
25 premium shall be based on wages for employment in the State.

26 (e) (1) Except as provided in paragraph (2) of this subsection, the  
27 schedule of premium rates in effect at the beginning of a calendar year remains in  
28 effect for the year.

1           (2) The Board shall adjust classes and rates as often as the Board  
2 determines to be just and advantageous to meet the criteria under subsection (c)(2) of  
3 this section and to reflect changes in levels of hazards.]

4 [10-131.

5           An employer shall apply for insurance under this subtitle in accordance with  
6 the policies of the Board.]

7 [10-132.

8           Each employer who applies and is eligible for insurance under this subtitle shall  
9 be assigned, after consideration of the number of employees and the relative hazards  
10 of the various types of work performed in the enterprise of the employer:

11           (1) to the class that includes the work; or

12           (2) if more than 1 class clearly applies to the work, to each applicable  
13 class.]

14 [10-133.

15           (a) The Board shall adopt policies that provide procedures and standards for  
16 the payment of premiums.

17           (b) (1) Subject to paragraph (2) of this subsection, the Board, the  
18 President of the Fund, or the Executive Vice President of the Fund may:

19                   (i) cancel the insurance of a policyholder who fails to pay a  
20 premium due to the Fund; and

21                   (ii) refer to the Attorney General, for collection, the debt of any  
22 policyholder whose insurance is being canceled under this paragraph.

23           (2) At least 10 days before the date set for cancellation of insurance  
24 under this subsection, the Board shall:

25                   (i) serve on the policyholder, by personal service or by certified  
26 or registered mail sent to the last known resident address of the policyholder, a notice  
27 of intention to cancel insurance; and

28                   (ii) submit a copy of the notice to the Workers' Compensation  
29 Commission's designee.

30           (3) Notice under this subsection may be given:

1 (i) for a policyholder that is a corporation, to an official or other  
2 agent of the corporation on whom legal process may be served; and

3 (ii) for a policyholder that is a partnership, to any partner.

4 (4) Notice under this subsection shall state the date on which the  
5 cancellation is to become effective.

6 (5) Whenever a debt is referred under this subsection for collection,  
7 the insurance may not be reinstated until the debt is paid in full.

8 (c) (1) Whenever a debt is referred under this section for collection, the  
9 Board, the President of the Fund, or the Executive Vice President of the Fund shall  
10 provide the Attorney General with:

11 (i) the name of the policyholder;

12 (ii) each known business or resident address of the policyholder;

13 and

14 (iii) a statement of the amount that the policyholder owes to the  
15 Fund.

16 (2) The Attorney General may sue, in the name of the Fund, to collect  
17 the debt.

18 (d) If the President of the Fund considers settlement to be in the best  
19 interest of the Fund, a debt that is referred under this section for collection may be  
20 settled.]

21 [10-134.

22 The Board shall issue a certificate of insurance.]

23 [10-135.

24 (a) The Board may:

25 (1) adopt requirements for uniform payroll; and

26 (2) require each policyholder to conform to the requirements.

27 (b) In accordance with the requirements that the Board adopts, each  
28 policyholder shall submit a report on wages or other documentation to the Board at  
29 intervals that the Board sets.

1 (c) The Board or its authorized employee may inspect at any time the payroll  
2 of a policyholder.

3 (d) (1) Subject to paragraph (2) of this subsection, the Board, the  
4 President of the Fund, or the Executive Vice President of the Fund may cancel the  
5 insurance of a policyholder who:

6 (i) fails to comply with subsection (b) of this section; or

7 (ii) refuses to allow an inspection authorized under subsection  
8 (c) of this section.

9 (2) At least 30 days before the date set for cancellation of insurance  
10 under this subsection, the Board shall:

11 (i) serve on the policyholder, by personal service or by certified  
12 or registered mail sent to the last known resident address of the policyholder, a notice  
13 of intention to cancel insurance; and

14 (ii) submit a copy of the notice to the Workers' Compensation  
15 Commission's designee.

16 (3) Notice under this subsection may be given:

17 (i) for a policyholder that is a corporation, to an official or other  
18 agent of the corporation on whom legal process may be served; and

19 (ii) for a policyholder that is a partnership, to any partner.

20 (4) Notice under this subsection shall state the date on which the  
21 cancellation is to become effective.]

22 [10-136.

23 A policyholder may cancel a policy under this subtitle, if the policyholder:

24 (1) gives the Fund written notice; and

25 (2) promptly pays all premiums owed to the Fund.]

26 [10-137.

27 If the Board considers an account to be uncollectible, the account may be  
28 charged from the books of the Fund.]

29 [10-138.

1 (a) Subject to subsection (b) of this section, the President of the Fund may  
 2 settle a claim that the Fund has against a governmental unit or person who is alleged  
 3 to be liable for an accident for which the Fund pays compensation.

4 (b) The President may settle a claim under this section only if:

5 (1) the Workers' Compensation Commission consents; and

6 (2) for a settlement that will prejudice any right of an injured  
 7 employee, the employee consents.]

8 [Part VI. Prohibited Act; Penalty.]

9 [10-141.

10 (a) An employer may not with fraudulent intent misrepresent to the Board  
 11 the wages on which a premium under this subtitle is based.

12 (b) A person who violates any provision of this section is guilty of a  
 13 misdemeanor and on conviction is subject to a fine not exceeding \$1,000 or  
 14 imprisonment not exceeding 90 days or both.]

15 SECTION 3. AND BE IT FURTHER ENACTED, That the Laws of Maryland  
 16 read as follows:

17 Article – State Personnel and Pensions

18 21-307.

19 (P) (1) ON AND AFTER OCTOBER 1, 2013, ON BEHALF OF ITS  
 20 EMPLOYEES WHO ARE MEMBERS OF THE EMPLOYEES' RETIREMENT SYSTEM OR  
 21 THE EMPLOYEES' PENSION SYSTEM, THE INJURED WORKERS' INSURANCE  
 22 FUND SHALL:

23 (I) PAY AN AMOUNT EQUAL TO THE PRODUCT OF  
 24 MULTIPLYING:

25 1. THE AGGREGATE ANNUAL EARNABLE  
 26 COMPENSATION OF THOSE MEMBERS; AND

27 2. THE NORMAL CONTRIBUTION RATE OTHERWISE  
 28 PAID BY THE STATE FOR MEMBERS OF THE EMPLOYEES' RETIREMENT SYSTEM  
 29 AND THE EMPLOYEES' PENSION SYSTEM;

1                   (II) PAY AN ADDITIONAL AMOUNT EQUAL TO 5% OF THE  
2 AGGREGATE ANNUAL EARNABLE COMPENSATION OF ITS EMPLOYEES WHO ARE  
3 MEMBERS OF THE EMPLOYEES' RETIREMENT SYSTEM; AND

4                   (III) REMIT TO THE EMPLOYEES' RETIREMENT SYSTEM OR  
5 THE EMPLOYEES' PENSION SYSTEM THE CONTRIBUTIONS REQUIRED TO BE  
6 PAID BY ITS EMPLOYEES.

7                   (2) BEGINNING ON OR BEFORE DECEMBER 31, 2013, AND EACH  
8 YEAR THEREAFTER, IN ADDITION TO THE AMOUNTS REQUIRED TO BE PAID  
9 UNDER PARAGRAPH (1) OF THIS SUBSECTION, THE INJURED WORKERS'  
10 INSURANCE FUND SHALL PAY A WITHDRAWAL LIABILITY CONTRIBUTION:

11                   (I) AS CALCULATED BY THE ACTUARY OF THE STATE  
12 RETIREMENT AND PENSION SYSTEM; AND

13                   (II) IN ACCORDANCE WITH PARAGRAPHS (3) AND (4) OF  
14 THIS SUBSECTION.

15                   (3) THE PARTICIPANT FUNDING RATIO FOR THE INJURED  
16 WORKERS' INSURANCE FUND SHALL BE A FRACTION THAT HAS:

17                   (I) AS ITS NUMERATOR, THE MARKET VALUE OF ASSETS  
18 FOR THE EMPLOYEES' RETIREMENT SYSTEM AND THE EMPLOYEES' PENSION  
19 SYSTEM REPORTED IN THE JUNE 30, 2013, ANNUAL ACTUARIAL VALUATION  
20 FOR THE STATE; AND

21                   (II) AS ITS DENOMINATOR, THE ENTRY AGE ACTUARIAL  
22 ACCRUED LIABILITY FOR THE EMPLOYEES' RETIREMENT SYSTEM AND THE  
23 EMPLOYEES' PENSION SYSTEM REPORTED IN THE JUNE 30, 2013, ANNUAL  
24 ACTUARIAL VALUATION FOR THE STATE.

25                   (4) THE WITHDRAWAL LIABILITY CONTRIBUTION OF THE  
26 INJURED WORKERS' INSURANCE FUND SHALL BE THE COMPLEMENT OF THE  
27 PARTICIPANT FUNDING RATIO FOR THE FUND MULTIPLIED BY THE ENTRY AGE  
28 ACTUARIAL ACCRUED LIABILITY FOR THE FUND BASED ON DATA SUBMITTED AS  
29 OF OCTOBER 1, 2013, FOR THE FUND.

30                   SECTION ~~2~~ 4. AND BE IT FURTHER ENACTED, That, as provided in this  
31 Act:

32                   (1) The Chesapeake Employers' Insurance Company is the successor  
33 of the Injured Workers' Insurance Fund, the Board for the Chesapeake Employers'  
34 Insurance Company is the successor of the Board for the Injured Workers' Insurance

1 Fund, and the President of the Chesapeake Employers' Insurance Company is the  
2 successor of the President of the Injured Workers' Insurance Fund.

3 (2) In every law, executive order, rule, regulation, policy, or document  
4 created by an official, employee, or unit of this State, the names and titles of those  
5 agencies and officials mean the names and titles of the successor agency or official, as  
6 provided in this Act.

7 (3) Policy forms and other documents that were approved prior to  
8 ~~March~~ October 1, 2013, by the Maryland Insurance Administration or the Workers'  
9 Compensation Commission in the name of the Injured Workers' Insurance Fund may  
10 be used by the Chesapeake Employers' Insurance Company to the same extent as if  
11 the policy forms and other documents had been approved in the name of the  
12 Chesapeake Employers' Insurance Company.

13 ~~SECTION 3. AND BE IT FURTHER ENACTED, That, on March 1, 2013, all~~  
14 ~~the functions, powers, duties, equipment, assets, and liabilities of the Injured Workers'~~  
15 ~~Insurance Fund shall be transferred to the Chesapeake Employers' Insurance~~  
16 ~~Company.~~

17 SECTION ~~4~~ 5. AND BE IT FURTHER ENACTED, That:

18 (a) The Maryland Insurance Administration shall study, in consultation with  
19 the Injured Workers' Insurance Fund and the National Council on Compensation  
20 Insurance, Inc., whether the Chesapeake Employers' Insurance Company should be  
21 subject to Title 11 of the Insurance Article, including whether the Company should be  
22 a member of the rating organization.

23 (b) In conducting the study, the Administration:

24 (1) may consult with any other person or entity that the  
25 Administration considers appropriate;

26 (2) shall consider the impact on the Company and its policyholders if  
27 the Company is made subject to Title 11 of the Insurance Article, including the impact  
28 of the membership and transaction fees payable to the rating organization and  
29 additional administrative and system costs associated with complying with Title 11 of  
30 the Insurance Article; and

31 (3) if the Administration determines that the Company should be  
32 subject to Title 11 of the Insurance Article, shall consider:

33 (i) the extent to which the Company should be in compliance  
34 with the rating plan requirements under Title 11 of the Insurance Article; and

35 (ii) an appropriate timeline for the Company to phase in  
36 participation in the rating plan requirements to avoid disruption to its policyholders.

1           (c) On or before October 1, 2012, the Administration shall report, in  
2 accordance with § 2-1246 of the State Government Article, its findings and  
3 recommendations to the Senate Finance Committee and the House Economic Matters  
4 Committee.

5           ~~(1) Notwithstanding any other provision of law, full compliance by the~~  
6 ~~Chesapeake Employers' Insurance Company with Title 11 of the Insurance Article is~~  
7 ~~not required until 5 years after the effective date of this Act; and~~

8           ~~(2) It is the intent of the General Assembly that the Chesapeake~~  
9 ~~Employers' Insurance Company and the rating organization phase in the rating plan~~  
10 ~~to avoid disruption to policyholders.~~

11           SECTION ~~5~~ 6. AND BE IT FURTHER ENACTED, That the publisher of the  
12 Annotated Code of Maryland, in consultation with and subject to the approval of the  
13 Department of Legislative Services, shall correct, with no further action required by  
14 the General Assembly, terminology rendered incorrect by this Act or by any other Act  
15 of the General Assembly of 2012 that affects provisions enacted by this Act. The  
16 publisher shall adequately describe any such correction in an editor's note following  
17 the section affected.

18           SECTION 7. AND BE IT FURTHER ENACTED, That:

19           (a) The Maryland Insurance Administration shall contract with an  
20 independent financial, accounting, or valuation consulting firm to conduct a study to  
21 determine, since the enactment of Chapter 800 of 1914, the fair value of:

22           (1) any financial contribution made by the State to the Injured  
23 Workers' Insurance Fund; and

24           (2) any financial benefit the Fund received from the State.

25           (b) (1) The study shall consider the fair value of:

26           (i) funds, including start-up funding, provided by the State to  
27 the Fund at any time;

28           (ii) real estate or other assets transferred or otherwise provided  
29 to the Fund, net of any amounts paid for the real estate or other asset by the Fund out  
30 of Fund revenues;

31           (iii) property taxes or transfer taxes on Fund-owned real  
32 property that would have been paid if the Fund had not been a State agency;

33           (iv) sales and excise taxes that would have been paid to the  
34 State if the Fund had not been a State agency;

1                   (v) premium taxes not paid to the State by the Fund due to its  
2 tax exempt status prior to June 1, 2011, but only to the extent that the benefit of the  
3 tax exemption was not passed on to policyholders of the Fund through the rate making  
4 process; and

5                   (vi) any other direct financial contribution made by the State to  
6 the Fund and any other financial benefit the Fund received from the State.

7                   (2) In determining the fair value of the items listed in paragraph (1) of  
8 this subsection, the study shall consider:

9                   (i) additional costs the Fund incurred from the Fund's status as  
10 the insurer of last resort which required the Fund to provide workers' compensation  
11 insurance to businesses regardless of the degree of risk;

12                   (ii) that the Fund is a nonprofit entity with profits passed on to  
13 its policyholders;

14                   (iii) whether the benefit of the taxes not paid was passed on to  
15 policyholders since the Fund was not subject to the taxes;

16                   (iv) that since the Fund only began advertising and paying  
17 commissions to licensed insurance producers beginning in 1996, the Fund's entire book  
18 of business was considered the residual market through 1995;

19                   (v) that effective October 1, 2009, the Fund was statutorily  
20 required to serve as a competitive insurer in the marketplace, in addition to  
21 guaranteeing the availability of workers' compensation insurance in the State, serving  
22 as the workers' compensation insurer of last resort, and engaging only in the business of  
23 workers' compensation insurance in accordance with State law; and

24                   (vi) that effective October 1, 2003, the Fund was required to be  
25 subject to risk-based capital standards.

26                   ~~(2)~~ (3) The study also shall consider:

27                   (i) ~~additional costs the Fund incurred from the Fund's status as~~  
28 ~~the insurer of last resort which required the Fund to provide workers' compensation~~  
29 ~~insurance to businesses regardless of the degree of risk;~~

30                   (ii) ~~that while the Fund was part of the former State~~  
31 ~~Department of Personnel, the State purchased four parcels of land with Fund~~  
32 ~~revenues, but the State held the title to the land until it was transferred to the Fund;~~

33                   (i) any subsidy that the Fund provided to the State in  
34 connection with the State self-insured workers' compensation program; and

1                   ~~(iii)~~ (ii)       that the Fund is required to transfer \$6,000,000 to the  
2 General Fund on or before June 30, 2012, as provided in Section 20 of Chapter 397 of  
3 the Acts of the General Assembly of 2011, less the amount received by the State on or  
4 before June 30, 2012, as a result of the imposition of a premium tax on the Fund under  
5 § 6-101 of the Insurance Article;

6                   ~~(iv)~~       ~~that the Fund is a nonprofit entity with profits passed on to~~  
7 ~~its policyholders; and~~

8                   ~~(v)~~       ~~the estimated cost of any subsidy provided by the State to~~  
9 ~~cover the future costs of retiree health benefits for retired Fund employees and their~~  
10 ~~dependents.~~

11           (c)     In conducting the study, the firm:

12                   (1)   shall consult with the Fund, the Maryland Insurance  
13 Commissioner, and the Secretary of Budget and Management;

14                   (2)   may consult with any other person or entity that the firm considers  
15 appropriate; and

16                   (3)   shall consider any studies conducted by the Administration or the  
17 Department of Budget and Management on the Fund, including the study on the  
18 Fund's role as the third party administrator for the State.

19           (d)     (1)   The Administration shall require the firm to report the findings  
20 and conclusions of its study of the fair value to the Administration before October 1,  
21 2012.

22                   (2)   On or before October 1, 2012, the Administration shall report, in  
23 accordance with § 2-1246 of the State Government Article, the firm's findings and  
24 conclusions of its study of the fair value to the Legislative Policy Committee, the Fund,  
25 the Governor, the Senate Budget and Taxation Committee, the Senate Finance  
26 Committee, the House Appropriations Committee, and the House Economic Matters  
27 Committee.

28           (e)     If the study concludes that the fair value is \$50,000,000 or more:

29                   (1)   the Administration shall contract with consultants to conduct a  
30 comprehensive assessment of the long-term effect of transferring the fair value to the  
31 State on the adequacy of the Fund's surplus;

32                   (2)   the Chesapeake Employers' Insurance Company shall owe a debt  
33 to the General Fund in an amount equal to:

34                   (i)   the fair value; less

1                   (ii) 1. the \$50,000,000 which is required to be transferred  
2 from the Fund to the General Fund under Chapter (S.B. 152/H.B. 87) of the Acts of  
3 the General Assembly of 2012; and

4                   2. the cost of the study and the assessment paid by the  
5 Fund, as provided under subsection (g) of this section.

6           (f) (1) Subject to paragraph (2) of this subsection, the Company shall pay  
7 the debt calculated under subsection (e) of this section, without interest, to the State  
8 in 10 equal annual installments beginning in fiscal year 2014 or, as agreed by the  
9 Fund and the Secretary of Budget and Management, in payments over an alternative  
10 period of time.

11                   (2) (i) 1. An installment or other payment shall be suspended  
12 or delayed, and may not be paid, in any year in which the Company's risk-based  
13 capital ratio is less than 700% of its authorized control level.

14                   2. If the Company's risk-based capital ratio is 700% or  
15 higher than its authorized control level, an installment or other payment shall be  
16 suspended or delayed, and may not be paid, in any year in which the Maryland  
17 Insurance Commissioner determines that the Company's surplus is not adequate to  
18 make a payment or that the Company's ability to meet its financial obligations would  
19 be impaired if a payment is made.

20                   (ii) The Company shall pay any suspended or delayed  
21 installment or other payment in a subsequent year until the debt is fully satisfied.

22           (g) The Fund shall be responsible for the payment of the costs of the study  
23 required under subsection (a) of this section and the assessment required under  
24 subsection (e) of this section, including any costs incurred by the Administration in  
25 contracting with consultants to perform the study and the assessment.

26           SECTION 8. AND BE IT FURTHER ENACTED, That:

27           (a) On or before July 1, 2013, the Injured Workers' Insurance Fund and the  
28 Board of Trustees for the State Retirement and Pension System shall enter into an  
29 agreement specifying the terms and conditions of payment for the withdrawal of the  
30 Fund from the State Retirement and Pension System in accordance with § 21-307(p)  
31 of the State Personnel and Pensions Article, as enacted by Section 3 of this Act.

32           (b) The Fund shall be responsible for the payment of any costs incurred in  
33 calculating the Fund's liability for withdrawing from the State Retirement and  
34 Pension System.

35           SECTION 9. AND BE IT FURTHER ENACTED, That:

1           (a)   (1)   On or before December 1, 2012, the Injured Workers' Insurance  
 2 Fund and the Department of Budget and Management shall enter into a memorandum  
 3 of agreement establishing the terms, conditions, and schedule for payment by the  
 4 Injured Workers' Insurance Fund of the projected costs for the State retiree health  
 5 benefits of current and former Injured Workers' Insurance Fund employees.

6           (2)   The Injured Workers' Insurance Fund shall be responsible for the  
 7 payment of any costs incurred in calculating the Injured Workers' Insurance Fund's  
 8 liability for retiree health benefits.

9           (b)   On or before July 1, 2013, the Injured Workers' Insurance Fund, in  
 10 accordance with the schedule established in the memorandum of agreement required  
 11 under subsection (a) of this section, shall begin to pay to the State Employee and Retiree  
 12 Health and Welfare Benefits Fund established under § 2-516 of the State Personnel  
 13 and Pensions Article an amount sufficient to satisfy the projected costs for the State  
 14 retiree health benefits of current and former Injured Workers' Insurance Fund  
 15 employees, as determined by the actuary for the State Employee and Retiree Health  
 16 Benefits Program.

17           SECTION ~~6~~ ~~9~~ 10. AND BE IT FURTHER ENACTED, That Sections 1 and 3 of  
 18 this Act shall take effect October 1, 2012.

19           SECTION ~~10~~ 11. AND BE IT FURTHER ENACTED, That Sections 2 and 4 of  
 20 this Act shall take effect October 1, 2013.

21           SECTION ~~11~~ 12. AND BE IT FURTHER ENACTED, That this Act is an  
 22 emergency measure, is necessary for the immediate preservation of the public health  
 23 or safety, has been passed by a ye and nay vote supported by three-fifths of all the  
 24 members elected to each of the two Houses of the General Assembly and, except as  
 25 provided in Sections ~~9 and 10~~ 10 and 11 of this Act, shall take effect from the date it is  
 26 enacted.

Approved:

\_\_\_\_\_  
 Governor.

\_\_\_\_\_  
 President of the Senate.

\_\_\_\_\_  
 Speaker of the House of Delegates.

State of Maryland

FIRST  
ANNUAL REPORT

OF THE

State Industrial Accident Commission  
OF MARYLAND

For The Year November 1, 1914 to October 31, 1915

COMMISSIONERS

JOHN B. HANNA, Chairman

CHAS. D. WAGAMAN

JAMES HIGGINS

HOWARD C. HILL, Secretary

BALTIMORE, MD.

MUIRS PRINTING CO.



## REPORT OF THE STATE INDUSTRIAL ACCIDENT COMMISSION OF MARYLAND

From November 1, 1914 to October 31, 1915

In compliance with the provisions of Chapter 800, Acts of the General Assembly of Maryland of 1914, commonly known as the Workmen's Compensation Act, the following persons were appointed by Governor Goldsborough as members of the State Industrial Accident Commission, and duly qualified and entered upon their duties on September 1, 1914: John B. Hanna (Chairman), Chas. D. Wagaman, James Higgins.

Permanent offices were at once secured at Suite 741, Equitable Building, Baltimore, and while those quarters were being fitted up, temporary offices were established in the same building. The Commission before taking up the work of perfecting an organization and the multitude of details incident thereto, visited New York and Massachusetts to study the methods of the Compensation Boards in those States. The law became operative in Maryland as between employers and employees on November 1, 1914, and within the sixty days intervening between September 1 and November 1, the Commission whipped into shape a complete organization and this new department of the State Government was successfully launched.

The members of the Commission, during the entire period since the Act went into effect, have devoted their entire time to its administration. We have diligently applied ourselves to the many difficult problems arising out of the inauguration of this new and beneficent undertaking by the State, both administrative and in the interpretation of the law.

### Scope of the Compensation Act.

The principle underlying Workmen's Compensation statutes is that the system provided by the Common Law for redress of occupational injuries is, in the light of modern industrial conditions, uneconomic, unjust and wasteful. This system had its origin, and the rules of law peculiar thereto were developed and established, in conditions of industry which were simple and comparatively safe. And however logical and workable they might have been, so long as these conditions continued, they are, today, archaic and unworkable.

In recognition of this principle the General Assembly of 1914, following the example of twenty-one sister states, enacted a Compensation Law for this State. A year's experience under this Law has demonstrated its efficacy. In respect of injuries occurring in the prosecution of the employments therein enumerated, the Act affords certain and prompt pecu-

niary relief. The elimination of the ingredient of fault as a cause of the injury (this being the distinguishing feature of a Compensation Law) has greatly narrowed the debatable ground as to the right to relief.

#### Speedy Relief for Injured Workmen.

While the Commission has conducted many hearings on contested claims, the great majority of the claims have, however, been disposed of without contest. The Commission has been thereby enabled to award prompt relief to the workman or his dependents. And in the case of contested claims (save in the very few cases of appeals to Court) the Commission has been able to dispose of these without substantial delay and thus to award prompt relief. Accordingly we have presented a very different condition from that which prevailed under the Common Law system, the administration of which was marked by uncertainty as to recovery, delays in awaiting trial which prevent relief in the time of the greatest need, economic waste in lawyers' fees and court costs, disturbance of business and the creation of hostility between employer and employe.

#### Acceptable to Employers and Employes.

The Commission believes that the Workmen's Compensation Act has proven most acceptable to employers and employes alike. So far as the employes are concerned the benefits of the Act are not open to question. So far as the employers are concerned, the element of certainty as to the cost of compensation, and the state of satisfaction of their employes resulting from the assurance of relief in case of accident, have been decided advantages in the prosecution of business; and in this connection the assurance that this cost of compensation is not in large part wasted by litigation is also worthy of consideration. The best evidence that the Act has proven acceptable is the fact that no serious suggestion has been made by employers, as has happened in other states, to attack its constitutionality. The only attack has come from an employe who sued at Common Law instead of accepting the Compensation provided in the Act. The Court decided against him.

#### Compared With Compensation Acts of Other States.

The Maryland Compensation Act differs from many of those adopted by other states, and in some respects, we believe, is better than most of them. The most important characteristics which makes towards its superiority, is the fact that it is compulsory. Of the thirty-one states and two territories which now have Compensation Acts on their statute books, twenty-four have adopted the elective form of law for private employes, and nine have, like Maryland, made it compulsory. The compulsory law imposes the scheme of compensation

upon employers and employes alike. The elective law makes it possible for any employer to reject the Compensation scheme therein provided and to choose to be governed by a rule of liability, which is but an unsatisfactory modification of the Common Law system and open to most of its objections. The effectiveness of an elective law, in so far as its scheme of compensation is concerned, depends entirely upon the good will of the employer. And its natural operation is, therefore, a lack of uniformity in its application to industries competitive with each other, a situation which is, to say the least, undesirable from a business point of view.

#### Admirable Plan to Secure Compensation.

Another important feature of the Maryland Compensation Act is the plan which it embodies to secure the payment of Compensation. An award of pecuniary relief would be of little value to the workman or his dependents if his employer were insolvent. The method of compensation consisting, as it does, of weekly payments extending, in many cases, for a long period of time (for instance in death cases, a period of eight years) there is involved the element of risk that the employer, even if he be solvent at the time of the injury, might subsequently become unable to complete the payments. Accordingly, the Act requires that unless an employer can furnish satisfactory proof of his financial ability to pay compensation as it might accrue, he shall insure that compensation in an approved insurance company or association, or in the State Accident Fund administered by the Commission. The Compensation Acts of some jurisdictions, eight in number, do not require that compensation be insured. In six states the law requires the insurance of compensation in a State Fund to the exclusion of all other methods. Of the remaining nineteen Compensation Acts, ten provide for insurance in private companies only, and nine, like the Maryland Act, provide for the operation of a State Fund (or a semi-mutual Association) in competition with private insurance companies.

#### State Fund a Protection Against Excessive Rates.

The most important influence upon the employer's attitude toward a Compensation Law is the cost of compensation; and it is, therefore, most desirable that he be protected against unduly high insurance rates. The scheme provided in the Maryland Act for the operation of a State Fund in competition with private companies accomplishes this result. The State Accident Fund can and does write policies at lower rates than private companies, because of the elimination of commissions and the overhead cost; and, in the nature of things, this may, in course of time, lead to a monopoly of this form of insurance. However, we feel that the law should accord the employer the

widest choice in the placement of his insurance, so long as the underwriter be strong financially and prompt and fair in the settlement of compensation claims.

#### Involving Jurisdiction.

Troublesome jurisdictional questions have arisen in respect to the coverage of railroad employes. The law says that it shall apply to them "only to extent that their mutual connection with intra-state work may and shall be clearly separable and distinguishable from inter-state or foreign commerce." The effect of this is that few railroad employes, one of the most hazardous employments, have been found to come within the jurisdiction of this Commission. (See formal decision elsewhere in this report). We have been confronted with the same question in respect to the operation of vessels which are referred to in opinions filed in specific cases. In the cases of both railroad employes and those engaged in maritime pursuits, the Commission finds itself in harmony with some Workmen's Compensation Boards and out of harmony with rulings of other Boards, notably that of New York. The Supreme Court of the United States will probably pass upon the questions at issue in due time and settle the principles of law involved.

#### 12,000 Employers Insured Under Act.

During the first few months the offices of the Commission were crowded with employers eager to secure information to enable them to comply with the Act. More than a hundred blank forms for the use of employers and employes were printed and distributed and a standard form of policy to be used by insurance carriers was prepared. During the first year beginning Nov. 1st, 1914, and ending Oct. 31st, 1915, twelve thousand employers insured the payment of compensation under the Act. Of these, 11,035 insured with stock companies, 842 in the State Accident Fund, and 123 were granted the right to carry their own insurance, each self-insurer giving bond, except in the case of public utilities regulated by the State, the State itself, Counties and Municipalities.

20,348 accidents were reported during the year. Of these, 121 were fatal. Accidents are referred to in separate tables elsewhere in this report. 006 2/2  
287 2/2

#### Claims and Hearings.

There were filed with the Commission during the first year ended Oct. 31st, 1915, 3,443 claims, 3,352 non-fatal and 91 fatal. Of these, compensation was awarded in 2977 and disallowed in 199 leaving 267 in the course of investigation. 249 claims were contested, resulting in hearings held at the principal office in Baltimore and, to serve the convenience of par-



A SECTION OF THE GENERAL OFFICES.

ties interested, residing in other parts of the State, in Hagerstown, Cumberland, and Cambridge. 273 of such formal hearings were held during the year.

#### First Year Benefits to Workmen.

The great value of the Law in affording prompt relief to injured workmen is strictly shown by the following statement of benefits derived by them during the first year: Awards for 66 fatal accidents \$178,950.54; funeral expenses \$5,720.65; awards for 225 permanent partial disabilities \$44,450.21; awards for 2960 temporary total disabilities \$83,713.64; awards for 5 temporary partial disabilities \$33.31; medical services in compensation cases \$37,321.08; medical services in cases where the injury did not incapacitate the employe beyond two weeks, \$53,843.10; showing grand total of \$404,032.53.

#### Beneficent Law—Commission's Ideals.

Compensation under the Maryland Act is fifty per cent. of the average weekly wage. Loss of member, including foot, leg, arm, hand, eye, fingers, etc., is compensated specifically for a stated number of weeks. In death cases, widows and minor children or other dependents, receive fifty per cent. of the deceased employe average weekly wage, for a period not exceeding eight years. What this relief means to those suddenly deprived of the support of husband, father, brother, or other provider for the family can only be understood fully by the beneficiaries and by those who are charged with the administration of the Compensation Act. It is true that the economic side of the plan of compensation as it relates to loss of earning power and as a charge upon industry is important, but the humanitarian aspect, the swift relief of injured workmen, and in case of death the succor extended women and children, or other dependents, marks it as the most beneficent measure ever devised to promote the social betterment of the wage-earners of the State. It is not charity, the amount received is compensation charged against hazardous industries as a part of the cost of operation of the industry.

Under this Act the Courts are relieved of damage suits, and the injured workman, who under the old law had no remedy in the Courts, brings his claim before the Industrial Accident Commission. If this body errs or if any claimant or employer is aggrieved by any decision, he still has the right to Court review. The work of the Commission demands a very high conception of its importance and dignity, and the same judicial poise and impartiality in passing upon the claims coming before it for adjudication, that would be expected and demanded of any tribunal administering justice. In this spirit the members of the State Industrial Accident Commission have dedicated themselves to the work committed to them. The

Commission's ideals have not been fully realized in the first year of its work. Some important work could not be accomplished due to the press of duties requiring its entire time. This condition arose out of the complex character of its duties in a field in which the beaten paths were few. New and intricate problems arose daily requiring a vast amount of study and research covering a wide range. In the main, employers have complied with the Act, twelve thousand having insured during the year, but it is believed that quite a large number have not done so. The various Departments are now running smoothly, and another year will bring opportunities for a more effective enforcement of the Act.

#### State Accident Fund.

Under the provisions of Chapter 800 of the Acts of the General Assembly of Maryland of 1914, the Commission was authorized and directed to create, establish and administer a fund to be known as the State Accident Fund, for the purpose of insuring employers against liability under the Workmen's Compensation Act, and to secure to employes and their dependents the payment of compensation specified in the Act. The other kinds of insurance permitted are stock, mutual associations, and self-insurance when approved by the Commission. The State did not appropriate working capital for the Accident Fund, but simply provided for the creation of a fund through rates charged on each one hundred dollars of payroll, graded according to the hazard of the employment. In the absence of reliable statistics showing the cost of compensation insurance in Maryland, it was decided to use the Maryland rates of the Workmen's Compensation Service Bureau of New York, and discount these by approximately ten per cent., for the first year's business.

An experienced man who had handled workmen's compensation insurance for one of the largest stock companies, was chosen as Superintendent, and under the direction of the Commission, conducts the business of the State Accident Fund in a manner similar to other insurance carriers. It was predicted by competitors that the Fund would not be a success, that it would get the undesirable or "bad risks," but after one year's experience none of these fears has been realized; on the contrary, the Fund is steadily growing, has met all demands upon it promptly, and winds up the year's business in a very satisfactory condition.

After reserving \$4,213.93 to pay all awards to maturity; setting aside \$3,145.64 representing unearned premiums; and \$4,682.88, an amount equal to ten per cent. of all premiums, as required by Section 23 of the Act, to be set aside each year as a special surplus, there remained a balance of \$42,573.97.

This balance includes \$15,000 transferred from the 1914 appropriation in furtherance of what the Commission conceived to be sound business policy. It is our hope and expectation that within a reasonably short time this amount may be returned to the State Treasury. On June 23, 1915, the Commission requested the Board of Public Works to invest \$30,000 in approved interest-bearing securities.

As the State compels employers to insure the payment of compensation to their injured employes, it would be manifestly unfair not to provide a method wholly under the control of the State. The creation of the Accident Fund brings about real competition and safe-guards employers from excessive rates. The Commission believes that a healthy competition is the wisest policy. Rates in the "State Accident Fund" have been further reduced for the year beginning November 1, 1915, (approximately fifteen per cent.), in line with the policy of bringing the rates down to as near cost as is consistent with the maintenance of a solvent Fund. Eight hundred and forty-two employes insured in the Fund during the year ended October 31, 1915, and there were five hundred and three accidents adjusted under its policies.

The Superintendent of the State Fund is planning a vigorous campaign for accident prevention this year and in this laudable work should receive the cordial co-operation of employers and employes.

The medical service of this Department is under the direction of Dr. Robert P. Bay, the Chief Medical Examiner of the Commission. Physicians designated to attend injured employes insured by the Accident Fund have been selected with special reference to their professional standing and availability in time of need. The Fund will accept the services of a family physician selected by the injured whenever it is apparent that the best interests of the injured will be served thereby.

One of the most important questions associated with Workmen's Compensation is the cost of insurance to employers. Reliable data upon which to base scientific calculations has been meagre up to this time, due to the short period of time such laws have been in operation in this country. Insurance carriers, compensation Boards, State Insurance Departments and other agencies are all carefully studying the subject, and with the compiling of statistics of all these agencies from accurate data now being secured, it is believed that within a comparatively short time sufficient experience will have been gained upon which rates may be scientifically computed. When this is done, in our judgment, rates will be gradually reduced.

#### Suggested Changes.

The State Accident Fund under the provisions of Sec. 23 of the Act, is required to be organized and maintained on a

reserve basis, yet, there are provisions in the law which are inconsistent with that idea, and which are properly applicable only to an insurance business conducted on a current cost basis. For instance, Section 26, which prescribes the terms on which employers insured in the fund may withdraw therefrom imposes conditions precedent for withdrawal which would seem to be proper only when the fund or business is conducted on a current cost basis. In the opinion of the Commission, the State Accident Fund should be continued on a reserve basis, and the Act so amended as to make all the provisions thereof relative to the Fund, consistent with the basis upon which it is to be conducted.

By a reference to Secs. 17 and 21 of the Act, it will be seen that premiums for insurance in the State Accident Fund are required to be paid quarterly or every three months. These premiums are based upon the amount of the employer's payroll which the employer is required to submit to the Commission every four months. That the Act thus provides for the payment of the premium every three months, and the filing of the payroll every four months, is probably due to an inadvertence. These sections should be amended and we recommend that Employers insuring in the State Accident Fund be required to submit the payroll and pay the premium every four months.

We further recommend that the Act be so amended as to authorize and empower the Commission, in its discretion, to require all employers against whom an award of compensation has been made who have failed to insure such compensation, to pay unto the State Accident Fund the present worth of all compensation payments awarded by the Commission to any claimant or claimants, and to collect such present worth, if need be, by civil action against said employer in the name of the State of Maryland. Out of the funds in the said State Accident Fund there should then be set apart and maintained a reserve sufficient at all times to meet all payments under the terms of said awards.

In the second paragraph of Section 14 the word **except** is omitted immediately following the word **exclusive**, and an amendment should be made so that said paragraph will read:

"The liability prescribed by the last preceding paragraph shall be exclusive, except that if an employer fail, etc.

The last clause of Section 19, being the proviso clause, should be amended to read as follows:

"Provided, also, that for the purpose of this Act, the pay of the employee employed partly within and partly without the State shall be deemed to be such proportion of the total pay of such employee as his service within the State bears to his total services.



**The State of Maryland**  
**Executive Department**

**EXECUTIVE ORDER**

01.01.1999.16

**The Governor's Task Force to**  
**Study the Injured Workers' Insurance Fund**

- WHEREAS,** Workers' compensation insurance is required of all Maryland employers in order to protect and provide security to employees and their dependents against accidental injuries and occupational diseases;
- WHEREAS,** The Injured Workers' Insurance Fund, formerly known as the State Accident Fund, has a long and distinguished history of providing workers' compensation insurance to any Maryland employer unable to obtain such coverage in the private market, or who chooses to insure workers through the Fund in lieu of the private market;
- WHEREAS,** During the 1987 Session of the Maryland General Assembly, legislation was enacted to revamp workers' compensation costs in Maryland, making the State Accident Fund an independent agency and establishing a Task Force to review issues affecting the Fund and its place in the competitive market;
- WHEREAS,** Some recommendations of that Task Force were considered and enacted by the Maryland General Assembly in 1990, including renaming the agency as the Injured Workers' Insurance Fund, requiring audits by the Legislative Auditor every three years, increasing the competitiveness of the agents' commissions, expanding marketing of the Fund and removing employees of the Fund from classified service;
- WHEREAS,** Several recommendations of the Task Force were not implemented, including expanding the number of board members from 7 to 9 and requiring that members have experience in marketing, underwriting or business;
- WHEREAS,** Periodically, issues are raised for consideration by the Legislature concerning regulatory oversight, the payment of premium taxes and the fact that the Fund is not an insurer of last resort but a competitor with the private market;

**WHEREAS,**

Recent concerns have surfaced regarding procurement and management practices, as well as Board oversight; and

**WHEREAS,**

It is in the best interests of the Maryland business community and its labor force to make certain that the Fund operates at peak performance and provides a critical contribution to the goal of making workers' compensation insurance available to employers at an affordable price.

**NOW, THEREFORE,**

**I, PARRIS N. GLENDENING, GOVERNOR OF THE STATE OF MARYLAND, BY VIRTUE OF THE AUTHORITY VESTED IN ME BY THE CONSTITUTION AND THE LAWS OF MARYLAND, HEREBY PROCLAIM THE FOLLOWING EXECUTIVE ORDER, EFFECTIVE IMMEDIATELY:**

**A. The Governor's Task Force to Study the Injured Workers' Insurance Fund is hereby created.**

**B. Composition. The Task Force shall consist of up to thirteen members, including:**

**(1) Two members of the Senate appointed by the Governor upon nomination by the President of the Senate;**

**(2) Two members of the House of Delegates appointed by the Governor upon nomination by the Speaker of the House;**

**(3) A designee of the Governor;**

**(4) The Secretary of Budget and Management;**

**(5) The Insurance Commissioner; and**

**(6) Up to 6 members appointed at the discretion of the Governor, including representatives of claimants and insured small businesses and any others with relevant interest, knowledge or experience.**

**C. The Governor shall designate a Chairperson from among the members of the Task Force.**

**D. Scope.** The Task Force shall conduct a thorough examination of the Injured Workers' Insurance Fund, including:

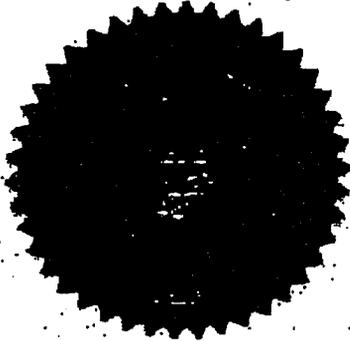
- (1) Laws, procedures, process and scope of the Fund;
- (2) Composition, requirements and duties of the Board;
- (3) Underwriting practices;
- (4) Reserve and accounting practice, including reserve adequacy;
- (5) Management and marketing issues;
- (6) Procurement practices;
- (7) Commissions to agents and service to insured parties and claimants;
- (8) Tax exempt status;
- (9) Overall mission of the Injured Workers' Insurance Fund;  
and
- (10) Such other matters as the Task Force in its judgment deems appropriate in completing a broad program management and performance evaluation of the Fund.

**E.** Staff support for the Task Force shall be coordinated by the Governor's Office, with assistance being provided as necessary from State Departments and units.

**F.** Members of the Task Force may not receive any compensation for their services. Members may be reimbursed for their reasonable expenses incurred in the performance of duties in accordance with the State Standard Travel Regulations and as provided in the State budget.

G. By November 1, 1999, the Task Force shall make an interim report of its findings, together with appropriate legislative proposals. The Task Force shall make its final report on or before June 30, 2000.

GIVEN Under My Hand and the Great Seal of the State of Maryland, in the City of Annapolis, this 2nd Day of June, 1999.



P. N. Glendening  
Parris N. Glendening  
Governor

ATTEST:

John T. Willis  
John T. Willis  
Secretary of State



GEORGE A. ORTIZ, ESQ.  
*State Relations Executive*  
Direct Dial: 201-386-2624  
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July 6, 2012

The Honorable Therese Goldsmith  
Commissioner  
Maryland Insurance Administration  
525 St. Paul Place  
Baltimore, Maryland 21202-2272

**Re: Study of Injured Workers Insurance Fund**

Dear Commissioner Goldsmith:

This letter is written in preparation of the July 9, 2012 meeting with the Maryland Insurance Administration (MIA) in response to Senate Bill 745, which requires a study by the MIA and the National Council on Compensation Insurance on the Injured Workers Insurance Fund's (IWIF) conversion to the Chesapeake Employers' Insurance Company ("Chesapeake") signed into law by Governor Martin O'Malley on May 22, 2012.

We are providing information in five general areas: (1) Background on the National Council on Compensation Insurance (NCCI), (2) Data Reporting, (3) Ratemaking, (4) Experience Rating, and (5) Cost to IWIF to Affiliate with NCCI.

**(1) BACKGROUND ON NCCI**

NCCI, based in Boca Raton, Florida, is the oldest and largest provider of workers compensation insurance and employee injury data and statistics in the nation. Operating on a not-for-profit basis since 1922, NCCI studies workplace injuries and other national and state factors impacting workers compensation to provide analysis of industry trends, prepare workers compensation insurance rate and loss costs recommendations, determine the cost of proposed legislation, and provide a variety of data products to over 900 insurance companies and 40 states. (See Exhibit 1 for a list of the 40 states where NCCI does business).

NCCI is licensed by the Maryland Insurance Administration as an advisory organization and is designated by the Maryland Workers Compensation Commission as its agent for the purpose of collecting proof of coverage information. NCCI has been operating in Maryland since April 1, 1946, which is the date NCCI was first licensed as an advisory organization. NCCI has been providing proof of coverage services to the Maryland Workers Compensation Commission since May 1, 1987. NCCI collects loss data from all insurers writing in Maryland, except IWIF and

group funds. In 2011, 276 affiliates reported Maryland premium to NCCI. Excluding IWIF's 2011 market share of approximately 23%, NCCI collected data that represents approximately 77% of the Maryland's total workers compensation insurer premium volume. NCCI also collects proof of coverage information from all insurers writing in Maryland, including IWIF, but excluding group funds.

There are state funds in 18 states where NCCI does business. (See Exhibit 2 for a chart describing the characteristics of those state funds.) Sixteen out of eighteen state funds are required to report loss data to NCCI and use NCCI experience ratings. The only two state funds which do not report are IWIF and the South Carolina Accident Fund which is set up to insure only government employees. With respect to ratemaking, sixteen of the eighteen state funds have the right to use NCCI rates/loss costs with eleven out of eighteen state funds required by the state regulator to in fact use NCCI rates/loss costs.

If IWIF converts to Chesapeake and maintains its exemption from Title 11, it will be the only private insurer in Maryland and in all other states where NCCI serves as the designated rating or advisory organization that is not required to report loss data to NCCI or use NCCI experience ratings.

## **(2) DATA REPORTING**

NCCI collects five principal types of data:

**Policy**—NCCI collects coverage data for Maryland insureds. Coverage data (policies) is the information from the actual policy information page, schedules, and endorsements issued by the insurer to the insured. This data is used to ensure the completeness and timeliness of Unit Statistical data, and for the proper distribution of experience rating worksheets. Nationally, NCCI collects and processes nearly 2.6 million policies annually, along with approximately 6 million policy documents such as endorsements, cancellations, and other transactions. Coverage data collected by NCCI is also utilized to fulfill proof of coverage services for the Maryland Workers Compensation Commission.

**Unit Statistical**—This data includes audited exposure, premium, and loss experience by class code and by state on a unit report for each workers compensation policy. Nationally, NCCI collects more than 4.2 million unit reports annually, containing more than 27 million exposure, loss and total records. Unit Statistical data is primarily used for classification ratemaking, experience rating, and actuarial analysis of claim costs, frequency, development and other claim statistical values.

**Financial Calls**—NCCI's aggregate financial calls provide overall information on insurance company financial performance, as well as providing information for ratemaking analyses. The data collected on these calls includes premiums, losses, and expenses, which are used in determining overall rate changes. Countrywide, NCCI collects up to 23 different Financial Calls.

**Detailed Claim Information (DCI)**—The data elements collected for DCI describe the insured, the claimant, the claim characteristics, the benefits and payments made, and the administrative

details of individual indemnity claims (those resulting in lost work time). Nationally, NCCI collects approximately 250,000 claims annually under the DCI sampling program. DCI data is used for pricing of proposed legislative programs, post reform monitoring, analysis of cost drivers and analysis of ways to control those costs.

**Medical Call**—The data elements collected include policy/claim linking elements, and medical procedure and diagnostic elements. The main purpose of the data is to support NCCI legislative pricing activities. This is a new data call. Mandatory reporting for eligible participants began in 2010. Over 100 million transactions have been received to date.

The first three data types are critical to NCCI's functions of ratemaking and experience rating. When a new carrier or a new state joins NCCI, these first three data types are the initial focus. The last two data types require participation if carriers meet certain eligibility requirements. Eligibility is reviewed periodically. IWIF would not be required to report the last two data types within the first five years, however, IWIF would eventually be required to start reporting the last two data types. One of the first decisions that must be made is whether the new carrier/state will report historical data or report on a point-forward basis. These two options are described below:

**Historical Reporting**—Historical reporting requires the new carrier/state to go back to previous policy years, extract required data elements, and report the data files in NCCI's standardized formats. The number of prior policy years will be based on the implementation date and usage of the historical data. For example, experience rating generally uses three policy years of unit statistical data, as compared to class ratemaking which requires five policy years of unit statistical data. Challenges that are associated with reporting historical data include non-captured data elements, differences in data definitions, data quality, and mapping to industry standards that were not previously required.

**Point-Forward Reporting**—Reporting on a point-forward basis allows the new carrier/state to program in advance for capturing the required data elements in NCCI's standardized formats. Then policy data reporting begins for all policies based on a selected going forward policy effective date. Once the policy data is reported, unit statistical data would be valued and due 20 months after policy effective date. The benefits with this reporting include an ideal transition to industry standards, common data definitions, and improved data quality. However, a consideration to recognize is that it will take a number of years of data before integration into services such as experience rating and class ratemaking could begin.

Unless time is a factor and based on previous conversations with IWIF related to the anticipated difficulty of providing historical data in standardized NCCI formats, NCCI recommends point-forward reporting. In addition, assuming cost is a factor, point-forward reporting results in a timeline that allows for IWIF's costs to grow over time as services are added. The historical reporting option means IWIF will have to bear those costs more quickly. See Section 5 – Costs.

### **(3) RATEMAKING**

In 2008, NCCI was asked compare NCCI's ratemaking methodology to IWIF's. Attached is that summary of the main aspects of its ratemaking methodology for your review, along with

statements summarizing IWIF's methodology for the respective components. (See Exhibit 3). Without IWIF's data, NCCI is currently determining the annual aggregate loss cost level in Maryland with approximately 77% of Maryland's workers compensation insurer data. While this volume of data is sufficient to determine a reasonable and adequate loss cost level, it would be logical to assume that inclusion of IWIF's data would add to the volume and stability of the aggregate lost cost level indication. The same logic would also hold true when determining loss costs for each of the approximately 600 classifications in Maryland. Currently, there are three pure premium indications that are separately weighted to determine the loss cost for a particular classification. To the extent that there is sufficient volume in a class code to assign 100% credibility (eg. 8810 – clerical), the indicated pure premium would be given 100% weight (full credibility). To the extent that a class code is not fully credible, weight would then be assigned to the previous year's pure premium (adjusted to bring to current level) and the national pure premium (pure premiums from all other states combined, adjusted to Maryland's level). As such, while there are methods currently in place to produce a credible loss cost for each class, the inclusion of IWIF's data would provide further Maryland specific experience and less reliance on experience from other states. This would be particularly relevant for classifications which IWIF writes heavily in compared to all other carriers. Without reviewing IWIF's underlying data, it is not clear whether the inclusion of IWIF's data with the current voluntary market data used in NCCI's loss cost filings would have a significant impact on the Maryland workers compensation loss costs calculated by NCCI. However in the event there is an impact, there are several short-term adjustments which could be made to NCCI's ratemaking procedures in Maryland so that any impact is implemented gradually and the impact on Maryland employers is minimized. Below are a couple of examples:

If IWIF's loss development factors (LDF's) differ markedly from the current voluntary market LDF's, NCCI could use a longer term average in order to limit the fluctuations that might occur by using the short term averages used currently.

Similarly, if the inclusion of IWIF's class specific data when calculating statewide loss costs by class results in more variability than desired, IWIF's data could be phased in over a number of years in order to limit the amount of variability in class loss costs. Alternatively, swing limits (ie, the range by which industry groups vary; currently +/-25%) could be tightened in order to limit this type of variability.

As part of NCCI's 2008 review of IWIF's ratemaking methodology, NCCI compared the class codes used by IWIF against the over 600 NCCI-approved class codes in Maryland. The results are as follows:

- There are 98 IWIF codes that are non-NCCI codes (See Exhibit 4)
- There are 17 NCCI codes not used by IWIF

There may be some IWIF codes that are currently non-NCCI codes but NCCI would consider filing these codes for use by all carriers in Maryland. To the extent that other non-NCCI class codes continue to be used, NCCI will not develop loss costs for those special classes. Based on NCCI's understanding, Maryland carriers are required to file any special classes and their associated rate with the MIA for approval. NCCI reporting requirements and procedures would

however still need to be adhered to when reporting data related to those special classes to NCCI. The special class data would have to be reported to NCCI within the framework of NCCI approved class codes. This reporting may not prove to be too difficult if there is a clear map from the special class code to an NCCI code. This reporting may prove more difficult however if the special class code maps to several NCCI codes (for example, several occupations are bundled into the special class code). NCCI data reporting rules require that the payroll and losses from any special class code which maps to several NCCI codes be split and reported to the appropriate NCCI codes. If the point forward reporting option is selected (see Section 2 – Data Reporting), NCCI would begin using IWIF data in ratemaking in Year 5. Although NCCI would be using five years of voluntary market Unit Statistical data for class ratemaking, NCCI would use the two years of IWIF unit statistical data available at that point. If the historical reporting option is selected (see Section 2 – Data Reporting), NCCI could begin using IWIF data in ratemaking as of a more immediate effective date. Based on timing, Year 3 would be a conservative estimate on the earliest this could occur.

#### **(4) EXPERIENCE RATING**

The NCCI Experience Rating Plan is a uniform and mandatory plan (for eligible employers). The overall objective of the plan is to utilize an individual employer's past claims experience to more accurately predict its future claims experience.

In its simplest form the experience rating modification formula compares an employer's actual losses to expected losses during the most recently available 3 year period. The data source is Unit Statistical data. Nationally, NCCI produces approximately 1.1 million ratings. Maryland's 2011 intrastate population was approximately 12,300. 2011 interstate ratings containing Maryland numbered approximately 18,700. IWIF currently produces its own ratings according to its own Experience Rating Plan. See Exhibit 3 for an outline of the differences between the NCCI Experience Rating Plan and IWIF's Experience Rating Plan. One of the most significant differences between the NCCI and IWIF Plans is that IWIF's premium eligibility threshold is much lower. If IWIF is required to adhere to NCCI's Experience Rating Plan, NCCI's premium eligibility rule would be used. Currently the NCCI threshold is \$10,000 (most recent 2 years)/\$5,000 (annual average greater than 2 years) as compared to IWIF's threshold of \$3,000 (3 years). Applying the NCCI threshold means fewer IWIF insureds would qualify for an experience rating. If the insured does not qualify for an experience rating, the insured has the equivalent of a 1.0 rating. This might mean some IWIF risks with ratings currently greater than 1.0 could have their ratings reduced and others with ratings currently less than 1.0 could have their ratings increased. Without more information regarding the risks in IWIF's book of business, NCCI is unable to determine the impact of this difference.

In the event that the impact is significant, there are alternatives. During discussions with IWIF, IWIF mentioned the possibility of implementing a merit rating plan which is a type of credit plan that could be targeted towards those insureds that would no longer qualify for an experience rating under NCCI's Experience Rating Plan. This could minimize the impact to those risks. IWIF could also implement a transition to slowly raise the premium threshold. If the point forward reporting option is selected (see Section 2 – Data Reporting), NCCI would begin using IWIF data in experience rating as of an effective date 4 years after the initial policy effective date

of policy submissions. Assuming IWIF begins submitting policy data as of Year 1, then NCCI would begin producing experience ratings effective Year 5 ensuring receipt of the full three year experience period of unit data from IWIF. In the interim, IWIF would remain responsible for experience rating their book of business. Alternatively, the earliest that NCCI could begin using IWIF data in experience rating would be two years after the initial policy effective date of policy submissions. Assuming IWIF begins submitting policy data as of Year 1, then NCCI would begin producing experience ratings effective Year 3. These ratings may be based on only one year of IWIF data as opposed to the usual three years. In addition, this would require using voluntary market experience rating values in the calculation of IWIF ratings. Since IWIF data would not be included in the annual loss cost filing until year 5, the experience rating values, which are updated every year in the annual loss cost filing, will not reflect the inclusion of IWIF data until year 5.

If the historical reporting option is selected (see Section 2 – Data Reporting), NCCI could begin using IWIF data in experience ratings as of a more immediate effective date. Based on timing, Year 3 would be a conservative estimate on the earliest this could occur.

Finally, there is the issue of interstate rating. As an example, suppose there is an IWIF insured which is a multi-state corporation known as ABC Manufacturing. ABC Manufacturing would have an interstate rating produced by NCCI for all states other than Maryland and a different intrastate rating produced by IWIF in Maryland. After the transition, ABC Manufacturing would have one interstate rating calculated by NCCI that includes all state experience including its Maryland experience. NCCI could add IWIF data to the next rating effective date for an interstate rating on or after the date NCCI begins using IWIF data in experience rating. The IWIF experience rating would continue to apply to the IWIF policy until NCCI produces an interstate rating.

A significant benefit to a single experience rating system is that all of an insured's data would be used in Maryland ratings. In a typical state, there is no impact to an insured's experience rating when they change insurers. NCCI can combine the insured's experience over the three year period to produce the experience rating. Since NCCI does not collect unit statistical data from IWIF, if an insured leaves IWIF and obtains coverage with an NCCI affiliate, there would be no (or limited) Unit Statistical data available to create an experience rating. In some instances, NCCI will produce a rating for such an insured if a form is completed and submitted. This process is more likely to be pursued when an insured's rating is better than 1.0. In those instances where this process is not pursued, the insured leaving IWIF may start over with a 1.0 rating. In sum, if all of an insured's data is not included in its rating, its experience rating may not fully reflect its actual experience.

#### **(5) COST TO IWIF TO AFFILIATE WITH NCCI**

IWIF currently pays NCCI approximately \$175K on an annual basis for various services including licensing of our classification plan, proof of coverage, and secondary experience modification sales. It should be noted that NCCI's fee structure for our affiliates includes premium based charges as well as transactional charges. Using an estimate from IWIF for a 2011 written premium of \$178M as a static measurement, we estimate that IWIF's fifth year affiliation

cost would be approximately \$592K, which is \$417k over and above current. Full affiliation would provide access and licensing to the following products:

- Infrastructure which includes use, license and maintenance of the Experience Rating Plan
- Classification System Plan, Statistical Plan, Large Account License and Policy Forms.
- Filing Services (including loss cost filing)
- Experience Rating Services
- Proof of Coverage
- Data Management Services
- Web Based Informational Tools
- Electronic Manuals
- Electronic Circulars

However, the actual cost could vary significantly from this estimate due to the following:

This calculation is based on 2012 affiliation pricing. The actual cost will be based on 2017 affiliation pricing.

This calculation is based on IWIF's 2011 written premium of approximately \$178 million.

This calculation is based on an estimated annual policy count of 21K and an estimated experience rating population of 13K. It is very likely that these counts will vary on a yearly basis. NCCI's experience rating population estimate of 13K for IWIF was based on IWIF's 2010 Annual Report identifying the number of risks qualifying for IWIF's experience rating plan (\$3,000 threshold). If NCCI's higher experience rating plan threshold were used, the experience rating population would be lower and the cost to IWIF would be less.

We look forward to meeting with the Maryland Insurance Administration on July 9, 2012 and will be happy to answer any additional questions you may have. Thank you for the opportunity to offer information as part of your study. If you have any additional questions, please give me a call at 201-386-2624.

Sincerely,



George A. Ortiz  
State Relations Executive

**Exhibit 1**

Alabama	Missouri
Alaska	Montana
Arizona	Nebraska
Arkansas	Nevada
Colorado	New Hampshire
Connecticut	New Mexico
District of Columbia	New York
Florida	North Carolina
Georgia	North Dakota
Hawaii	Oklahoma
Idaho	Oregon
Illinois	Rhode Island
Indiana	South Carolina
Iowa	South Dakota
Kansas	Tennessee
Kentucky	Texas
Louisiana	Utah
Maine	Vermont
Maryland	Virginia
Mississippi	West Virginia

Exhibit 2

State	NCCI Affiliate	State Fund Name	Market of Last Resort?	Required by regulator to use NCCI rates/loss costs	Reports data to NCCI	Uses NCCI Experience Ratings
Arizona	YES	SCF AZ	NO	YES	YES	YES
Colorado	YES	Pinnacol Assurance Company	YES	YES	YES	YES
Hawaii	YES	Hawaii Employers Mutual Insurance Co (HEMIC)	YES	YES	YES	YES
Idaho	YES	Idaho State Insurance Fund	NO	YES	YES	YES
Kentucky	YES	Kentucky Employers Mutual Insurance (KEMI)	YES	NO	YES	YES
Louisiana	YES	Louisiana Workers Compensation Corp. (LWCC)	YES	NO	YES	YES
Maine	YES	Maine Employers Mutual Insurance Co (MEMIC)	YES	YES	YES	YES
Minnesota	YES	SFM	NO	YES in other NCCI states where SFM writes	YES for non MN data. Reports MN data to MN Rating Bureau	YES in other NCCI states where SFM writes
Montana	YES	Montana State Compensation Fund	YES	NO	YES	YES
New Mexico	YES	New Mexico Mutual Casualty Co	NO	YES	YES	YES
Oklahoma	YES	Compsource Oklahoma	YES	NO	YES	YES
Oregon	YES	SAIF Corp	NO	YES	YES	YES
Rhode Island	YES	The Beacon Mutual Insurance Company	YES	YES	YES	YES
Texas	NO	Texas Mutual Insurance Co.	YES	NO	YES	YES
Utah	YES	Workers Compensation Fund of Utah	YES	YES	YES	YES
Maryland	NO	Injured Workers Ins Fund of MD	YES	NO	NO	NO
West Virginia	YES	Brickstreet Mutual	Currently	YES	YES	YES
South Carolina	NO	South Carolina State Accident Fund	NO	NO	NO	NO

**Exhibit 3**

<u>NCCI</u>	<u>IWIF</u>
<b>Methodology</b>	
<p>NCCI collects an extensive amount of information regarding the workers compensation system in Maryland, and submits proposed advisory prospective loss costs for review and approval by the Maryland Commissioner of Insurance. These voluntary loss costs are intended to cover the indemnity and medical benefits provided under the system. They do not, however, contemplate any other costs associated with providing workers compensation insurance (such as commissions, taxes, etc.), or the expenses associated with providing these benefits (loss adjustment expenses).</p>	<p>While NCCI produces only the pure premium (i.e loss cost) portion of the rate, IWIF produces pure premiums and allocated loss adjustment expense. IWIF then includes additional loads or adjustments to produce full rates. These adjustments include a provision for guaranty fund assessment, general expense, claims adjusting expense and investment income.</p>
<b>Experience</b>	
<p>NCCI analyzed the emerging experience of Maryland workers compensation policies in recent years. The primary focus of our analysis was on premiums and losses from Policy Years 2004 and 2005, evaluated as of December 31, 2006. A policy year captures the premiums and losses from the block of policies that have effective dates during a given year. Policy Year 2005 is the most recently available policy year, since the last policy had an effective date of December 31, 2005 and did not expire until December 31, 2006. The use of the two most recently available policy years is consistent with the filings made in</p>	<p>IWIF uses a ten year experience period consisting of Calendar Accident Years 1997-2006. Final selection appears to be based upon a weighted average of on-leveled pure premiums for the time period 2002-2006.</p>

<p>the past several years by NCCI in Maryland.</p> <p>Calendar-Accident Year 2006 experience was also analyzed for the purposes of this filing. A calendar-accident year captures the premiums earned during a given year, together with the losses associated with workplace accidents taking place during the same year. This information is useful in analyzing whether the pattern observed in recent years can be expected to continue in the same direction into future time periods.</p>	
<p>It should be noted that NCCI adjusts the historical policy and calendar-accident year experience to reflect both pure premium changes approved and statutory benefit changes implemented since that time period.</p>	<p>IWIF also adjusts the historical experience to reflect approved rate changes and statutory benefit changes implemented since those time periods. Please note that IWIF used their own adjustment (+7.2%) for the "Harris v. Board of Education of Howard County" decision, rather than the NCCI estimated impact (+2.0%).</p>
<p>The loss experience used by NCCI in this filing is a combination of paid losses and paid losses plus case reserves. Paid losses represent the benefit amounts already paid by insurers on reported claims, and case reserves represent the additional amounts set aside to cover future payments on those claims. The use of paid and paid plus case loss experience is consistent with NCCI's previous loss cost filings in Maryland (effective 1-1-2006 and 1-1-2007).</p>	<p>IWIF's ultimate loss projections are based on their 12/31/2006 reserve analysis. NCCI was not provided with this information and was therefore unable to determine the loss experience (eg. paid, paid plus case, incurred losses) or loss development methodology (eg. 3 yr average, 5 year average, tail factors) underlying its rate filing.</p>

NCCI adjusts this historical paid and paid plus case loss experience by applying loss development factors for medical and indemnity losses. These factors are needed because paid losses, and case reserve estimates, are known to change over time until the claim is finally closed. The loss development factors are based on how paid amounts and case reserve estimates have changed over time for claims from older years. In this filing, NCCI is relying on a two-year average of the paid development factors to a 19<sup>th</sup> report, and a five-year average of the paid plus case development factors. A five-year average of total incurred development factors (including IBNR, Incurred But Not Reported, which represents amounts set aside to cover future payments for unknown claims) was used to estimate 19<sup>th</sup> report to ultimate

The procedure for the treatment of individual large losses in this loss cost filing is the same as used in previous filings. The objective of the treatment of individual large losses in aggregate ratemaking is to address the impact individual large claims may have on aggregate loss cost level indications. The treatment is intended to stabilize loss cost level indications and to help achieve overall long-term loss cost adequacy.

There is no mention of a procedure to limit the impact of large losses on IWIF's rates.

The aggregate large loss ratemaking procedure involves replacing the amount of actual reported individual claim losses in excess of a state-specific dollar threshold with an excess loss provision—representing the expected volume of losses in excess of the threshold.

**Trend**

NCCI's 1/1/2008 loss cost filing relies primarily on the experience from Policy Years 2004 and 2005. However, the proposed loss costs are intended for use with policies with effective dates starting on January 1, 2008. Therefore, it is necessary to use trend factors that forecast how much the future Maryland workers compensation experience will differ from the past. These trend factors measure anticipated changes in the amount of indemnity and medical benefits as compared to anticipated changes in the amount of workers' wages. For example, if benefit costs are expected to grow faster than wages, then a trend factor greater than zero should be applied. Conversely, if wages are expected to grow faster than benefit costs, then a trend factor less than zero is indicated.

In last year's Maryland filing, NCCI proposed an indemnity trend factor of  $-1.0\%$  per year. Based on our analysis this year, we are proposing an indemnity trend factor of  $-1.5\%$  per year. This means that indemnity benefits are expected to increase at a slightly slower pace than workers' wages.

IWIF separately adjusts for payroll trend, frequency trend, and a combined indemnity and medical severity trend. NCCI combines payroll trend, frequency trend and severity trend into a loss ratio trend factor, although a loss ratio trend factor is determined separately for indemnity and medical.

In last year's Maryland filing, NCCI proposed a medical trend factor of 1.0% per year. Based on our analysis this year, we are again proposing a medical trend factor of 1.0% per year. This means that medical benefits are expected to increase at a slightly faster pace than workers' wages.

**Benefits**

Workers injured in Maryland receive wage replacement (indemnity) benefits at a rate of  $\frac{2}{3}$  their pre-injury weekly wage. These benefits are subject to a weekly minimum and maximum.

Each January, the minimum and maximum weekly benefits are updated based on the most recent average weekly wage in Maryland. Since losses from Policy Years 2004 and 2005 reflect the indemnity benefits being paid at that time, it is necessary for NCCI to reflect what the level of these benefits will be starting January 1, 2008. Updating the proposed voluntary loss costs to reflect the impact of minimum and maximum benefit increases on January 1, 2008 results in a 1.0% increase for indemnity losses. Since indemnity claims comprise 48.2% of all losses, the overall impact is 0.5%.

A similar adjustment for medical costs needed to be made as a result of an estimated increase in the hospital fee schedule implemented by the Maryland Health Services Cost Review Commission. The hospital fee schedule was estimated to increase by an average of 5.5% effective July

IWIF includes benefit level adjustment factors to modify experience period losses to reflect changes in the workers compensation statutory provisions.

<p>1, 2007. The impact on medical costs is estimated at 1.3%; the estimated overall impact is 0.6%.</p>	
<p><b>Experience Rating</b></p>	
<p>The term "off-balance" refers to the average experience rating modification (E-mod) for a given year. The combined "off-balance" includes the average experience rating modification for intrastate rated risks (Maryland only risks), interstate rated risks (multi-state risks) and non-rated risks (i.e. E-mod = 1.000) It is desirable to have an off-balance near 1.00. This means that the class rates are adequate on average with the employers receiving debit E-mods offsetting those receiving credit E-Mods. In this year's filing we are targeting an average intrastate experience modification of 0.991 and we anticipate a combined off-balance of 0.944. We estimate that the proposed loss costs, together with the targeted off-balance of 0.944, will generate sufficient premium to fund losses.</p> <p>Threshold = &gt; \$10,000 premium over 2 year period; average of \$5,000 per year</p> <p>Actual Primary Loss = Up to \$5,000</p> <p>Actual Excess Loss = varies based on size of risk</p> <p>For each medical only claim, the amount is reduced 70%.</p> <p>Maximum = \$194,500</p> <p>Ballast between 19,500 (less than \$42k in exp loss) and</p>	<p>IWIF's Experience Rating Plan is independent of NCCI's (was designed by actuaries at Deloitte Consulting). According to documents provided by IWIF, its experience rating plan is reviewed by its in-house actuary for actuarial balance (keeping the plan's debits and credits relatively aligned with one another).</p> <p>Threshold = &gt; \$3,000 premium over 3 year period</p> <p>Actual Primary Loss = Up to \$7,500</p> <p>Actual Excess Loss = \$7,500 to \$142,500</p> <p>No mention of different treatment for medical only claims</p> <p>Maximum = \$150,000</p>

<p>390,000 (\$3.7M in exp loss)</p> <p>Weights between .04 (less than \$1,600 in exp loss) and .8 (&gt;130M in expected loss)</p> <p>Average mod between .94 and .95</p> <p>ELR Ratios and D-Ratios vary by class (determines expected losses and expected primary losses)</p>	<p>Ballast between 8,700 and 110,000</p> <p>Weights between .051 (\$1,500 base premium) and .726 (\$9M and above)</p> <p>Average mod between .89 and .90</p> <p>ELR's and D-Ratios vary by year (determines expected losses and expected primary losses)</p>
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**Classification Analysis**

<p>The change in pure premiums varies depending on the classification. Each classification belongs to one of five industry groups.</p> <p>After determining the required change in statewide pure premium level (through ratemaking methodology described above), the next step in the ratemaking process is to distribute these changes amongst the various occupational classifications. In order to do this, the pure premiums by classification must be adjusted, by policy period, industry group, or on an overall basis, to incorporate the changes proposed in the filing. There are three sets of pure premiums for each classification: indicated, present on rate level, and national pure premiums.</p> <p>The indicated pure premiums are calculated from the payroll and loss data reported, by class code and policy period, in the Workers Compensation Statistical Plan</p>	<p>Individual classification base rates are determined by applying base rate relativities to the overall base rate. The base rate relativities are a function of the current classification base rates, IWIF historical experience, and Maryland NCCI loss costs. The overall base rate is determined as the current average base rate times the selected base rate change chosen by IWIF. For competitive reasons, IWIF has elected to use certain rates selected internally for certain classes. In addition, IWIF continues to offer tiered rates. Tier 1 and Tier 2 rates are established at a discount from the selected base rates and are used for a preferred rating program with IWIF's own underwriting guidelines. Additionally, IWIF developed two surcharge tiers.</p>
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(WCSP) for the latest available five policy periods. Various adjustments are made to these pure premiums to put them at the level proposed in the filing. The pure premiums present on rate level are the pure premiums underlying the current manual loss cost, adjusted to the proposed level. Finally, there are the national pure premiums, which reflect the countrywide experience for each classification adjusted to state (Maryland-specific) conditions.

The indicated, present on rate level and national pure premiums are credibility weighted and the results, the derived by formula pure premiums, are used to determine the final class loss costs.

Both NCCI and IWIF Class Ratemaking methodologies use credibility weighting and swing limits (limiting the percentage change for each class) when determining final rates by class, although the specific factors differ between the two entities.

<p>(WCSP) for the latest available five policy periods. Various adjustments are made to these pure premiums to put them at the level proposed in the filing. The pure premiums present on rate level are the pure premiums underlying the current manual loss cost, adjusted to the proposed level. Finally, there are the national pure premiums, which reflect the countrywide experience for each classification adjusted to state (Maryland-specific) conditions.</p>	
<p>The indicated, present on rate level and national pure premiums are credibility weighted and the results, the derived by formula pure premiums, are used to determine the final class loss costs.</p>	

## Exhibit 4

Documentation from IWIF references the following unique codes:

<u>Count</u>	<u>Class Codes</u>
1	7384
2	7385
3	8383
4	8754
5	8878
6	9034
7	9035
8	9036
9	9037
10	9038
11	9111

IWIF description: window washing, above one story. This is an NCCI code (Janitorial Services by contractors, includes window cleaning above ground level & drivers)

12	9170
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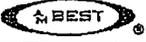
However, a comparison by NCCI indicates that an additional 87 codes used by IWIF are non-NCCI codes:

<u>Count</u>	<u>Class Codes</u>
1	0004
2	0006
3	0169
4	0909
5	0912
6	1000
7	1001
8	1016
9	1470
10	1560
11	1561
12	1605
13	2101
14	2150
15	2156
16	2576
17	2578
18	2737
19	2741
20	2747

<u>Count</u>	<u>Class Codes</u>	
21	3381	
22	3686	
23	4308	
24	4597	
25	4628	
26	4760	
27	4761	
28	4779	
29	4800	
30	4809	
31	4811	
32	4813	
33	4815	
34	4819	
35	4823	
36	5184	
37	5536	
38	5602	
39	5701	
40	6030	
41	7048	
42	7219	
43	7383	
44	7384	on IWIF's list of unique codes
45	7385	on IWIF's list of unique codes
46	7409	
47	7423	
48	7504	
49	7529	
50	7609	
51	7701	
52	7721	
53	7724	
54	8027	
55	8034	
56	8048	
57	8050	
58	8061	
59	8270	
60	8271	
61	8272	
62	8278	
63	8289	
64	8290	
65	8353	
66	8383	on IWIF's list of unique codes

<u>Count</u>	<u>Class Codes</u>	
67	8387	
68	8391	
69	8710	
70	8753	
71	8754	on IWIF's list of unique codes
72	8828	
73	8837	
74	8838	
75	8840	
76	8861	
77	8878	on IWIF's list of unique codes
78	9034	on IWIF's list of unique codes
79	9035	on IWIF's list of unique codes
80	9036	on IWIF's list of unique codes
81	9037	on IWIF's list of unique codes
82	9038	on IWIF's list of unique codes
83	9039	
84	9063	
85	9079	
86	9080	
87	9088	
88	9110	
89	9111	on IWIF's list of unique codes
90	9187	
91	9188	
92	9529	
93	9530	
94	9545	
95	9549	
96	9552	
97	9888	
98	9985	

One-year Premium, Loss and Market Share Study with Expenses



Best DataBase Services  
P/C State/Line Report

STATE OR TERRITORY - LINE OF BUSINESS - YEAR  
MARYLAND - WORKERS' COMPENSATION - 2004

A3-21-16

Report Format: A3

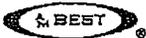
RANK	COMPANY	MKT TP	MARKET SHARE %	DIRECT PREMIUMS WRITTEN (000)	DIRECT PREMIUMS EARNED (000)	DIRECT LOSSES INCURRED (000)	PURE LOSSES INCURRED %	DIR DEF. & CST CONTAIN EXPENSE %	COMM. & BROKER EXPENSE %	TAXES LIC & FEES EXPENSE %	DIVIDENDS TO POLHOLDERS %	TOTAL LOSS + DDCCF + EXP + DIV. %
1	Injured Wkrs Ins Fd	S	33.93	299,900	283,285	204,582	72.2	0.2	7.4	1.2	0.8	81.9
2	Hartford Ins Group	N	9.03	79,840	77,008	45,487	59.1	5.1	10.2	5.4	0.5	80.2
3	Liberty Mutl Ins Cos	N	6.54	57,820	55,049	68,180	123.9	5.3	4.0	-1.8	0.3	131.6
4	Amer Intern Grp Inc	N	6.23	55,043	48,778	30,935	63.4	7.8	5.3	3.2	8.0	79.7
5	Erie Ins Group	S	5.52	48,766	46,723	31,690	67.8	5.5	9.4	2.8	4.7	90.1
6	St Paul Travelers	N	4.91	43,427	43,826	45,885	101.9	8.8	7.3	5.5	0.4	123.9
7	Zurich Fin Serv NA	N	4.54	40,115	39,517	28,103	71.1	8.0	4.4	1.9	0.5	85.4
8	CNA Ins Companies	N	2.70	23,908	26,464	23,918	90.4	9.9	7.6	2.1	1.5	111.4
9	Selective Ins Group	N	2.64	23,321	23,255	8,389	36.1	7.0	8.4	2.2	5.3	59.1
10	ACE INA Group	N	1.57	13,919	15,963	1,271	8.0	6.2	3.3	12.3	0.0	29.7
11	Argonaut Group	S	1.51	13,321	13,216	9,536	70.6	3.7	10.3	3.3	0.6	88.5
12	Nationwide Group	D	1.42	12,563	12,009	16,623	138.4	3.4	6.3	2.6	3.7	154.5
13	PMA Capital Ins Grp	N	1.34	11,862	14,326	10,516	73.4	-0.1	5.4	4.0	0.8	83.5
14	Ohio Casualty Group	N	1.33	11,744	11,883	4,602	38.7	1.7	8.7	4.7	0.2	54.1
15	Chubb Grp of Ins Cos	N	1.24	10,928	10,595	4,036	38.1	4.1	6.2	8.3	2.7	59.4
16	Hartford Mutl Ins Cos	S	1.20	10,571	10,788	3,710	34.4	3.7	11.3	2.5	1.6	53.5
17	Penn National Ins	N	1.18	10,407	9,815	6,695	68.2	4.9	9.3	2.6	2.9	87.8
18	State Farm Group	D	1.07	9,495	8,951	4,752	52.9	2.5	7.6	4.5	0.0	67.3
19	Companion P & C Grp	N	0.98	8,641	8,153	4,266	52.6	8.8	7.0	3.9	0.0	72.2
20	W R Barkley Group	N	0.94	8,321	7,093	4,067	57.3	2.5	8.2	2.0	0.0	70.1
21	GUARD Ins Group	N	0.89	7,841	7,976	5,174	64.9	-0.9	8.0	2.0	2.8	76.8
22	Cincinnati Ins Cos	S	0.88	7,742	7,094	3,935	55.5	6.9	7.3	3.4	2.9	75.9
23	Allianz of America	N	0.82	4,623	3,992	-1,175	-29.4	2.8	5.1	2.5	1.4	-17.6
24	Donegal Group	N	0.50	4,441	4,114	2,195	53.4	6.9	7.0	1.8	2.7	71.8
25	Ulrica Nat Ins Group	S	0.47	4,112	3,712	2,125	57.2	5.7	8.2	4.6	1.7	77.4
26	Americasfa Ins Group	D	0.45	3,991	3,924	2,732	69.6	6.8	5.1	4.9	0.0	86.4
27	Brethren Mutl Ins Co	N	0.45	3,936	3,827	1,246	32.6	11.1	8.1	2.6	0.0	54.3
28	Harleysville Ins	N	0.44	3,914	4,447	1,879	42.2	-5.5	7.8	2.9	2.3	49.7
29	Safety National Grp	S	0.42	3,733	3,525	2,119	60.1	-0.8	13.5	4.4	0.0	77.2
30	State Auto Ins Cos	S	0.41	3,660	3,544	1,068	30.1	-0.1	10.8	3.2	0.0	44.0
31	Old Republic Ins Grp	N	0.38	3,381	3,338	2,921	87.5	4.8	5.6	9.4	3.7	111.1
32	Fairfax Fin (USA) Gr	N	0.33	2,910	2,781	5,866	211.0	-3.0	4.7	3.1	4.8	220.6
33	Mut-Benefit Group	N	0.27	2,385	2,362	1,388	58.8	4.5	7.6	2.7	3.4	76.9
34	Vadiner Ins Co	S	0.25	2,217	2,114	1,235	58.4	9.8	4.6	3.5	0.0	76.3
35	Winterthur Swiss Grp	N	0.24	2,107	2,117	1,844	87.1	8.0	10.3	2.6	0.0	108.0
36	AmTrust Group	S	0.21	1,886	1,788	1,062	59.4	5.9	20.0	7.9	0.0	93.3
37	Sentry Ins Group	D	0.20	1,807	1,715	1,659	96.7	10.3	2.1	2.5	3.2	114.9
38	Meadowbrook Ins Grp	S	0.18	1,622	1,714	922	53.8	8.7	12.7	3.7	2.6	81.5
39	Main St America Grp	S	0.18	1,581	1,519	1,753	115.4	11.8	8.2	2.8	0.0	138.2
40	Electric Ins Grp	D	0.16	1,397	1,397	577	41.3	5.4	0.0	5.3	1.5	53.4
41	Brotherhood Mutl Ins	S	0.16	1,392	1,324	263	19.9	1.9	12.3	3.2	0.0	37.3
42	GE Global Ins Group	N	0.15	1,336	1,328	961	72.4	8.9	12.6	2.6	0.0	96.4
43	Aron Capital Gr (US)	N	0.15	1,330	1,179	420	35.6	2.8	15.8	2.7	0.0	56.9
44	Florists Mutl Grp	D	0.15	1,303	1,207	47	3.9	-2.8	0.0	2.5	4.5	8.0
45	Federated Mutl Grp	D	0.14	1,223	1,284	921	71.8	10.9	0.0	-8.8	0.0	73.9
46	Safeco Ins Cos	N	0.14	1,215	1,452	495	34.1	2.2	10.3	3.3	0.0	49.9
47	Amer Nat P & C Group	D	0.12	1,061	961	431	44.9	1.2	5.2	2.0	0.0	53.3
48	Mitsui Sumitomo Grp	N	0.11	983	1,015	623	61.4	15.7	12.3	3.9	0.3	93.5
49	Aon Corp Group	S	0.10	870	897	1,462	163.1	10.2	13.9	3.4	1.9	192.5
50	Zenith Nat Ins Group	S	0.09	784	732	-468	-63.9	3.5	7.3	2.8	0.0	-50.3
51	Preferred Prof Ins	D	0.09	778	787	1,262	160.4	16.2	0.0	3.6	0.0	180.2
52	Amer Mining Ins Co	S	0.08	729	729	445	61.1	11.4	12.0	5.5	0.0	89.9
53	Alca Group - U.S.	S	0.06	565	444	294	66.1	11.1	15.6	2.6	0.0	95.4
54	TRANSGLIARD INS OF AM	S	0.06	543	270	87	32.1	4.1	13.7	2.4	0.0	52.4
55	GUMIS Ins Society	D	0.06	525	490	236	48.2	2.4	0.0	3.9	0.0	54.5
56	Tokio Marine Nichido	S	0.06	524	583	-49	-8.5	6.6	2.7	4.2	1.8	6.7
57	Church Mutl Ins Co	D	0.05	450	422	29	6.9	1.2	0.0	5.9	0.9	14.8
58	White Mt Ins Group	N	0.05	444	217	2,604	999.9	158.6	5.3	2.5	0.0	999.9
59	Allmerica, Fin PAC Cos	N	0.05	443	431	212	49.2	13.3	9.9	3.1	6.8	82.2
60	XL America Group	N	0.05	443	347	283	81.7	5.0	133.2	3.2	0.0	223.1
61	Penn Lumbermens Mutl	S	0.05	402	371	929	250.7	9.5	6.5	4.1	0.5	271.2
62	Southern States Exch	D	0.05	400	400	116	29.1	-3.0	3.9	3.3	-5.9	27.5
63	Allstate Mutl Cos	S	0.04	361	1,235	-3,709	-99.9	-13.1	38.1	11.8	3.5	-99.9
64	Baldwin & Lyons Grp	D	0.04	355	355	140	39.3	1.6	22.5	2.4	0.0	65.9
65	Great Amer P&C Group	N	0.04	335	389	3,531	907.5	-62.8	16.2	8.4	0.0	869.3
66	Farmers Ins Group	D	0.04	320	296	203	68.6	19.6	8.0	5.8	0.0	101.9
67	Penn Millers Ins Grp	S	0.03	228	220	-1	-0.6	0.5	3.8	2.3	0.0	6.0
68	GuideOne Ins	S	0.03	226	209	45	21.6	1.8	12.0	2.7	0.0	38.1
69	Magna Carta Cos	S	0.02	214	134	115	85.6	12.0	10.4	3.7	0.0	111.8
70	Granter New York Grp	S	0.02	188	187	11	5.9	7.2	6.9	3.5	6.7	30.2
71	HDI U S Group	N	0.02	157	301	920	305.5	40.4	30.3	3.2	0.0	379.4
72	Kemper Ins Cos	S	0.02	145	183	-4,935	-99.9	-99.9	72.0	159.5	-99.9	-99.9
73	Capital City Ins Co	S	0.01	123	130	-54	-41.9	-3.3	7.0	5.6	0.0	-32.6
74	Federated Rural Eleo	D	0.01	120	110	91	82.8	2.0	0.0	4.3	0.0	89.2
75	Pharmacists Mutl Ins	D	0.01	109	104	97	93.3	9.9	0.2	4.9	5.1	113.4
76	Westfield Group	S	0.01	99	127	168	132.4	25.3	11.7	7.0	0.0	176.5
77	EMC Ins Cos	N	0.01	90	89	68	84.9	-0.1	7.0	5.9	0.0	97.7
78	Providence Hldgs Grp	D	0.01	89	89	44	49.6	4.7	0.0	6.7	0.0	60.9
79	Amer Re Corp Group	D	0.01	82	41	-213	-99.9	6.0	13.2	0.0	0.0	-99.9
80	Sampo Japan Ins Amer	S	0.01	62	44	-58	-99.9	24.8	10.2	2.5	0.0	-95.3
	NATL AGENCY COS	N	35.89	317,250	311,391	213,568	68.6	6.5	7.4	4.4	0.7	87.6
	STATE AGENCY COS	S	53.37	471,778	456,293	298,475	65.4	1.8	8.0	2.1	1.4	78.7
	TOTAL AGENCY COS		89.26	789,028	767,684	512,043	66.7	3.7	7.8	3.0	1.1	82.3
	TOTAL DIRECT COS	D	10.74	94,930	90,760	107,239	118.2	5.2	4.6	0.1	0.8	128.9
	TOP EIGHTY TOTAL		100.03	884,243	856,002	605,632	70.8	3.9	7.4	2.6	1.1	85.8
	OTHER COS		-0.03	-285	2,442	13,650	559.0	-1.7	-27.4	-99.9	-0.0	277.8
	STATE/LINE TOTAL		100.00	883,958	858,444	619,282	72.1	3.9	7.4	2.7	1.1	87.2

While this information was obtained from sources believed to be reliable, its accuracy is not guaranteed.

SOURCE: STATE PAGE OF THE ANNUAL CONVENTION STATEMENT

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One-year Premium, Loss and Market Share Study with Expenses



Best Data Base Services  
P/C State/Line Report

STATE OR TERRITORY - LINE OF BUSINESS - YEAR  
MARYLAND - WORKERS' COMPENSATION - 2004

A3-21-16

Report  
Format: A3

RANK	COMPANY	MKT TP	MARKET SHARE %	DIRECT PREMIUMS WRITTEN (\$00)	DIRECT PREMIUMS EARNED (\$00)	DIRECT LOSSES INCURRED (\$00)	PURE LOSSES INCURRED	DIR DEF & CST CONTAIN EXPENSE %	COMM. & BROKER EXPENSE %	TAXES LIC & FEES EXPENSE %	DIVIDENDS TO POLHOLDERS %	TOTAL LOSS + DDCCE + EXP + DIV. %
1	Injured Wkr Ins Fd	S	33.93	299,900	283,285	204,582	72.2	0.2	7.4	1.2	0.8	81.9
2	Hartford Ins Group	N	9.03	79,840	77,008	45,487	59.1	5.1	10.2	5.4	0.5	80.2
3	Liberty Mut Ins Cos	D	6.54	57,820	55,049	68,180	123.9	5.3	4.0	-1.8	0.3	131.6
4	Amer Intern Grp Inc	S	6.23	55,043	48,778	30,935	63.4	7.8	5.3	3.2	0.0	79.7
5	Erie Ins Group	N	5.52	48,766	46,723	31,690	67.8	5.5	9.4	2.8	4.7	90.1
6	St Paul Travelers	N	4.91	43,427	45,026	45,885	101.9	8.8	7.3	5.5	0.4	123.9
7	Zurich Fin Serv NA	N	4.54	40,115	39,517	28,103	71.1	8.0	4.4	1.5	0.5	85.4
8	CNA Ins Companies	N	2.70	23,988	26,464	23,918	90.4	9.9	7.6	2.1	1.5	111.4
9	Selective Ins Group	S	2.64	23,321	23,255	8,389	36.1	7.0	8.4	2.2	5.3	59.1
10	ACE INA Group	N	1.57	13,919	15,963	1,271	8.0	6.2	3.3	12.3	0.0	29.7
11	Argonaut Group	S	1.51	13,321	13,216	9,356	70.6	3.7	10.3	3.3	0.6	88.5
12	Nationwide Group	D	1.42	12,563	12,009	16,623	138.4	3.4	6.3	2.6	3.7	154.5
13	PMA Capital Ins Grp	N	1.34	11,862	14,324	10,516	73.4	-0.1	5.4	4.0	0.8	83.5
14	Dhio Casualty Group	N	1.33	11,744	11,883	4,602	38.7	1.7	8.7	4.7	0.2	54.1
15	Chubb Grp of Ins Cos	N	1.24	10,928	10,595	4,034	38.1	4.1	6.2	8.3	2.7	59.4
16	Hartford Mut Ins Cos	S	1.20	10,571	10,571	-10,788	-34.4	3.7	11.3	2.5	1.6	55.5
17	Penn National Ins	N	1.18	10,407	9,815	6,695	68.2	4.9	9.3	2.6	2.9	87.8
18	State Farm Group	S	1.07	9,493	8,951	4,732	52.9	2.5	7.6	4.5	0.0	67.3
19	Companion P & C Grp	N	0.98	8,641	8,153	4,286	52.6	8.8	7.0	3.9	0.0	72.2
20	W R Berkley Group	N	0.94	8,321	7,093	4,067	57.3	2.5	8.2	2.0	0.0	70.1
21	GUARD Ins Group	N	0.89	7,841	7,976	5,174	66.9	-0.9	8.0	2.0	2.8	76.8
22	Cincinnati Ins Cos	S	0.88	7,742	7,094	3,935	55.5	6.9	7.3	3.4	2.9	75.9
23	Alliant of America	N	0.52	4,623	3,992	-1,175	-29.4	2.8	5.1	2.5	1.4	-17.6
24	Donagay Group	S	0.50	4,441	4,114	2,195	53.4	6.9	7.0	1.8	2.7	71.8
25	Ulrica Nat Ins Group	S	0.47	4,112	3,712	2,125	57.2	5.7	8.2	4.6	1.7	77.4
26	Americas Ins Group	D	0.45	3,991	3,924	2,732	69.6	6.8	5.1	4.9	0.0	86.4
27	Brethren Mut Ins Co	S	0.45	3,936	3,827	1,246	32.6	11.1	8.1	2.6	0.0	54.3
28	Harleysville Ins	N	0.44	3,914	4,447	1,879	42.2	-5.5	7.8	2.9	2.3	49.7
29	Safety National Grp	S	0.42	3,733	3,525	2,119	60.1	-0.8	13.5	4.4	0.0	77.2
30	State Auto Ins Cos	S	0.41	3,660	3,544	1,068	30.1	-0.1	10.8	3.2	0.0	44.0
31	Old Republic Gen Grp	N	0.38	3,381	3,338	2,921	87.5	4.8	5.6	9.4	3.7	111.1
32	Fairfax Fin (USA) Gr	N	0.33	2,910	2,781	5,866	211.0	-3.0	4.7	3.1	4.8	220.6
33	Mut.Benefit Group	S	0.27	2,385	2,362	1,388	58.8	4.5	7.6	2.7	3.4	76.9
34	Vanliner Ins Co	S	0.25	2,217	2,114	1,235	58.4	9.8	4.6	3.5	0.0	76.3
35	Winterthur Swiss Grp	N	0.24	2,107	2,117	1,844	87.1	8.0	10.3	2.6	8.0	108.0
36	AmTrust Group	S	0.21	1,886	1,788	1,042	59.4	5.9	20.0	7.9	0.0	93.3
37	Sentry Ins Group	D	0.20	1,807	1,715	1,659	96.7	10.3	2.1	2.5	3.2	114.9
38	Meadowbrook Ins Grp	S	0.18	1,622	1,714	922	55.8	8.7	12.7	3.7	2.6	81.5
39	Maine St America Grp	S	0.18	1,581	1,519	1,753	115.4	11.8	8.2	2.8	0.0	138.2
40	Electric Ins Grp	D	0.16	1,397	1,397	577	41.3	5.4	0.0	5.3	1.5	53.4
41	Brotherhood Mut Ins	S	0.16	1,392	1,324	263	19.9	1.9	12.3	3.2	0.0	37.3
42	GE Global Ins Group	D	0.15	1,336	1,328	961	72.4	8.9	12.6	2.6	0.0	96.4
43	Aroh Capital Gr (US)	N	0.15	1,330	1,179	420	35.6	2.8	15.8	2.7	0.0	56.9
44	Florists Mut Grp	D	0.15	1,303	1,207	47	3.9	-2.8	0.0	2.5	4.5	8.0
45	Federated Mut Grp	D	0.14	1,223	1,284	921	71.8	10.9	0.0	-8.8	0.0	73.9
46	Safeco Ins Cos	N	0.14	1,215	1,452	495	34.1	2.2	10.3	3.3	0.0	49.9
47	Amer Nat P & C Group	D	0.12	1,061	961	431	44.9	1.2	5.2	2.0	0.0	53.3
48	Mitsui Sumitomo Grp	S	0.11	983	1,015	623	61.4	15.7	12.3	3.9	0.3	93.5
49	Aon Corp Group	N	0.10	878	897	1,462	163.1	10.2	13.9	3.4	1.9	192.5
50	Zenith Nat Ins Group	S	0.09	784	732	-468	-63.9	3.5	7.3	2.8	0.0	-50.3
51	Preferred Prof Ins	D	0.09	778	787	1,262	160.4	16.2	0.0	3.6	0.0	180.2
52	Amer Miling Ins Co	S	0.08	729	729	445	61.1	11.4	12.0	5.5	0.0	89.9
53	Alea Group - U.S.	S	0.06	565	444	294	66.1	11.1	15.6	2.6	0.0	95.4
54	TRANSGLARD INS OF AM	S	0.06	543	270	87	32.1	4.1	13.7	2.4	0.0	52.4
55	GUMIS Ins Society	D	0.06	525	490	236	48.2	2.4	0.0	3.9	0.0	56.5
56	Tokio Marine Nichido	S	0.06	524	583	-49	-8.5	6.6	2.7	4.2	1.8	6.7
57	Church Mut Ins Co	D	0.05	450	422	29	6.9	1.2	0.0	5.9	0.9	14.8
58	White Mt Ins Group	N	0.05	444	217	2,604	999.9	158.6	5.3	2.5	0.0	999.9
59	Almireca Fin P&C Cos	N	0.05	443	431	212	49.2	13.3	9.9	3.1	6.8	82.2
60	XL America Group	N	0.05	443	347	283	81.7	5.0	133.2	3.2	0.0	223.1
61	Penn Lumbermen Mut	S	0.05	402	371	929	250.7	9.5	6.5	4.1	0.5	271.2
62	Southern States Exch	D	0.05	400	400	116	29.1	-3.0	3.9	3.3	-5.9	27.5
63	Atlantic Mut Cos	S	0.04	361	1,235	-3,709	-99.9	-13.1	38.1	11.8	3.5	-99.9
64	Baldwin & Lyons Grp	D	0.04	355	355	140	39.3	1.6	22.5	2.4	0.0	65.9
65	Great Amer P&C Group	N	0.04	335	389	3,531	907.5	-62.8	16.2	8.4	0.0	869.3
66	Farmers Ins Group	D	0.04	320	296	203	68.6	19.6	8.0	5.8	0.0	101.9
67	Penn Millers Ins Grp	S	0.03	228	220	-1	-0.6	0.5	3.8	2.3	0.0	6.0
68	GuideOne Ins	S	0.03	226	209	45	21.6	1.8	12.0	2.7	0.0	38.1
69	Magna Carta Cor	S	0.02	214	134	115	85.6	12.0	10.4	3.7	0.0	111.8
70	Greater New York Grp	S	0.02	188	187	11	5.9	7.2	6.9	3.5	6.7	30.2
71	HDI U S Group	N	0.02	157	301	920	305.5	40.4	30.3	3.2	0.0	379.4
72	Kemper Ins Cos	S	0.02	145	183	-4,935	-99.9	-99.9	72.0	159.5	-99.9	-99.9
73	Capital City Ins Co	S	0.01	123	130	-54	-41.9	-3.3	7.0	5.6	0.0	-52.6
74	Federated Rural Elec	D	0.01	120	110	91	82.8	2.0	0.0	4.3	0.0	89.2
75	Pharmacists Mut Ins	D	0.01	109	104	97	93.3	9.9	0.2	4.9	5.1	113.4
76	Westfield Group	S	0.01	99	127	168	132.4	25.3	11.7	7.0	0.0	176.5
77	EMC Ins Cos	N	0.01	90	80	68	84.9	-0.1	7.0	5.9	0.0	97.7
78	Providence Bldgs Grp	D	0.01	89	89	44	49.6	4.7	0.0	6.7	0.0	60.9
79	Amer Re Corp Group	D	0.01	82	41	-213	-99.9	6.0	13.2	0.0	0.0	-99.9
80	Sampo Japan Ins Amer	S	0.01	62	44	-58	-99.9	24.8	10.2	2.5	0.0	-95.3
	NATL AGENCY COS	N	35.89	317,250	311,391	213,568	68.6	6.5	7.4	4.4	0.7	87.6
	STATE AGENCY COS	S	53.37	471,778	456,293	298,475	65.4	1.8	8.0	2.1	1.4	78.7
	TOTAL AGENCY COS		89.26	789,028	767,684	512,043	66.7	3.7	7.8	3.0	1.1	82.3
	TOTAL DIRECT COS	D	10.74	94,930	90,760	1,07,239	118.2	5.2	4.6	0.1	0.8	128.9
	TOP EIGHTY TOTAL		100.03	884,243	856,002	605,632	70.8	3.9	7.4	2.6	1.1	85.8
	OTHER COS		-0.03	-285	2,442	13,650	559.0	-1.7	-27.4	-99.9	-0.0	277.8
	STATE/LINE TOTAL		100.00	883,958	858,444	619,282	72.1	3.9	7.4	2.7	1.1	87.2

While this information was obtained from sources believed to be reliable, its accuracy is not guaranteed.

SOURCE: STATE PAGE OF THE ANNUAL CONVENTION STATEMENT

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CPCAS

IWIF Income and Expense Data, 2006 through 2007 from Annual Statements Reported to the NAIC

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Net Premiums Written (NPW)</b>	316,513	272,523	225,915	167,234	166,820	176,521
<b>Underwriting Income</b>						
Premiums Earned	321,249	290,824	244,315	182,625	168,859	170,595
Losses Incurred	272,523	244,854	208,478	178,286	161,513	150,862
Loss Adjustment Expenses Incurred	<u>23,736</u>	<u>29,072</u>	<u>26,071</u>	<u>24,466</u>	<u>24,658</u>	<u>28,016</u>
Subtotal Loss Expense	296,259	273,926	234,549	202,752	186,171	178,878
Other Underwriting Expenses Incurred	47,123	44,002	42,601	35,127	34,225	40,026
Agg. W/I for Underwriting Deductions	<u>4,621</u>	<u>5,928</u>	<u>5,474</u>	<u>1,828</u>	<u>1,474</u>	<u>1,379</u>
Subtotal Operating Expense	51,744	49,930	48,075	36,955	35,699	41,405
Net Income of Protected Cells	0	0	0	0	0	0
Net Underwriting Gain (Loss)	-26,754	-33,032	-38,309	-57,082	-53,011	-49,688
<b>Investment Income</b>						
Net Investment Income Earned	68,607	75,798	71,390	61,394	53,191	50,184
Net Realized Capital Gains (Losses)	5,960	10,423	-8,908	8,941	11,946	16,811
Net Investment Gain (Loss)	74,567	86,221	62,482	70,335	65,137	66,995
<b>Other Income</b>						
Total Other Income	717	614	601	869	753	69
Dividends to Policyholders	5,646	5,323	2,556	2,037	869	-275
Net Income Before Taxes	42,884	48,480	22,218	12,085	12,010	17,651
Federal & Foreign Income Taxes Incurred	0	0	0	0	0	0
<b>Net Income</b>	<b>42,884</b>	<b>48,480</b>	<b>22,218</b>	<b>12,086</b>	<b>12,009</b>	<b>17,652</b>
<b>Ratios</b>						
Net Loss Ratio	92.2%	94.2%	96.0%	111.0%	110.3%	104.9%
Expense Ratio	16.3%	18.3%	21.3%	22.1%	21.4%	23.5%
Policyholders Dividend Ratio	1.8%	1.8%	1.0%	1.1%	0.5%	-0.2%
Combined ratio	110.3%	114.3%	118.3%	134.2%	132.2%	128.2%

MARTIN O'MALLEY  
Governor

ANTHONY G. BROWN  
Lt. Governor



**INSURANCE  
ADMINISTRATION**

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www.mdinsurance.state.md.us

**EXHIBIT**  
7A

HERESE M. GOLDSMITH  
Commissioner

KAREN STAKEM HORNIG  
Deputy Commissioner

SANDRA CASTAGNA  
Associate Commissioner  
Property and Casualty

July 18, 2012

Ms. Leigh Ann Pusey  
President and CEO  
American Insurance Association  
2101L Street, NW, Suite 400  
Washington, DC 20037

Re: SB 745 – Injured Workers Insurance Fund – Conversion to Chesapeake  
Employers Insurance Corporation.

Dear Ms. Pusey:

Senate Bill 745 was enacted during the 2012 Legislative Session and requires the following:

(a) The Maryland Insurance Administration shall study, in consultation with the Injured Workers' Insurance Fund and the National Council on Compensation Insurance, Inc., whether the Chesapeake Employers' Insurance Company should be subject to Title 11 of the Insurance Article, including whether the Company should be a member of the rating organization.

(b) In conducting the study, the Administration:

(1) may consult with any other person or entity that the Administration considers appropriate;

(2) shall consider the impact on the Company and its policyholders if the Company is made subject to Title 11 of the Insurance Article, including the impact of the membership and transaction fees payable to the rating organization and additional administrative and system costs associated with complying with Title 11 of the Insurance Article; and

(3) if the Administration determines that the Company should be subject to Title 11 of the Insurance Article, shall consider:

(i) the extent to which the Company should be in compliance with the rating plan requirements under Title 11 of the Insurance Article; and

(ii) an appropriate timeline for the Company to phase in participation in the rating plan requirements to avoid disruption to its policyholders.

(c) On or before October 1, 2012, the Administration shall report, in accordance with § 2-1246 of the State Government Article, its findings and recommendations to the Senate Finance Committee and the House Economic Matters Committee.

The Administration is seeking input from industry and policyholders with respect to requiring Chesapeake Employers' Insurance Company to become a member of NCCI and subject to Title 11 of the Insurance Article.

Please provide any written comments and supporting documentation to my attention by August 3, 2012. They may be transmitted by mail,

Sandra Castagna  
Maryland Insurance Administration  
200 St. Paul Place, Suite 2700  
Baltimore, Maryland 21202

by fax to 410-468-2306, or by e-mail to [scastagna@mdinsurance.state.md.us](mailto:scastagna@mdinsurance.state.md.us). Please feel free to call me with any questions at 410-468-2341.

Sincerely,



Sandra Castagna  
Associate Commissioner  
for Property & Casualty

MARTIN O'MALLEY  
Governor

ANTHONY G. BROWN  
Lt. Governor



THERESE M. GOLDSMITH  
Commissioner

KAREN STAKEM HORNIG  
Deputy Commissioner

SANDRA CASTAGNA  
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July 18, 2012

Mr. Dave Sampson  
President and CEO  
Property Casualty Insurers Association of America  
2600 South River Road  
Des Plaines, IL 60018-3286

Re: SB 745 – Injured Workers Insurance Fund – Conversion to Chesapeake  
Employers Insurance Corporation.

Dear Mr. Sampson:

Senate Bill 745 was enacted during the 2012 Legislative Session and requires the following:

(a) The Maryland Insurance Administration shall study, in consultation with the Injured Workers' Insurance Fund and the National Council on Compensation Insurance, Inc., whether the Chesapeake Employers' Insurance Company should be subject to Title 11 of the Insurance Article, including whether the Company should be a member of the rating organization.

(b) In conducting the study, the Administration:

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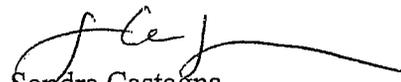
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THERESE M. GOLDSMITH  
Commissioner

KAREN STAKEM HORNIG  
Deputy Commissioner

SANDRA CASTAGNA  
Associate Commissioner  
Property and Casualty

July 18, 2012

Ms. Shelley Arnold  
President  
Independent Insurance Agents of Maryland, Inc.  
2408 Peppermill Drive  
Glen Burnie, Maryland 21061

Re: SB 745 – Injured Workers Insurance Fund – Conversion to Chesapeake  
Employers Insurance Corporation.

Dear Ms. Arnold:

Senate Bill 745 was enacted during the 2012 Legislative Session and requires the following:

(a) The Maryland Insurance Administration shall study, in consultation with the Injured Workers' Insurance Fund and the National Council on Compensation Insurance, Inc., whether the Chesapeake Employers' Insurance Company should be subject to Title 11 of the Insurance Article, including whether the Company should be a member of the rating organization.

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200 St. Paul Place, Suite 2700  
Baltimore, Maryland 21202

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Sincerely,

  
Sandra Castagna  
Associate Commissioner  
for Property & Casualty

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Commissioner

KAREN STAKEM HORNIG  
Deputy Commissioner

SANDRA CASTAGNA  
Associate Commissioner  
Property and Casualty

July 18, 2012

Mr. Henry Bradley, Jr.  
IA&B of Maryland Chair  
Bradley Atlantic, LLC  
209 E. Jarrettsville Road  
Forest Hill, Maryland 21050

Re: SB 745 – Injured Workers Insurance Fund – Conversion to Chesapeake  
Employers Insurance Corporation.

Dear Mr. Bradley:

Senate Bill 745 was enacted during the 2012 Legislative Session and requires the following:

(a) The Maryland Insurance Administration shall study, in consultation with the Injured Workers' Insurance Fund and the National Council on Compensation Insurance, Inc., whether the Chesapeake Employers' Insurance Company should be subject to Title 11 of the Insurance Article, including whether the Company should be a member of the rating organization.

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Sandra Castagna  
Maryland Insurance Administration  
200 St. Paul Place, Suite 2700  
Baltimore, Maryland 21202

by fax to 410-468-2306, or by e-mail to [scastagna@mdinsurance.state.md.us](mailto:scastagna@mdinsurance.state.md.us). Please feel free to call me with any questions at 410-468-2341.

Sincerely,



Sandra Castagna  
Associate Commissioner  
for Property & Casualty

MARTIN O'MALLEY  
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www.mdinsurance.state.md.us

July 18, 2012

Mr. Scott A. Hancock  
Executive Director  
Maryland Municipal League  
1212 West Street  
Annapolis, Maryland 21401

Re: SB 745 – Injured Workers Insurance Fund – Conversion to Chesapeake  
Employers Insurance Corporation.

Dear Mr. Hancock:

Senate Bill 745 was enacted during the 2012 Legislative Session and requires the following:

(a) The Maryland Insurance Administration shall study, in consultation with the Injured Workers' Insurance Fund and the National Council on Compensation Insurance, Inc., whether the Chesapeake Employers' Insurance Company should be subject to Title 11 of the Insurance Article, including whether the Company should be a member of the rating organization.

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(i) the extent to which the Company should be in compliance with the rating plan requirements under Title 11 of the Insurance Article; and

(ii) an appropriate timeline for the Company to phase in participation in the rating plan requirements to avoid disruption to its policyholders.

(c) On or before October 1, 2012, the Administration shall report, in accordance with § 2-1246 of the State Government Article, its findings and recommendations to the Senate Finance Committee and the House Economic Matters Committee.

The Administration is seeking input from industry and policyholders with respect to requiring Chesapeake Employers' Insurance Company to become a member of NCCI and subject to Title 11 of the Insurance Article.

Please provide any written comments and supporting documentation to my attention by August 3, 2012. They may be transmitted by mail,

Sandra Castagna  
Maryland Insurance Administration  
200 St. Paul Place, Suite 2700  
Baltimore, Maryland 21202

by fax to 410-468-2306, or by e-mail to [scastagna@mdinsurance.state.md.us](mailto:scastagna@mdinsurance.state.md.us). Please feel free to call me with any questions at 410-468-2341.

Sincerely,

  
Sandra Castagna  
Associate Commissioner  
for Property & Casualty

MARTIN O'MALLEY  
Governor

ANTHONY G. BROWN  
Lt. Governor



THERESE M. GOLDSMITH  
Commissioner

KAREN STAKEM HORNIG  
Deputy Commissioner

SANDRA CASTAGNA  
Associate Commissioner  
Property and Casualty

200 St. Paul Place, Suite 2700, Baltimore, Maryland 21202  
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1-800-492-6116 TTY: 1-800-735-2258  
[www.mdinsurance.state.md.us](http://www.mdinsurance.state.md.us)

July 18, 2012

Ingrid M. Turner, Esquire  
President  
MACO  
169 Conduit Street  
Annapolis, Maryland 21401

Re: SB 745 – Injured Workers Insurance Fund – Conversion to Chesapeake  
Employers Insurance Corporation.

Dear Ms. Turner:

Senate Bill 745 was enacted during the 2012 Legislative Session and requires the following:

(a) The Maryland Insurance Administration shall study, in consultation with the Injured Workers' Insurance Fund and the National Council on Compensation Insurance, Inc., whether the Chesapeake Employers' Insurance Company should be subject to Title 11 of the Insurance Article, including whether the Company should be a member of the rating organization.

(b) In conducting the study, the Administration:

(1) may consult with any other person or entity that the Administration considers appropriate;

(2) shall consider the impact on the Company and its policyholders if the Company is made subject to Title 11 of the Insurance Article, including the impact of the membership and transaction fees payable to the rating organization and additional administrative and system costs associated with complying with Title 11 of the Insurance Article; and

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Sincerely,



Sandra Castagna  
Associate Commissioner  
for Property & Casualty

MARTIN O'MALLEY  
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Lt. Governor



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[www.mdinsurance.state.md.us](http://www.mdinsurance.state.md.us)

July 18, 2012

Mr. Walt Clocker  
Chairman  
Maryland Retailers Association  
171 Conduit Street  
Annapolis, Maryland 21401

Re: SB 745 – Injured Workers Insurance Fund – Conversion to Chesapeake  
Employers Insurance Corporation.

Dear Mr. Clocker:

Senate Bill 745 was enacted during the 2012 Legislative Session and requires the following:

(a) The Maryland Insurance Administration shall study, in consultation with the Injured Workers' Insurance Fund and the National Council on Compensation Insurance, Inc., whether the Chesapeake Employers' Insurance Company should be subject to Title 11 of the Insurance Article, including whether the Company should be a member of the rating organization.

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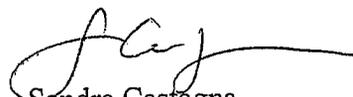
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Baltimore, Maryland 21202

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Sincerely,



Sandra Castagna  
Associate Commissioner  
for Property & Casualty

MARTIN O'MALLEY  
Governor

ANTHONY G. BROWN  
Lt. Governor



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ADMINISTRATION

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THERESE M. GOLDSMITH  
Commissioner

KAREN STAKEM HORNIG  
Deputy Commissioner

SANDRA CASTAGNA  
Associate Commissioner  
Property and Casualty

July 18, 2012

Ms. Kathleen T. Snyder  
President/CEO  
Maryland Chamber of Commerce  
60 West Street, Suite 100  
Annapolis, Maryland 21401

Re: SB 745 – Injured Workers Insurance Fund – Conversion to Chesapeake  
Employers Insurance Corporation.

Dear Ms. Snyder:

Senate Bill 745 was enacted during the 2012 Legislative Session and requires the following:

(a) The Maryland Insurance Administration shall study, in consultation with the Injured Workers' Insurance Fund and the National Council on Compensation Insurance, Inc., whether the Chesapeake Employers' Insurance Company should be subject to Title 11 of the Insurance Article, including whether the Company should be a member of the rating organization.

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(1) may consult with any other person or entity that the Administration considers appropriate;

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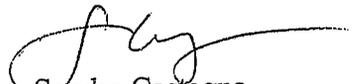
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Sincerely,



Sandra Castagna  
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THERESE M. GOLDSMITH  
Commissioner

KAREN STAKEM HORNIG  
Deputy Commissioner

SANDRA CASTAGNA  
Associate Commissioner  
Property and Casualty

July 18, 2012

Ms. Ellen Valentino  
NFIB/Maryland State Director  
3 Church Circle, #201  
Annapolis, Maryland 21401

Re: SB 745 – Injured Workers Insurance Fund – Conversion to Chesapeake  
Employers Insurance Corporation.

Dear Ms. Valentino:

Senate Bill 745 was enacted during the 2012 Legislative Session and requires the following:

(a) The Maryland Insurance Administration shall study, in consultation with the Injured Workers' Insurance Fund and the National Council on Compensation Insurance, Inc., whether the Chesapeake Employers' Insurance Company should be subject to Title 11 of the Insurance Article, including whether the Company should be a member of the rating organization.

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Maryland Insurance Administration  
200 St. Paul Place, Suite 2700  
Baltimore, Maryland 21202

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Sincerely,

  
Sandra Castagna  
Associate Commissioner  
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www.mdinsurance.state.md.us

July 18, 2012

Mr. Joseph R. Petr  
President  
Property & Casualty Insurance Guaranty Corporation  
Suite 600  
305 Washington Avenue  
Towson, Maryland 21204-4715

Re: SB 745 – Injured Workers Insurance Fund – Conversion to Chesapeake  
Employers Insurance Corporation.

Dear Mr. Petr:

Senate Bill 745 was enacted during the 2012 Legislative Session and requires the following:

(a) The Maryland Insurance Administration shall study, in consultation with the Injured Workers' Insurance Fund and the National Council on Compensation Insurance, Inc., whether the Chesapeake Employers' Insurance Company should be subject to Title 11 of the Insurance Article, including whether the Company should be a member of the rating organization.

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Sincerely,



Sandra Castagna  
Associate Commissioner  
for Property & Casualty

7B

**Sandra Castagna - AIA Comments: S.B. 745 Study**

---

**From:** "Wood, Bruce" <BWood@aiadc.org>  
**To:** "scastagna@mdinsurance.state.md.us" <scastagna@mdinsurance.state.md.us>  
**Date:** 7/31/2012 11:33 AM  
**Subject:** AIA Comments: S.B. 745 Study  
**CC:** "Goldberg, Eric" <egoldberg@aiadc.org>, "Andryszak, John" <jandryszak@popham-andryszak.com>  
**Attachments:** Maryland Chesapeake Mutual AIA Comments to MIA.docx

---

Ms. Castagna: Please see attached AIA's comments on the above matter, on which comments are due by August 3<sup>rd</sup>.

*Bruce C. Wood*  
*Associate General Counsel &*  
*Director of Workers' Compensation*  
*American Insurance Association*  
*2101 L Street N.W.; Suite 400*  
*Washington, D.C. 20037*  
*Phone: (202) 828-7157*  
*Fax: (202) 495-7859*  
*Email: bwood@aiadc.org*

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July 31, 2012

Sandra Castagna  
Associate Commissioner for Property & Casualty  
Maryland Insurance Administration  
200 St. Paul Place Suite 2700  
Baltimore, Maryland 21202

Dear Commissioner Castagna:

I am responding to your solicitation of comments regarding MIA's study mandated by S.B. 745 whether Chesapeake Employers' Insurance Company should be subject to Title 11 of the Insurance Code, including membership in the licensed advisory organization, the National Council on Compensation Insurance (NCCI).

Throughout the debate this year on S.B. 745, the American Insurance Association (AIA) consistently urged that the bill mandate Chesapeake to be subject to the full panoply of insurance regulation to which all other workers' compensation insurers are subject. We also noted, repeatedly, that S.B. 745 did not privatize IWIF, despite assertions by the Governor and legislators. Indeed, that the legislation calls on MIA to examine whether an insurer should be subject to the rating regime applicable to all other insurers in the Maryland workers' compensation market reinforces our point: *Chesapeake is not privatized*; it retains indicia of state government control and public involvement, reflected by preferences in the marketplace conferred by statute. The name on the door has changed; that's all:

- Chesapeake – like IWIF – retains a statutorily guaranteed market: it is mandated to write any risk coming in the door;
- Chesapeake – like IWIF – is statutorily circumscribed (as opposed through private charter) in its authority to write insurance (only workers' compensation) and only in Maryland;
- Chesapeake – like IWIF – remains exempt from the rate approval process applicable to private market insurers;
- Chesapeake – like IWIF – will be governed by a Board appointed by the Governor; and
- Chesapeake – like IWIF -- remains subject to "minority business purchasing standards applicable to units of state government."

Chesapeake's exemption from the rating law and rate approval process gives it an unfair competitive advantage:

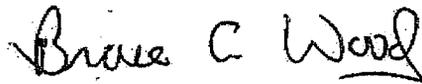
- It permits Chesapeake to use its own loss costs, apart from loss costs developed through methodologies pursuant to the rating law and to which all other insurers are subject and that are therefore more actuarially credible than a single carrier's loss costs. This means Chesapeake – like IWIF – can offer rates at a competitive advantage, solely because of a statutory preference.
- It permits Chesapeake – like IWIF – to use its own classification system. By using unique codes that are not subject to conformity with the uniform classification system to which all private carriers are subject, Chesapeake may be able to market risk differently, solely because of a statutory preference.
- It permits Chesapeake – like IWIF – to avoid adherence to the uniform experience rating plan, promulgated by the advisory organization and to which all private insurers in the country are subject. Like IWIF, Chesapeake continues as the only state fund that does not use the uniform experience rating plan. This means employers insured by Chesapeake are treated differently from employers insured by other carriers. For example, because the experience rating threshold under the IWIF/Chesapeake experience rating plan is only \$3,000 versus NCCI's \$10,000, there would be fewer Chesapeake insureds qualifying for experience rating under NCCI's plan, with a shift among employers of who would qualify for experience rating. However, with Chesapeake's participation in the uniform experience rating plan, all insured data would be used in Maryland; now only 77% is used, with a consequent loss in actuarial credibility of expected losses.

AIA believes that Chesapeake should be fully subject to Title 11, in the same manner and to the same extent as all other insurers writing workers' compensation in Maryland. Furthermore, though not within the scope of your study, we continue to believe Chesapeake should be privatized. A *bona fide* privatization would: (1) repeal Chesapeake's organic authority (wiping its existence off the statute books); (2) mandate Chesapeake seek a license as a mutual (or stock) insurer operating under Maryland law; (3) sunset the Governor's authority to appoint the Board with the approval of a license; and (4) create a new residual market, one that springs into existence with the approval of Chesapeake's license as a private carrier. There are models for this approach: Nevada (2000), West Virginia (2005, effective 2008); and Arizona (2010, effective 2013).

For now, even were Chesapeake subject to all of Title 11, it would remain a public interest entity, with extensive indicia of governmental involvement and control. We believe that to be unfair – and unacceptable.

Chesapeake, truly privatized, operating on a level playing field, would produce a healthier insurance environment. That would be good, not only for all insurers, but for employers who would benefit from a competitive insurance market.

Respectfully submitted,

A handwritten signature in black ink that reads "Bruce C. Wood". The signature is written in a cursive style with a distinct underline under the word "Wood".

Bruce C. Wood  
Associate General Counsel &  
Director, Workers' Compensation

**Sandra Castagna - RE: AIA Comments: S.B. 745 Study**

---

**From:** "Jack Andryszak" <JAndryszak@papalaw.com>  
**To:** "Wood, Bruce" <BWood@aiadc.org>, <scastagna@mdinsurance.state.md.us>  
**Date:** 7/31/2012 11:51 AM  
**Subject:** RE: AIA Comments: S.B. 745 Study  
**CC:** "Goldberg, Eric" <egoldberg@aiadc.org>

---

I like the new version of the Third bullet better. J

John A. Andryszak, Esq.  
Popham & Andryszak, P.A.  
191 Main Street  
Suite 200  
Annapolis, MD 21401

Telephone: 410.268.6871  
Cell: 410.507.4182  
Fax: 443.458.0444  
[jandryszak@papalaw.com](mailto:jandryszak@papalaw.com)  
[www.papalaw.com](http://www.papalaw.com)

---

**From:** Wood, Bruce [mailto:BWood@aiadc.org]  
**Sent:** Tuesday, July 31, 2012 11:33 AM  
**To:** 'scastagna@mdinsurance.state.md.us'  
**Cc:** Goldberg, Eric; Jack Andryszak  
**Subject:** AIA Comments: S.B. 745 Study

Ms. Castagna: Please see attached AIA's comments on the above matter, on which comments are due by August 3<sup>rd</sup>.

*Bruce C. Wood*  
*Associate General Counsel &*  
*Director of Workers' Compensation*  
*American Insurance Association*  
*2101 L Street N.W.; Suite 400*  
*Washington, D.C. 20037*  
*Phone: (202) 828-7157*  
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**Sandra Castagna - MD-Chesapeake: PCI's Written Comments**

---

**From:** <oyango.snell@pciaa.net>  
**To:** <scastagna@mdinsurance.state.md.us>  
**Date:** 8/3/2012 1:35 PM  
**Subject:** MD-Chesapeake: PCI's Written Comments  
**CC:** <denten@gfrlaw.com>, <trey.gillespie@pciaa.net>, <rita.nowak@pciaa.net>, <ann.weber@pciaa.net>, <paul.blume@pciaa.net>  
**Attachments:** PCICommentsMDChesapeake822012.pdf

---

Associate Commissioner Castagna:

In response to your letter dated July 18, 2012, PCI is pleased to submit the attached written comments with respect to requiring Chesapeake Employers' Insurance Company to become a member of the NCCI and subject to Title 11 of the insurance code.

PCI appreciates the diligence demonstrated by the Maryland Insurance Administration regarding this matter. Thank you for seeking PCI's input and allowing the insurance industry to participate in this important study.

Please contact me if you have any questions or concerns.

Regards,

**Oyango A. Snell**  
**State Government Relations Counsel, DE, GA, MD, NC, SC**  
Property Casualty Insurers Association of America (PCI)  
444 North Capitol Street, NW, Suite 801  
Washington, DC 20001  
(202) 349-7461 (Direct)  
(866) 862-8329 (Fax)  
(202) 812-5278 (Mobile)  
[oyango.snell@pciaa.net](mailto:oyango.snell@pciaa.net)



Property Casualty Insurers  
Association of America  

---

Shaping the Future of American Insurance

August 2, 2012

Associate Commissioner Sandra Castagna  
Maryland Insurance Administration  
200 St. Paul Place, Suite 2700  
Baltimore, Maryland 21202  
[scastagna@mdinsurance.state.md.us](mailto:scastagna@mdinsurance.state.md.us)

**Re: SB 745 – Injured Workers Insurance Fund – Conversion to Chesapeake Employers’  
Insurance Company**

Dear Associate Commissioner Castagna:

PCI appreciates the opportunity to provide you with our comments with respect to requiring Chesapeake Employers’ Insurance Company (Chesapeake) to become a member of the NCCI and subject to Title 11 of the insurance code. PCI strongly believes that Chesapeake should be subject to Title 11 and should be required to become a member of the NCCI. As Chesapeake will be a member of the Maryland Property and Casualty Insurance Guaranty Corporation pursuant to SB 745, its financial regulation is critical to the general public and to the members of the industry. Chesapeake should be regulated in the same manner as members of the private industry from a data reporting perspective and it must adhere to the same rate making practices/standards as those required of private insurers.

The Property Casualty Insurers Association of America (PCI) is a trade association representing more than 1,000 property casualty insurance companies who write 39.6 percent of the national property casualty insurance market, including 41.3 percent of the private workers compensation market. PCI’s mission is to promote and protect the viability of a competitive private insurance market for the benefit of consumers and insurers. PCI believes that the public and business community is best served by private enterprise competing in a free market.

PCI has always supported full privatization and regulation of the Injured Workers Insurance Fund (IWIF). However, even though the goals of SB 745 included in Section 24-302 supported full privatization, the final provisions of the bill as it was enacted failed to convert Chesapeake into a fully privatized entity.

SB 745’s initial goals were embodied in the following language:

- The most effective way to ensure that Maryland’s workers’ compensation system remains stable and affordable is to encourage and create as much competition in the marketplace as possible; and

- The long-term competitive success of the fund would be enhanced if the final barriers to full competition were eliminated by converting the fund into a fully competitive, fully regulated, private insurer.

However, the provisions in the final bill did not accomplish these goals. Instead, the bill transferred the legislatively created competitive advantages of IWIF to Chesapeake through maintaining:

1. Federal tax exemption for Chesapeake as insurer of last resort with a board appointed by the Governor;
2. Guaranteed large book of business as insurer of last resort and third party administrator for the Self-Insured Workers Compensation Program for State Employees;
3. Continued exemption from Insurance Article 11 rating plan regulation requirements including exemption from membership and transaction fees payable to the designated rating organization; and
4. Operating surplus subject to disposition by the board without accountability to the state (no longer a state entity), policyholders (not a mutual insurance company), or stockholders (not a stock company).

PCI believes that Chesapeake will therefore continue to hold a huge advantage in the marketplace because it has a guaranteed market and rate-setting freedom its competitors do not enjoy and because it continues to maintain its federal tax exemption. This statutorily driven competitive advantage will not encourage competition in Maryland's workers compensation marketplace, and does nothing to ensure that Maryland's workers compensation system remains stable and affordable.

At a minimum, Chesapeake's exemption from Title 11 must be eliminated, and Chesapeake, must be regulated at the same level as private carriers in Maryland's marketplace. Insurance regulation and oversight are key factors in protecting the injured workers, the public, and Maryland's businesses. Exempting Chesapeake from that basic level of oversight makes no sense. Should Chesapeake fail, the impact to the WC market would be substantial. For example, Chesapeake rates only have to be reviewed every 5 years, while private carrier loss costs require annual review and prior approval by the regulator. Most disturbing is that Chesapeake will not only be the largest workers compensation insurer in the state, but it will be the residual market. In other states a residual market entity receives more regulatory oversight than the voluntary market. What is the public policy reason for giving any single private carrier less or different scrutiny? And why less scrutiny for a private entity that handles the residual market? From a public policy perspective, this exemption from regulation for Chesapeake makes no sense, and may, in fact, lead to less public protection.

PCI believes that all competitors in the marketplace should be subject to the same regulatory framework including data reporting and rate making practices. We would like to stress that Chesapeake should belong to the NCCI. The information that the NCCI gathers and provides adds significant value in the development of a sound and effective workers compensation system. Currently, IWIF writes 23.1% of

the Maryland workers compensation market. Initially, Chesapeake will assume this market share and will remain the largest workers compensation insurer in the state. By not requiring Chesapeake to belong to and provide data to NCCI, the market knowledge from this vast section of Maryland's marketplace will be unreported. The more shared data is available, the more credible ratemaking would be for Chesapeake and all insurers writing in the state, which would be to the benefit of MD employers. In a number of states, there are private insurers who write a significant share of the individual state market; however, these insurers all belong to the NCCI. To ensure that the Maryland workers compensation system is effective, having all insurers report data to the NCCI will help to track specific factors that will help to strengthen the system and at the same time ensuring there will be sufficient data to identify problem areas that need to be addressed.

From an employer perspective, contractors insured by the new entity who are bidding jobs are not on an equal playing field with contractors insured by private insurers. To the extent that there are differences between the calculation of Chesapeake and NCCI experience modification factors ("mods"), the mod value assigned to a particular Chesapeake employer would not have the same meaning or values as a mod value assigned to employers insured by other carriers. If all mods were calculated according to a uniform experience rating plan, then the mod value would have the same meaning for all Maryland contractors. Most importantly, there would be the same incentive for all Maryland employers to provide the safest workplace possible, avoid and/or control losses, and get injured workers back to work as soon as possible. There needs to be a level playing field in how experience modifications are determined from an employer perspective.

On behalf of our members, we would like to thank you for allowing us the opportunity to provide comments. We welcome any questions or comments you might have. If you need any additional information, please feel free to contact PCI.

Sincerely,

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*Shelley M. Arnold, CPCU, AU, ARM, AAI, ACSR, AINS, President*

July 27, 2012

Commissioner Sandra Castagna  
Maryland Insurance Administration  
200 St. Paul Place, Suite 2700  
Baltimore, Maryland 21202

**AUG 01 2012**

**Maryland Insurance  
Administration**

Dear Commissioner Castagna:

In response to your letter dated July 18, 2012, the Independent Insurance Agents of Maryland have reviewed Senate Bill 745, enacted during the 2012 Legislative session and dealing with the Chesapeake [IWIF] Insurance and whether it should be subject to Title 11 of the Insurance Article, our concerns haven't changed since the initial introduction of this concept several years ago.

- The agent community's primary concern was and continues to be that Chesapeake Insurance Company will continue to operate as an 'insurer of last resort'. For almost one hundred years, the Injured Workers Insurance Fund has served in that capacity and has been a viable market for risks unable to find workers compensation coverage in the standard market. IWIF has also been a 'competitive' alternative for 'average' risks for several decades.
- The 'Fund'/Chesapeake continue as a monoline carrier writing workers compensation in the State of Maryland.

As for the matter of whether Chesapeake should be required to adhere to Title 11 of the Insurance Code, we certainly feel that all rates, forms, programs and rating plans be filed with the Maryland Insurance Administration for review and approval. In the new provisions under §24-305, these matters will be a function of the Board. It is also stated in this section that 'the company is not subject to Title 11 of this article.

Title 11 is very clear in that if you are selling workers compensation in Maryland you shall (1) be a member of a workers' compensation rating organization. It is our understanding that at least 18 competitive state funds operating in NCCI states are members of NCCI. This fact certainly proves that the funds may operate competitively and belong to the rating/advisory organization

There are certainly 'pros' and 'cons' with respect to membership. We believe it would be in the best interest of Chesapeake to be a member. It would benefit the Maryland consumer by the standardization of forms, rates and in particular the experience rating program. This is the one area where standardization is necessary.

The 'cons', other than the additional financial burden placed on Chesapeake to join NCCI, would be the ability of Chesapeake to respond to market changes in the State of

*Page -2-*

Commissioner Sandra Castagna  
Maryland Insurance Administration  
200 St. Paul Place, Suite 2700  
Baltimore, Maryland 21202

Maryland, as it can now, in a quick and efficient manner. Membership could delay that market response. For

this reason we would suggest that Chesapeake have on file with the Maryland Insurance Administration a 'consent to rate' or a mechanism in place that would allow them to respond to market issues the State may experience within a particular classification or group of classifications.

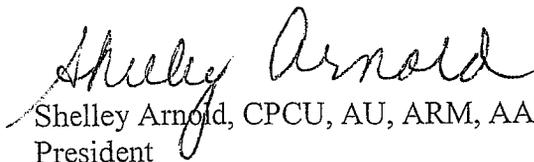
There are existing issues with respects to IWIF and their rating and those carriers writing umbrella/excess coverage. The financial stability and subsequent rating that will be given to Chesapeake is also a concern among our agency members.

One other item to keep in mind during these discussions and prior to a final decision is the fact that many feel that there is and will continue to be a movement in workers compensation to the residual market. This practice may increase with NCCI's new 'split point experience rating changes. This could have a substantial impact on Chesapeake as the 'insurer of last resort'.

As agents, we have always promoted a 'level playing field'. If Chesapeake is a true private insurer, it should adhere to the laws/regulations that other carriers must follow, however, is Chesapeake a true private carrier when still required to act as our 'insurer of last resort'?

If you require additional input or need any further assistance from our association, please contact us.

Sincerely,



Shelley Arnold, CPCU, AU, ARM, AAI, ACSR, AINS  
President

MMA/bs



Proudly Serving Independent Insurance Agents in Maryland for over 100 Years!



# Property & Casualty Insurance Guaranty Corporation

Suite 600, 305 Washington Avenue, Towson, Maryland 21204-4746, (410) 296-1620, FAX (410) 828-1265

August 30, 2012

RECEIVED

SEP. 05 2012

MARYLAND INSURANCE  
ADMINISTRATION

Sandra Castagna, Associate Commissioner  
For Property & Casualty  
Maryland Insurance Administration  
200 St. Paul Place, Suite 2700  
Baltimore, Maryland 21202

RE: SB 745 – Injured Workers Insurance Fund  
Conversion to Chesapeake Employers Insurance Corporation

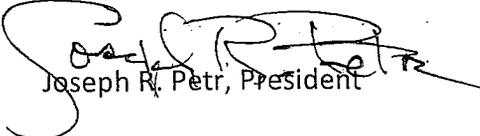
Dear Ms. Castagna:

In response to your letter to me concerning the above subject matter, please be advised that it is the consensus of the Board of Directors that since Chesapeake will become a private insurer, it should adhere to all the rules and laws that govern the insurance industry in this State. Of course, it is everyone's best interest that solvency be the creative factor in promoting this corporation toward the goal of private insurer.

Section 11-329 requires every authorized workmens compensation insurer to be a member of a rating bureau (by default, NCCI). In addition, every authorized workmens compensation insurer must adhere to a uniform classification system and uniform experience rating plan filed with the Commissioner by a rating organization designated by and subject to disapproval by the Commissioner.

Rating is an essential part of solvency and one of the reasons all workmens compensation insurers must play by the same rating "rules" can be argued to be a concern that the insurer is charging adequate rates for a long tail product. It must be remembered that one of the reasons for rating low is so that insurers do not charge too little for insurance. To the extent that Chesapeake is allowed to use a rating system that is different and perhaps less rigorous than that used by the rest of the industry, it may make calculations of rate adequacy less reliable. In a perfect world, all insurers would be subject to the same law and given that Chesapeake is for all intents a private insurer now, there is not a public policy reason that would justify different treatment.

Very truly yours,

  
Joseph R. Petr, President

JRP/jas