

1 TO THE HONORABLE SENATE:

2 The Committee on Finance to which was referred House Bill No. 538  
3 entitled “An act relating to captive insurance companies” respectfully reports  
4 that it has considered the same and recommends that the Senate propose to the  
5 House that the bill be amended by striking out all after the enacting clause and  
6 inserting in lieu thereof the following:

7 \* \* \* Captive Insurance Company Reports and Statements \* \* \*

8 Sec. 1. 8 V.S.A. § 6007(c) is amended to read:

9 (c) Any pure captive insurance company, **association captive insurance**  
10 **company**, **sponsored captive insurance company**, or ~~an~~ industrial insured  
11 captive insurance company may make written application for filing the  
12 required report on a fiscal year-end. If an alternative reporting date is granted:

13 (1) the annual report is due 75 days after the fiscal year-end; and

14 (2) in order to provide sufficient detail to support the premium tax

15 return, the pure captive insurance company, **association captive insurance**  
16 **company**, **sponsored captive insurance company**, or industrial insured captive  
17 insurance company shall file prior to March 15 of each year for each calendar  
18 year-end, pages 1, 2, 3, and 5 of the ~~“Captive Annual Statement; Pure or~~  
19 ~~Industrial Insured,”~~ **“Vermont Captive Insurance Company Annual Report**  
20 verified by oath of two of its executive officers.

1                   \* \* \* Dormant Captive Insurance Companies \* \* \*

2           Sec. 2. 8 V.S.A. § 6024 is amended to read:

3           § 6024. DORMANT CAPTIVE INSURANCE COMPANIES

4           (a) As used in this section, unless the context requires otherwise, “dormant  
5           captive insurance company” means a pure captive insurance company ~~which,~~  
6           sponsored captive insurance company, or industrial insured captive insurance  
7           company that has:

8                   (1) ~~at no time, insured controlled unaffiliated business;~~

9                   (2) ceased transacting the business of insurance, including the issuance  
10           of insurance policies; and

11                   (3)(2) no remaining liabilities associated with insurance business  
12           transactions, or insurance policies issued prior to the filing of its application for  
13           a certificate of dormancy under this section.

14           (b) A ~~pure~~ captive insurance company domiciled in Vermont ~~which that~~  
15           meets the criteria of subsection (a) of this section may apply to the  
16           Commissioner for a certificate of dormancy. The certificate of dormancy shall  
17           be subject to renewal every five years and shall be forfeited if not renewed  
18           within such time.

19           (c) A dormant captive insurance company ~~which that~~ has been issued a  
20           certificate of dormancy shall:

21                   \* \* \*

1           \* \* \* **Protected Cells; Conversion; Sale; Assignment; Transfer** \* \* \*

2           **Sec. 3. 8 V.S.A. § 6034b is added to read:**

3           § 6034b. PROTECTED CELL CONVERSION INTO AN INCORPORATED  
4                           PROTECTED CELL

5           (a) Subject to the prior written approval of the Commissioner, on  
6           application of the sponsor and with the prior consent of each participant of the  
7           affected protected cell or as otherwise permitted pursuant to a participation  
8           agreement, a sponsored captive insurance company or a sponsored captive  
9           insurance company licensed as a special purpose financial insurance company  
10           may convert a protected cell into an incorporated protected cell pursuant to the  
11           provisions of section 6034a of this title, without affecting the protected cell's  
12           assets, rights, benefits, obligations, and liabilities.

13           (b) Any such conversion shall be deemed for all purposes to be a  
14           continuation of the protected cell's existence together with all of its assets,  
15           rights, benefits, obligations, and liabilities, as an incorporated protected cell of  
16           the sponsored captive insurance company or sponsored captive insurance  
17           company licensed as a special purpose financial insurance company, as  
18           applicable. Any such conversion shall be deemed to occur without any transfer  
19           or assignment of any such assets, rights, benefits, obligations, or liabilities and  
20           without the creation of any reversionary interest in, or impairment of, any such  
21           assets, rights, benefits, obligations, and liabilities.

1       **Sec. 4. 8 V.S.A. § 6034c is added to read:**

2       **§ 6034c. SALE, TRANSFER, OR ASSIGNMENT OF PROTECTED**

3                   **CELLS**

4           (a) Subject to the prior written approval of the Commissioner, on  
5           application of the sponsor and with the prior consent of each participant of the  
6           affected protected cell or as otherwise permitted pursuant to a participation  
7           agreement, or the consent of the affected incorporated protected cell, a  
8           sponsored captive insurance company or a sponsored captive insurance  
9           company licensed as a special purpose financial insurance company may sell,  
10          transfer, assign, and otherwise convey a protected cell or incorporated  
11          protected cell together with all of the protected cell's assets, rights, benefits,  
12          obligations, and liabilities to a new or existing sponsored captive insurance  
13          company or sponsored captive insurance company licensed as a special  
14          purpose financial insurance company, pursuant to a plan or plans of operation  
15          approved by the Commissioner.

16          (b) Any such sale, transfer, assignment, or conveyance shall be deemed for  
17          all purposes to be a continuation of the protected cell's existence together with  
18          all of its assets, rights, benefits, obligations, and liabilities, as a protected cell  
19          of the transferee.

20          (c) Any such sale, transfer, assignment, or conveyance shall not be  
21          construed to limit any rights or protections applicable to the transferred

1 protected cell or incorporated protected cell and the transferor sponsored  
2 captive insurance company or sponsored captive insurance company licensed  
3 as a special purpose financial insurance company under this subchapter or  
4 under section 6048n of this title, as applicable, that existed immediately prior  
5 to any such sale, transfer, assignment, or conveyance.

6 **Sec. 5. 8 V.S.A. § 6034d is added to read:**

7 **§ 6034d. PROTECTED CELL CONVERSION**

8 (a)(1) Subject to the prior written approval of the Commissioner, on  
9 application of the sponsor and with the prior consent of each participant of the  
10 affected protected cells or as otherwise permitted pursuant to a participation  
11 agreement and the consent of each affected incorporated protected cell, a  
12 sponsored captive insurance company or a sponsored captive insurance  
13 company licensed as a special purpose financial insurance company may  
14 convert one or more protected cells or incorporated protected cells into a:

15 (A) single protected cell or incorporated protected cell;

16 (B) new sponsored captive insurance company;

17 (C) new sponsored captive insurance company licensed as a special  
18 purpose financial insurance company;

19 (D) new special purpose financial insurance company;

20 (E) new pure captive insurance company;

21 (F) new risk retention group;

1           (G) new industrial insured captive insurance company; or

2           (H) new association captive insurance company.

3           (2) Any such conversion shall be subject to section 6031 and  
4           subchapters 1 and 4 of this title, as applicable, as well as to a plan or plans of  
5           operation approved by the Commissioner, without affecting any protected  
6           cell's or incorporated protected cell's assets, rights, benefits, obligations, and  
7           liabilities.

8           (b) Any such conversion shall be deemed for all purposes to be a  
9           continuation of each such protected cell's or incorporated protected cell's  
10           existence together with all of its assets, rights, benefits, obligations, and  
11           liabilities, as a new protected cell or incorporated protected cell, a licensed  
12           sponsored captive insurance company, a sponsored captive insurance company  
13           licensed as a special purpose financial insurance company, a special purpose  
14           financial insurance company, a pure captive insurance company, a risk  
15           retention group, an industrial insured captive insurance company, or an  
16           association captive insurance company, as applicable. Any such conversion  
17           shall be deemed to occur without any transfer or assignment of any such assets,  
18           rights, benefits, obligations, or liabilities and without the creation of any  
19           reversionary interest in, or impairment of, any such assets, rights, benefits,  
20           obligations, and liabilities.

1       (c) Any such conversion shall not be construed to limit any rights or  
2       protections applicable to any converted protected cell or incorporated protected  
3       cell and such sponsored captive insurance company or sponsored captive  
4       insurance company licensed as a special purpose financial insurance company  
5       under this subchapter or under subchapter 4 of this title, as applicable, that  
6       existed immediately prior to the date of any such conversion.

7                   \* \* \* Risk Retention Groups; Governance Standards \* \* \*

8       Sec. 6. 8 V.S.A. § 6052(g) is amended to read:

9       (g) This subsection establishes governance standards for a risk retention  
10      group.

11           (1) As used in this subsection:

12           (A) “Board of directors” or “board” means the governing body of a  
13      risk retention group elected by risk retention group members to establish  
14      policy, elect or appoint officers and committees, and make other governing  
15      decisions.

16           (B) “Director” means a natural person designated in the articles of  
17      the risk retention group or designated, elected, or appointed by any other  
18      manner, name, or title to act as a ~~director~~ member of the governing body of the  
19      risk retention group.

20           (C) “Independent director” means a director who does not have a  
21      material relationship with the risk retention group. A person that is a direct or

1 indirect owner of or subscriber in the risk retention group - or is an officer,  
2 director, or employee of such an owner and insured, unless some other position  
3 of such officer, director, or employee constitutes a “material relationship” - as  
4 contemplated under subdivision 3901(a)(4)(E)(ii) of the federal Liability Risk  
5 Retention Act, is considered to be “independent.” A director has a material  
6 relationship with a risk retention group if he or she, or a member of his or her  
7 immediate family:

8 (i) In any 12-month period, receives from the risk retention group,  
9 or from a consultant or service provider to the risk retention group,  
10 compensation or other item of value in an amount equal to or greater than five  
11 percent of the risk retention group’s gross written premium or two percent of  
12 the risk retention group’s surplus, as measured at the end of any fiscal quarter  
13 falling in such 12-month period, whichever is greater. This provision also  
14 applies to compensation or items of value received by any business with which  
15 the director is affiliated. Such material relationship shall continue for one year  
16 after the item of value is received or the compensation ceases or falls below the  
17 threshold established in this subdivision, as applicable.

18 (ii) Has a relationship with an auditor as follows: Is affiliated with  
19 or employed in a professional capacity by a current or former internal or  
20 external auditor of the risk retention group. Such material relationship shall  
21 continue for one year after the affiliation or employment ends.



1                   (iii) Has a relationship with a related entity as follows: Is  
2 employed as an executive officer of another company whose board of directors  
3 includes executive officers of the risk retention group, unless a majority of the  
4 membership of such other company’s board of directors is the same as the  
5 membership of the board of directors of the risk retention group. Such  
6 material relationship shall continue until the employment or service ends.

7                   (D) “Material service provider” includes a captive manager, auditor,  
8 accountant, actuary, investment advisor, attorney, managing general  
9 underwriter, or other person responsible for underwriting, determination of  
10 rates, premium collection, claims adjustment or settlement, or preparation of  
11 financial statements, whose aggregate annual contract fees are equal to or  
12 greater than five percent of the risk retention group’s annual gross written  
13 premium or two percent of its surplus, whichever is greater. It does not mean  
14 defense counsel retained by a risk retention group, unless his or her annual fees  
15 ~~are~~ have been equal to or greater than five percent of a risk retention group’s  
16 annual gross premium or two percent of its surplus, whichever is greater,  
17 during three or more of the previous five years.

18                   (2) The board shall have a majority of independent directors. The board  
19 of directors shall determine whether a director is independent; review such  
20 determinations annually; and maintain a record of the determinations, which  
21 shall be provided to the Commissioner promptly, upon request. ~~The board~~

1 ~~shall have a majority of independent directors. If the risk retention group is~~  
2 ~~reciprocal, then the attorney-in-fact is required to adhere to the same standards~~  
3 ~~regarding independence as imposed on the risk retention group's board of~~  
4 ~~directors~~ If the Commissioner disagrees with the board's determination  
5 regarding independence, the board, within six months, shall take such actions  
6 as are necessary in order to obtain written confirmation from the  
7 Commissioner that the board meets the independence requirements set forth in  
8 this subdivision (1)(C) of this subsection.

9 (3) The term of any material service provider contract entered into with  
10 a risk retention group shall not exceed five years. The contract, or its renewal,  
11 requires approval of a majority of the risk retention group's independent  
12 directors. The board of directors has the right to terminate a contract at any  
13 time for cause after providing adequate notice, as defined in the terms of the  
14 contract.

15 (4) A risk retention group shall not enter into a material service provider  
16 contract without the prior written approval of the Commissioner.

17 (5) A risk retention group's ~~plan of operation~~ business plan shall include  
18 written policies approved by its board of directors requiring the board to:

19 (A) provide evidence of ownership interest to each risk retention  
20 group member;

1 (B) develop governance standards applicable to the risk retention  
2 group;

3 (C) oversee the evaluation of the risk retention group's management,  
4 including the performance of its captive manager, managing general  
5 underwriter, or other person or persons responsible for underwriting, rate  
6 determination, premium collection, claims adjustment and settlement, or  
7 preparation of financial statements;

8 (D) review and approve the amount to be paid under a material  
9 service provider contract; and

10 (E) at least annually, review and approve:

11 (i) the risk retention group's goals and objectives relevant to the  
12 compensation of officers and material service providers;

13 (ii) the performance of officers and material service providers as  
14 measured against the risk retention group's goals and objectives;

15 (iii) the continued engagement of officers and material service  
16 providers.

17 (6) A risk retention group shall have an audit committee composed of at  
18 least three independent board members. A nonindependent board member may  
19 participate in the committee's activities, if invited to do so by the audit  
20 committee, but he or she shall not serve as a committee member. The  
21 Commissioner may waive the requirement of an audit committee if the risk

1 retention group demonstrates to the Commissioner's satisfaction that having  
2 such committee is impracticable and the board of directors is able to perform  
3 sufficiently the committee's responsibilities. The audit committee shall have a  
4 written charter defining its responsibilities, which shall include:

5 (A) assisting board oversight of the integrity of financial statements,  
6 compliance with legal and regulatory requirements, and qualifications,  
7 independence, and performance of the independent auditor or actuary;

8 (B) reviewing quarterly financial statements and annual ~~and quarterly~~  
9 audited financial statements with management;

10 (C) reviewing annual audited financial statements with its  
11 independent auditor and, if it deems advisable, the risk retention group's  
12 quarterly financial statements as well;

13 (D) reviewing risk assessment and risk management policies;

14 (E) meeting with management, either directly or through a designated  
15 representative of the committee;

16 (F) meeting with independent auditors, either directly or through a  
17 designated representative of the committee;

18 (G) reviewing with the independent auditor any audit problems and  
19 management's response;

1 (H) establishing clear hiring policies applicable to the hiring of  
2 employees or former employees of the independent auditor by the risk  
3 retention group;

4 (I) requiring the independent auditor to rotate the lead audit partner  
5 having primary responsibility for the risk retention group’s audit, as well as the  
6 audit partner responsible for reviewing that audit, so that neither individual  
7 performs audit services for the risk retention group for more than five  
8 consecutive fiscal years; and

9 (J) reporting regularly to the board of directors.

10 \* \* \*

11 \* \* \* Effective Date \* \* \*

12 Sec. 7. EFFECTIVE DATE

13 This act shall take effect on passage.

14

15

16

17 (Committee vote: \_\_\_\_\_)

18

\_\_\_\_\_

19

Senator \_\_\_\_\_

20

FOR THE COMMITTEE