

# STATE AUDITOR'S OFFICE

## Captive Insurance

### SB 134

#### Definition

The 2001 Legislature passed a law allowing captive insurance companies to operate in Montana. A captive insurance company is a specialized company established primarily to insure the risks of a parent company or members of an association. They serve the insurance needs of the parent organization or association without the uncertainties of commercial availability and cost. They provide an insurance alternative for businesses and organizations, which is particularly important in today's hard insurance market when companies are looking for options.

#### Background

The law requires Montana-based captives to locate their headquarters in Montana and hold an annual board meeting here. Captives do not interact with consumers in the same fashion as traditional multi-line companies so the State Auditor's Office has been able to create a streamlined regulatory environment for them.

In Vermont, the first state to allow captives, it is a \$1 billion-a-year industry. Vermont had nearly 70 percent of the U.S. market at the end of 2004, and collected more than \$19 million in premium taxes from captive insurers last year.

Currently, there are 10 captive insurance companies formed in Montana to license rural hospitals, nursing homes, fuel stations, commercial trucking firms, an investment firm, a medical professional firm, a construction company, and attorneys. Two captive management firms also opened for business, with a third captive management company preparing to open for business in the very near future.

Long-term benefits to Montana include the potential for new jobs, an expanded tax base and increased economic activity.

#### Purpose

The legislation expands the types of captive insurance companies allowed in Montana and increases the types of coverage they can provide. It provides Montana a greater opportunity to develop its captive industry, and businesses and associations more options to tailor a captive to meet their needs.

#### Bill Details

Allows captives domiciled in Montana to voluntarily dissolve their captive insurance company.

Clarifies that each captive insurance company must pay premium taxes on all policies or contracts of insurance written by the captive insurance company during a year ended December 31.

Places a cap on premium taxes paid by a captive insurance company not to exceed \$100,000 in any year. This will allow Montana to be competitive with other domiciles in attracting large captive insurance companies to Montana. Specifically, Vermont and South Carolina have implemented caps on premium taxes collected and without this legislation there would be no reason for a large captive insurance company to locate in Montana.

Allows premium taxes paid by captive insurers to be payment in full and in lieu of all other demands for any and all state and county taxes. This is consistent with premium taxes paid by traditional insurance companies.

Specifically references a captive insurance company that is a risk retention group is not exempt from complying with the provisions of Title 33, chapter 11.