

MARTIN O'MALLEY
Governor

ANTHONY G. BROWN
Lt. Governor



PEGGY J. WATSON
Interim Commissioner

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July 27, 2007

The Honorable Martin O'Malley
Governor of the State of Maryland
State House
Annapolis, MD 21401

Dear Governor O'Malley:

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

While Sections 4-104 and 4-105 of the Insurance Article establish the minimum capital stock and surplus requirements an insurer must have and maintain to qualify for a certificate of authority to transact insurance business in Maryland, Section 4-103(c) provides the Commissioner authority to require a greater level of capital and surplus for each insurer. In this regard, in addition to the minimum capital and surplus requirements, each insurer's assets and surplus shall be reasonable in relation to its outstanding liabilities after considering a number of factors, such as, type and size of risks insured, volume of business, quality of investment portfolio and levels of surplus maintained by comparable insurers.

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

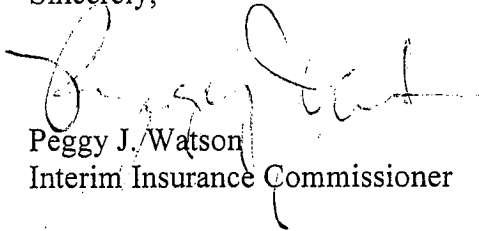
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Risk-based capital standards are codified in Title 4, Subtitle 3 of the Insurance Article, and supplement the requirements of Sections 4-104 and 4-105. In most instances the risk-based capital requirements result in capital stock and surplus that exceed the minimum amounts. The risk-based capital standards, as well as the minimum capital and surplus requirements of Section 4-104 and 4-105 have met the law and regulation standards established by the National Association of Insurance Commissioner's Financial Regulation Standards and Accreditation Program. Maryland must meet these standards to maintain its status as an accredited state. Other accredited states also have minimum capital and surplus, and risk-based capital standards substantially similar to Maryland. Therefore, I do not believe any changes are necessary to Sections 4-104 or 4-105.

Sincerely,



Peggy J. Watson
Interim Insurance Commissioner

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