

Department of Legislative Services  
Maryland General Assembly  
2019 Session

FISCAL AND POLICY NOTE  
Third Reader

House Bill 602  
Economic Matters

(Delegate D.E. Davis)

Finance

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**Insurance - Investments of Insurers Other Than Life Insurers - Real Estate**

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This bill expressly authorizes the reserve investments of an insurer (other than a life insurer) to include fee simple or improved leasehold real estate (or interests in limited partnerships formed for the development or ownership of fee simple or improved leasehold real estate), under specified circumstances.

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**Fiscal Summary**

**State Effect:** The bill does not directly affect State operations or finances.

**Local Effect:** The bill does not directly affect local governmental operations or finances.

**Small Business Effect:** None.

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**Analysis**

**Bill Summary:** An insurer (other than a life insurer) may include fee simple or improved leasehold real estate (or interests in limited partnerships formed for the development or ownership of fee simple or improved leasehold real estate) if the investment (1) is acquired as an investment for the production of income; (2) is acquired to be improved or developed as an investment for the production of income; and (3) does not include property to be used primarily for mining, recreational, amusement, hotel, or club purposes.

The cost of each investment (including the cost of improving or developing the real estate) may not exceed (1) 1% of the admitted assets of the insurer and (2) in combination with the value of all of the real estate acquired or held by the insurer, 10% of the admitted assets

of the insurer. Each investment must be valued in the insurer's books in a specified manner. The value of each investment may not exceed the depreciated value of the property.

**Current Law:** An insurer in the State (other than a life insurer) is prohibited from directly or indirectly investing in or lending its funds on specified securities, such as its own capital stock, a mortgage or deed of trust, and any investment that the Insurance Commissioner finds is against public policy.

The reserve investments of an insurer (other than a life insurer) may include real estate, but only if the real estate (1) consists of the land and the building on the land in which the insurer has its principal office; (2) is necessary for the insurer's convenient accommodation in transacting business; (3) is acquired to satisfy loans, mortgages, liens, judgments, decrees, or other debts previously owed to the insurer in the course of business; (4) is acquired as partial payment of the consideration for the sale of real property owned by the insurer if the transaction causes a net reduction in the investment of the insurer in real property; or (5) is additional real property and equipment incident to real property that is necessary or convenient to enhance the market value of real property previously acquired or held by the insurer.

**Background:** The Maryland Insurance Administration (MIA) advises that the bill's changes are consistent with the National Association of Insurance Commissioner's (NAIC) [Model Act 280](#) and [Model Act 283](#). This model legislation generally applies to the types of investments that insurers should be authorized to acquire.

MIA and the Insurance Commissioner participate in the activities of NAIC, a national standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories. MIA achieved NAIC accredited status in September 1994 and has maintained its accreditation since that time. The NAIC Accreditation Program is a voluntary program among state insurance regulators that emphasizes the importance of adequate solvency laws, the use of effective and efficient financial analysis and examination procedures, and appropriate organizational and personnel practices for insurers.

“Fee simple” is a legal term that describes the most common and absolute type of property ownership. On a fee simple property, the owner's property rights are indefinite and can be transferred or inherited as the owner desires. Conversely, “leasehold” ownership means that a person has access to the land but does not actually own it. For example, the owner of a single-family residence has a fee simple ownership, but the owner of a condominium does not, since a condominium owner only owns an individual unit, and not the land on which the development is built.

## **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 523 (Senators Beidle and Feldman) - Finance.

**Information Source(s):** Maryland Insurance Administration; National Association of Insurance Commissioners; Department of Legislative Services

**Fiscal Note History:** First Reader - February 13, 2019  
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