

OFFICE OF LEGISLATIVE RESEARCH
PUBLIC ACT SUMMARY



PA 14-6—sSB 188

Insurance and Real Estate Committee

AN ACT CONCERNING CAPTIVE INSURANCE COMPANIES

SUMMARY: This act makes unrelated changes in 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 act:

1. explicitly bars a captive from writing personal risk insurance for private passenger motor vehicle or homeowners' insurance;
2. expands the types of 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 prior law, no captive insurer could write private passenger motor vehicle or homeowners' insurance. The act specifies that no captive may write personal risk insurance for private passenger motor vehicle or homeowners' insurance. Thus, as under prior law, a captive may write commercial risk insurance, including commercial motor vehicle insurance.

§ 2 — BRANCH CAPTIVE

The act expands the types of coverage branch captives may write by eliminating a provision that restricts them to writing only the employee benefits of their parent and affiliated companies. By law, these captives are formed under the laws of another country and licensed by the insurance commissioner to transact business in Connecticut through a business unit with a principal place of business here.

Under prior law, a branch captive could not do insurance business in Connecticut unless it maintained its only principal place of business here. The act instead requires that the branch captive maintain one of its principal places of business here.

§§ 3, 4, & 6 — TRANSFER OF DOMICILE

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The act allows a captive insurer to transfer its domicile (home state) to Connecticut, as other insurers are permitted to do, by complying with laws regarding a company's organization and licensing and designation of its principal place of business in Connecticut (redomestication).

The act 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.

§ 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 act allows the commissioner to approve, in writing, credit for reinsurance in other circumstances.

§§ 6-8 — APPLICABILITY OF INSURANCE STATUTES

Miscellaneous

The act requires captives to comply with certain insurance statutes. 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).

The act 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)). It also applies the law governing business transactions with producer-controlled insurance companies to risk retention groups (CGS §§ 38a-91 to 38a-91d).

Acquisition of Controlling Interest

The act requires a risk retention group to comply with the laws regarding a proposed acquisition or other change of control (CGS §§ 38a-129 to 140).

In addition, the act authorizes the insurance commissioner to require, with notice, certain other captives to also comply with these laws. 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 act, the commissioner may remove this compliance requirement on

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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.

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