SENATE FINANCIAL INSTITUTIONS AND INSURANCE

TESTIMONY ON SB 410
February 14, 2018

Mr. Chairman and Members of the Committee,

I am testifying in support of Senate Bill 410 on Captive Insurance Companies. This bill updates and modernizes the captive insurance laws in Kansas.

Many other states have already updated or are currently updating their captive laws. In almost every state the updates have received overwhelming and bi-partisan support by their legislative bodies.

Missouri updated its captive law in 2007 intending to become a regional center for captive domiciles. They now have 3 individuals regulating 53 captives. Likewise, Texas updated its captive laws in 2013 and then made amendments in 2017. There are now 32 captives in Texas. Lastly, Oklahoma updated its laws in 2004 with several subsequent amendments. They now have 70 captives operating in their state.

The fact that Kansas has not updated its captive laws doesn't prevent or discourage corporations from forming a captive. They simply go to a state or offshore jurisdiction that has updated laws in order to form their captive. Our goal is to keep the captive assets and related services in our state.

A captive insurance company is a wholly owned subsidiary created to provide insurance to its parent company and others in its group. The captive is used to manage risk for that parent and group. Once established, the captive then operates like any commercial insurer by issuing policies, collecting premium, and paying claims.

A captive generally does not offer insurance to the public. Accordingly, it is regulated somewhat differently than an insurer selling policies to the public. Importantly, the policyholders (i.e., the parent company and others in the group) do not have access to guarantee funds should the captive become insolvent. Capital requirements are a bit less. There are other differences as well.

There would be a small additional cost to regulate an increased level of captive activity in Kansas, all of which would eventually be offset by fees charged to register and maintain the captive in our state. We estimate initial staffing by the Kansas Insurance Department to be half of a full time equivalent employee for the first several years (regulating maybe up to a dozen captives after several years), perhaps scaling up to one full time employee and then maybe two, depending on the number of new formations.

This small additional cost and effort by the Kansas Insurance Department would be far more than offset by the additional economic development benefits to Kansas. As noted, these benefits include retaining in our state those captives that Kansas based corporations would already create to serve their risk management needs, rather than having them look to Missouri, Texas or other jurisdiction for a location for their captive.

I look forward to your questions or comments.

Thank you Mr. Chairman.
Ken Selzer
Kansas Insurance Commissioner