

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 930

SPONSOR: Banking and Insurance Committee and Senator Grant

SUBJECT: Industrial Insured Captive Insurers

DATE: February 22, 2000 REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Johnson</u>	<u>Deffenbaugh</u>	<u>BI</u>	<u>Favorable/CS</u>
2.	_____	_____	_____	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

I. Summary:

The bill amends provisions relating to industrial insured captive insurers and industrial insureds. Industrial insured captive insurers are captive insurers which have as their members or stockholders only those industrial insureds which they insure or reinsure.

The bill specifies financial requirements, related to unimpaired capital and surplus, for industrial insured captive insurers and revises the criteria for qualifying as an industrial insured. For all industrial insured captive insurers, regardless of the date of licensure, the criteria would be revised to impose a new requirement of unimpaired capital and surplus of at least \$20 million, in addition to the current requirement that the insurer provide insurance only to the industrial insureds that are its stockholders or members and affiliates, or stockholders or affiliates of its parent corporation, *or* provide reinsurance to insurers on risks for such affiliated persons.

The bill lowers the financial requirements for qualifying as an industrial insured of an industrial insured captive insurer that is licensed in the state prior to December 31, 1999, or a subsidiary formed by the licensed insurer after December 31, 1999. For such industrial insureds, the required gross assets would be lowered from \$50 million to \$10 million; the required number of employees for the industrial insured would be lowered from 100 to 25 full-time employees; and the amount of premiums required to be paid by the industrial insured would be lowered from \$200,000 to \$100,000 aggregate annual premiums paid for all insurance risks.

This bill substantially amends section 628.903, Florida Statutes.

II. Present Situation:

Captive insurers, industrial insureds, and industrial insured captive insurers are regulated under part V, ch. 628, Florida Statutes.

A “captive insurer” is defined in s. 628.901, F.S., as a domestic insurer formed as a mutual or stock company to insure the risks of a specific group owned by the corporations from which the captive insurer accepts its risks. A captive insurer must possess and maintain unimpaired paid-in capital of at least \$500,000 and unimpaired surplus of at least \$250,000.

According to s. 628.903, F.S., an “industrial insured” is an insured which has gross assets in excess of \$50 million, procures insurance through a full-time employee of the insured who acts as insurance manager, has at least 100 full-time employees, and pays annual insurance premiums of at least \$200,000 for each line of insurance or at least \$75,000 for any line of coverage in excess of \$25 million.

Section 628.903, F.S., also defines “industrial insured captive insurer” as a captive insurer that has as its stockholders or members only industrial insureds insured or reinsured by the industrial insured captive insurer. The industrial insured captive insurer provides insurance or reinsurance to its stockholders or members.

According to the Department of Insurance (DOI), three insurers are classified as industrial insured captive insurers. Two of these insurers insure utilities companies, and the third insures a chain of medical clinics. The DOI is unable to calculate the number of industrial insureds in the state. That information is not required to be reported to the DOI.

The relationship between the insurer and the insured can take several forms. The insurer may be organized as a mutual insurance company owned by several unaffiliated or unrelated companies. Or, the insurer may be owned by a parent company to insure the parent and affiliated companies.

An industrial insured captive insurer may offer all types of commercial insurance coverage, such as commercial property, casualty, and marine insurance. However, it may only offer workers’ compensation or employers’ liability coverage in excess of \$25 million in the annual aggregate.

Only certain parts of the Insurance Code apply to industrial insured captive insurers. This type of insurer is not required to have the minimum surplus-as-to-policyholders required in s. 624.408, F.S., but is required to report its investments to the DOI, as required in part II of ch. 625, F.S. An industrial insured captive insurer is not required to file rates or forms for approval by the DOI.

III. Effect of Proposed Changes:

Section 1. For all industrial insured captive insurers, regardless of the date of licensure, the criteria would be revised to impose a new requirement of unimpaired capital and surplus of at least \$20 million, in addition to the current requirement that the insurer provide insurance only to the industrial insureds that are its stockholders or members and affiliates, or stockholders or affiliates of its parent corporation, *or* provide reinsurance to insurers on risks for such affiliated persons.

The criteria for qualifying as an industrial insured of an industrial insured captive insurer licensed *prior* to December 31, 1999, or any subsidiary of that licensed insurer formed after December 31, 1999, would be changed as follows: gross assets would be lowered from \$50 million to \$10 million; the required number of employees for the industrial insured also would be lowered from

100 to 25 full-time employees; and the amount of premiums paid by an industrial insured would be lowered from \$200,000 to \$100,000 aggregate annual premiums paid for all insurance risks.

The industrial insureds of an industrial insured captive insurer licensed by the state *after* December 31, 1999, would be required to meet the criteria set forth in current law.

Section 2. The act would take effect upon becoming a law.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

Corporate entities, such as utility companies, that have fewer employees, lower assets, and lower insurance premiums could qualify as industrial insureds. Corporate restructuring and the anticipated deregulation of the utility industry could lead to the formation of smaller utility companies with fewer assets. Some smaller corporate entities could qualify as industrial insureds, and therefor be insured by an industrial insured captive insurer licensed prior to December 31, 1999.

C. Government Sector Impact:

None.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
