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## **OLR Bill Analysis**

### **sSB 188**

#### ***AN ACT CONCERNING CAPTIVE INSURANCE COMPANIES.***

#### **SUMMARY:**

This bill updates Connecticut's laws regarding captive insurance companies. A captive insurer is an insurance company or entity formed to insure or reinsure the risks of its owners. The law allows a captive to be licensed and domiciled in Connecticut to transact life insurance, annuity, health insurance, and commercial risk insurance business.

Among other things, the bill:

1. explicitly bars a captive from writing personal risk insurance for private passenger motor vehicle or homeowners' insurance,
2. expands the coverage a branch captive insurer may write,
3. establishes provisions for a captive to follow when relocating to Connecticut, and
4. extends various insurance statutes to captives, including those regarding the acquisition of controlling interest.

EFFECTIVE DATE: October 1, 2014

#### **§ 1 – PERSONAL LINES LIMITATION**

Under current law, no captive insurer may write private passenger motor vehicle or homeowners' insurance. The bill narrows this prohibition, stating that no captive may write personal risk insurance for private passenger motor vehicle or homeowners' insurance. Thus, it permits a captive to write commercial risk business, including commercial motor vehicle insurance.

#### **§ 2 – BRANCH CAPTIVE**

The bill expands the coverage branch captives may write by eliminating a provision that restricts them to writing only the employee benefits of their parent and affiliated companies.

Under current law, a branch captive cannot do insurance business in Connecticut unless it maintains its only principal place of business here. The bill instead requires that the branch captive maintain one of its principal places of business here.

By law, a branch captive is any alien captive the insurance commissioner licenses to transact business in Connecticut through a business unit with a principal place of business here. An alien captive is formed under the laws of another country.

### **§§ 3, 4, & 6 – TRANSFER OF DOMICILE**

The bill allows captive insurers to transfer their domicile (home state) to Connecticut, as other insurers are permitted to do by applying existing laws concerning redomestication to captive insurers.

It specifically allows any pure captive insurer, association captive insurer, industrial-insured captive insurer, risk retention group, sponsored captive insurer, or special purposes financial captive insurer organized under the laws of another state to become a domestic captive insurer of the same type by complying with Connecticut law regarding the organization and licensing of the company and designating of its principal place of business in Connecticut.

### **§ 5 – CREDIT FOR REINSURANCE**

By law, a captive may reinsure another insurer's risks, but only those risks the captive is authorized to insure directly. It can also take credit as an asset or deduction from liability for ceding risks to certain reinsurers. The bill allows the commissioner to approve, in writing, credit for reinsurance in other circumstances.

### **§§ 6-8 – APPLICABILITY OF INSURANCE STATUTES**

The bill applies certain insurance statutes to captives. For example, it allows a domestic captive to change its location within the state (CGS § 38a-58).

It requires a domestic captive to adopt policies and procedures to prevent directors, officers, employees, and other people from inappropriately benefiting from a conflict of interest arising from their position in, or special knowledge of, the company (CGS § 38a-102h).

It also requires a captive formed as a risk retention group and licensed here to have (1) its surplus funds bear a reasonable relationship to its liabilities and (2) risk-based capital related to its total adjusted capital that is adequate for the types of business transacted (CGS § 38a-72(d)).

### ***Acquisition of Controlling Interest***

The bill applies the laws regarding a proposed acquisition or other change of control to captives formed as risk retention groups (CGS §§ 38a-129 to 140 and 38a-91 to 91d)).

In addition, the bill authorizes the insurance commissioner to require, with notice, certain other captives to comply with CGS §§ 38a-129 to 140. Specifically, he may require a pure captive insurer to comply with these laws when (1) a subsidiary's assets are greater than 10% of the parent company's assets or (2) the pure captive insurer is owned by a holding company system. He may require an industrial-insured captive insurer or an association captive insurer to comply with them when (1) any member's ownership of the company is greater than 10% or (2) the insurer is owned by a holding company system.

Under the bill, the commissioner may remove this compliance requirement on a pure, industrial-insured, or association captive insurer if the company demonstrates to the commissioner that the condition that triggered the compliance requirement no longer exists and no other triggering condition exists.

### **COMMITTEE ACTION**

Insurance and Real Estate Committee

Joint Favorable Substitute

Yea 19 Nay 0 (03/06/2014)

