

SUBJECT: Allowing a captive insurer to provide reinsurance for credit life insurance

COMMITTEE: Insurance — favorable, without amendment

VOTE: 9 ayes — Phillips, Muñoz., R. Anderson, Gooden, Oliverson, Paul,
Sanford, Turner, Vo

0 nays

WITNESSES: For — Jeff Haworth, Kubota Tractor Corporation (*Registered, but did not testify*; Karleen Finnegan, Kubota Tractor Corporation; Burnie Burner, Mitchell Williams; Josh Magden, Texas Captive Insurance Association)

Against — None

On — (*Registered, but did not testify*: Jamie Walker, Texas Department of Insurance)

BACKGROUND: Insurance Code, sec. 964.051 authorizes a captive insurance company to only insure the operational risks of the company's affiliates and risks of a controlled unaffiliated business.

Sec. 964.052 allows a captive insurance company to provide reinsurance to an insurer covering the operational risks of the captive insurance company's affiliates or risks of a controlled unaffiliated business that the captive insurance company may insure under sec. 964.051.

DIGEST: HB 1187 would add credit life insurance and credit disability insurance offered as a part of or relating to the operational risks of a captive insurance company's affiliate as two of the types of insurance for which a captive insurance company could provide reinsurance.

The bill would take effect September 1, 2017.

SUPPORTERS SAY: HB 1187 would clarify in Texas law that a captive insurance company could reinsure credit life and credit disability products offered as part of or

directly relating to the operational risks of the captive insurance company's affiliate. Under the bill, a captive insurance company could reinsure credit life and credit disability insurance on a type of loan made by an affiliate of the reinsurance company that allowed farmers, for example, to purchase farm equipment made and distributed by the company's affiliates.

Credit life insurance is different from life insurance in that it insures only payments on a loan that are left after the buyer dies. Credit disability insurance, similarly, makes payments on a loan if the buyer becomes sick or disabled and is unable to work.

Texas statute is ambiguous as to whether current law applies to this situation, and the bill would provide needed clarification. A majority of states authorize such reinsurance by a captive insurance company, and other states neither expressly permit nor prohibit this type of reinsurance. Making this clarification in statute would allow companies to move their insurance affiliates to Texas.

The bill would specify that a captive insurer could only reinsure these products when they are offered as part of or directly relating to the operational risks of the captive insurance company's affiliate, which would ensure that these products only insured the cost of the company or its affiliate's own risks. Existing Texas law does not state whether this practice was included in the intent and does not prohibit it.

**OPPONENTS
SAY:**

While HB 1187 would allow a captive insurer to provide reinsurance for credit life and credit disability insurance only offered as part of or directly relating to the operational risks of the affiliate, the bill could expand allowed uses of captive insurance reinsurance beyond the originally intended purpose in Texas law. Captive insurance and captive insurance reinsurance are meant to insure a company or its affiliate's own risks, such as the cost of its own equipment and facilities.