

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1575-01
Bill No.: HB 577
Subject: Insurance - General; Insurance Dept.
Type: Original
Date: February 24, 2009

Bill Summary: Modifies various provisions relating to the regulation of captive insurance companies.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	(At least \$11,821)	(At least \$11,821)	(At least \$11,821)
Total Estimated Net Effect on General Revenue Fund	(At least \$11,821)	(At least \$11,821)	(At least \$11,821)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Insurance Dedicated	At least \$11,821	At least \$11,821	At least \$11,821
Total Estimated Net Effect on <u>Other</u> State Funds	At least \$11,821	At least \$11,821	At least \$11,821

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on FTE	0	0	0

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of State Treasurer (STO)** assume the Department of Revenue will appropriately post the receipt of taxes collected under sections 379.1326 and 379.1412 as 90% to General Revenue and 10% to the Insurance Dedicated Fund. The proposal has no fiscal impact on the STO.

Officials from the **Office of Secretary of State (SOS)** state the fiscal impact for this proposal is less than \$2,500. The SOS realizes this is a small amount and does not expect that additional funding would be required to meet these costs. The SOS recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of that the office can sustain within its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state in May 2008, Special Purpose Life Reinsurance Captive (SPLRC) insurance companies paid \$39,600 in premium tax for calendar year 2007. None was paid by other captive types.

In May 2009, the DIFP anticipates that SPLRC captives will pay \$85,417 for calendar year 2008 and all other types of captives will pay \$32,791; total of \$118,208.

The DIFP assumes in May 2010, May 2011, and May 2012 at least the same amount of premium tax will be paid as May 2009. The department does anticipate growth in the number of captive insurance companies in Missouri, so this estimate is the minimum amount of premium tax expected to be collected.

The premium taxes collected under this legislation are deposited 90% into General Revenue and 10% into the Insurance Dedicated Fund for department oversight of the captive insurance program.

Oversight assumes the annual premium taxes on captive insurance companies will be at least \$118,208. Because this amount is less than the \$200,000 currently in statute for DIFP to receive 20% of to help cover the costs of the oversight of these companies, no funds will be received by the DIFP. This legislation changes the distribution of premium taxes paid by SPLRCs so DIFP receives 10% of all premium taxes collected from captive insurance companies. As a result of this reallocation, **Oversight** is presenting the 10% allocation of premium taxes paid by captive insurance companies to the Insurance Dedicated Fund as a loss to the General Revenue Fund.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
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GENERAL REVENUE FUND

Loss - DIFP

Reduction in premium taxes from captive insurance companies	<u>(At least \$11,821)</u>	<u>(At least \$11,821)</u>	<u>(At least \$11,821)</u>
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(At least \$11,821)</u>	<u>(At least \$11,821)</u>	<u>(At least \$11,821)</u>
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INSURANCE DEDICATED FUND

Income - DIFP

Premium taxes from captive insurance companies	<u>At least \$11,821</u>	<u>At least \$11,821</u>	<u>At least \$11,821</u>
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ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	<u>At least \$11,821</u>	<u>At least \$11,821</u>	<u>At least \$11,821</u>
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<u>FISCAL IMPACT - Local Government</u>	<u>FY 2010</u> <u>(10 Mo.)</u>	<u>FY 2011</u>	<u>FY 2012</u>
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

This proposal may impact small businesses to the extent they qualify as captive insurance companies.

FISCAL DESCRIPTION

This proposal changes the laws regarding captive insurance companies and allows an association captive insurance company or an industrial insured captive insurance company to be organized as a reciprocal insurer. Its main provisions, the proposal: (1) Requires the captive insurance company's subscribers' advisory committee to meet at least once a year; (2) Removes the requirement that a captive insurance company hold at least 35% of its assets in Missouri; (3) Requires organizers of a reciprocal insurer to petition the Director of the Department of

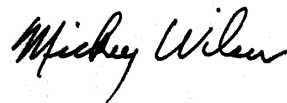
FISCAL DESCRIPTION (continued)

Insurance, Financial Institutions and Professional Registration to issue a certificate finding that the proposed association will promote the general good of the state; (4) Specifies that the captive insurance company statutes will control in cases where there is a conflict between them and the reciprocal insurance statutes; (5) Requires the State Treasurer to deposit 90% of the premium taxes collected from captive insurance companies and special purpose life reinsurance captive (SPLRC) companies into the General Revenue Fund and 10% into the Insurance Dedicated Fund; (6) Allows an association captive insurance company or an industrial insured captive insurance company to be converted to or merged with and into a reciprocal insurer and specifies the requirements and procedures for the conversion or merger plan; (7) Reduces from two to one the number of Missouri residents required to incorporate or organize a SPLRC; and (8) Changes the way in which the assets of a SPLRC are valued.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance, Financial Institutions and Professional Registration
Office of Secretary of State
Office of State Treasurer



Mickey Wilson, CPA
Director
February 24, 2009