

Texas New Captive Reinsurance Law Eases Captive Re-domestication



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With the signature of Governor Abbott, the most recent amendments to Texas captive insurance law are now effective and Texas captives will be able to directly access offshore and other non-affiliated reinsurers which meet certain specific requirements.

Initially, Texas captives were subject to the same credit for reinsurance requirements as the commercial market. Recognizing the limitations these requirements placed on Texas captives, the Texas Captive Insurance Association, and its members, supported legislation to authorize reinsurance pooling and reinsurance with non-admitted, affiliated reinsurers without the collateral required of commercial reinsurance transactions. As a result, many captives were able to re-domesticate or organize in Texas with reinsurance ceded to their existing captives, on or offshore.

The 2017 amendments were adopted with the strong support of the Association and its members. The changes will allow Texas captives to reinsure directly with non-affiliated, non-admitted reinsurers in domestic and offshore markets. The new law facilitates the consolidation of captive business in Texas by eliminating the need to maintain an affiliated captive to provide access to the reinsurance market. The result should be significant savings for captive owners seeking a Texas domicile.

For example, for a Texas captive currently ceding 100 percent of its business to a Vermont captive in order to be able to reinsure the business in the Bermuda market, the new law allows the Texas captive to go directly to the Bermuda market and eliminate the need to maintain the Vermont captive.

The reinsurance program is subject to approval of the Texas Department of Insurance and the reinsurers must meet the following qualifications:

1. Be domiciled in a jurisdiction qualified by the NAIC;
2. Have policyholder surplus of \$250M or more;
3. Be rated B+ or higher by a qualifying rating organization; and
4. Be acceptable to the Commissioner of Insurance.

Since the law is now in effective, a number of captives are studying the feasibility of merging existing captives into a Texas captive or re-domesticating to Texas and taking advantage of the premium tax waiver for re-domestication.

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