

House Engrossed

foreign captive insurers; definition

State of Arizona  
House of Representatives  
Fifty-sixth Legislature  
First Regular Session  
2023

## **CHAPTER 44**

# **HOUSE BILL 2005**

AN ACT

AMENDING SECTIONS 20-1098, 20-1098.01, 20-1098.08, 20-1098.15, 20-1098.19  
AND 20-1098.21, ARIZONA REVISED STATUTES; RELATING TO CAPTIVE INSURERS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:  
2 Section 1. Section 20-1098, Arizona Revised Statutes, is amended to  
3 read:  
4 20-1098. Definitions  
5 In this article, unless the context otherwise requires:  
6 1. "Affiliate" has the same meaning prescribed in section 20-481.  
7 2. "Agency captive insurer" means a captive insurer that is owned  
8 by one or more business entities that are licensed in any state as  
9 insurance producers or managing general agents and that only insure risks  
10 on policies placed through their owners.  
11 3. "Alien captive insurer" means any insurer that is formed to  
12 write insurance business for its affiliates and that is licensed pursuant  
13 to the laws of an alien jurisdiction that imposes statutory or regulatory  
14 standards that are acceptable to the director on companies transacting the  
15 business of insurance in such a jurisdiction.  
16 4. "Association" means any lawfully formed association of  
17 individuals or business entities that has been in existence for at least  
18 one year and that is organized for a primary purpose other than procuring  
19 or providing insurance for its members.  
20 5. "Association captive insurer" means a captive insurer that is  
21 completely under the direct or indirect voting control of an association.  
22 6. "Branch business" means any insurance business that is  
23 transacted by a branch captive insurer in this state.  
24 7. "Branch captive insurer" means an alien captive insurer **OR A**  
25 **FOREIGN CAPTIVE INSURER** that **ESTABLISHES A BUSINESS UNIT WITH A PRINCIPAL**  
26 **PLACE OF BUSINESS IN THIS STATE AND THAT** is licensed pursuant to this  
27 chapter to transact the business of insurance through ~~THE~~ **business**  
28 **unit.** ~~with a principal place of business in this state.~~  
29 8. "Branch operations" means any business operations of a branch  
30 captive insurer in this state.  
31 9. "Business entity" means any legal entity other than an  
32 individual or sole proprietorship.  
33 10. "Captive insurer" means any pure captive insurer, agency  
34 captive insurer, group captive insurer or protected cell captive insurer  
35 that is domiciled in this state and that is formed and licensed under this  
36 article.  
37 11. "Controlled unaffiliated business" means an individual or  
38 business entity that satisfies all of the following:  
39 (a) Is not an affiliate of the captive insurer providing coverage  
40 or reinsurance.  
41 (b) Has a contractual relationship with an affiliate of the captive  
42 insurer providing coverage or reinsurance.  
43 (c) Whose risk management function that is related to the covered  
44 risk of loss is controlled by an affiliate of the captive insurer  
45 providing coverage or reinsurance.

1           12. "Deductible reimbursement" means insurance coverage that  
2 reimburses the insured for the deductible it paid under a separate  
3 commercial insurance policy issued to the same insured, without other  
4 conditions related to the underlying loss.

5           13. "Direct or directly", when used in this article to describe the  
6 transaction of insurance business by a captive insurer, means a  
7 transaction in which the captive insurer issues an insurance policy that  
8 provides primary coverage to the insured under the policy and that does  
9 not provide reinsurance coverage to another insurer.

10           14. "FOREIGN CAPTIVE INSURER" MEANS ANY CAPTIVE INSURER THAT IS  
11 DOMICILED IN AND LICENSED UNDER THE LAWS OF ANOTHER STATE THAT IMPOSES  
12 STATUTORY OR REGULATORY STANDARDS ON CAPTIVE INSURANCE COMPANIES IN THAT  
13 STATE THAT ARE ACCEPTABLE TO THE DIRECTOR.

14           ~~14.~~ 15. "Group captive insurer" means any of the following:

- 15           (a) A risk retention group.
- 16           (b) An industry group captive insurer.
- 17           (c) An association captive insurer.

18           ~~15.~~ 16. "Industry group" means two or more business entities or  
19 persons that are engaged in businesses or activities similar or related  
20 with respect to the liability that they are exposed to by virtue of any  
21 related, similar or common business, trade, product, services, premises or  
22 operations.

23           ~~16.~~ 17. "Industry group captive insurer" means a captive insurer  
24 that is completely under the direct or indirect voting control of an  
25 industry group.

26           ~~17.~~ 18. "Manager" means a person who is experienced in the field  
27 of captive insurance and who maintains all documents relating to a captive  
28 insurer's operations, transactions and affairs in this state and assists  
29 the captive insurer in its management and compliance with this article.

30           ~~18.~~ 19. "Member" means any individual or business entity that  
31 belongs to a group captive insurer.

32           ~~19.~~ 20. "Participant" means an entity and any affiliates of the  
33 entity that are insured by a protected cell captive insurer pursuant to a  
34 participant contract.

35           ~~20.~~ 21. "Participant contract" means a contract by which a  
36 protected cell captive insurer insures risks of one or more participants  
37 and limits losses under the contract to the assets of a protected cell.

38           ~~21.~~ 22. "Protected cell" means a separate account that is  
39 established and maintained by a protected cell captive insurer pursuant to  
40 a participant contract.

41           ~~22.~~ 23. "Protected cell captive insurer" means a captive insurer:

- 42           (a) In which the minimum capital and surplus required by applicable  
43 law is provided by one or more sponsors.

1 (b) That is formed and licensed under this article.

2 (c) That insures the risks of participants through participant  
3 contracts.

4 (d) That segregates liability under a participant contract through  
5 one or more protected cells.

6 ~~23.~~ 24. "Pure captive insurer" means a captive insurer that  
7 insures only the risks of its affiliates and controlled unaffiliated  
8 business.

9 ~~24.~~ 25. "Risk retention group" means a captive insurer that is  
10 organized pursuant to the liability risk retention act of 1986 (15 United  
11 States Code sections 3901 and 3902) and chapter 14 of this title.

12 ~~25.~~ 26. "Sponsor" means an entity that meets the requirements of  
13 section 20-1098.06 and that the director has approved to provide all or  
14 part of the capital and surplus required by applicable law to operate a  
15 protected cell captive insurer.

16 Sec. 2. Section 20-1098.01, Arizona Revised Statutes, is amended to  
17 read:

18 20-1098.01. Licensing; authority

19 A. If allowed by its articles of incorporation, bylaws or other  
20 organizational document, an applicant may apply to the director for a  
21 license to transact captive insurance, except that:

22 1. A pure captive insurer shall not insure risks other than the  
23 risks of its affiliates and controlled unaffiliated business.

24 2. A group captive insurer, other than a risk retention group,  
25 shall not insure risks other than the risks of its group members, its  
26 affiliates and controlled unaffiliated business. A risk retention group  
27 shall insure only the risks of its group members.

28 3. An agency captive insurer shall not:

29 (a) Insure any risks other than those placed by or through its  
30 owners.

31 (b) Directly insure life or disability insurance risks without the  
32 approval of the director. The insurance risks that the director may  
33 approve are limited to employer group term life insurance, employer group  
34 disability income insurance and reimbursement of employer health plan  
35 deductibles. The director may require the business written by an agency  
36 captive insurer to be any of the following:

37 (i) Fronted by an insurer that holds a certificate of authority  
38 under the laws of any state.

39 (ii) Reinsured by a reinsurer authorized, accredited or approved by  
40 the director.

41 (iii) Secured by a trust fund in the United States for the benefit  
42 of policyholders and claimants or funded by an irrevocable letter of  
43 credit or other arrangement that is acceptable to the director. The  
44 director may require the agency captive insurer to increase the funding of  
45 any security arrangement established under this item. If the form of

1 security is a letter of credit, the letter of credit shall be issued or  
2 confirmed by a bank approved by the director. A trust maintained pursuant  
3 to this item shall be established in a form and on terms approved by the  
4 director.

5 4. A protected cell captive insurer shall not insure any risks  
6 other than those prescribed in its participant contracts.

7 B. The following apply to the transaction of insurance by a captive  
8 insurer on a direct basis:

9 1. A captive insurer shall not directly insure any of the following  
10 types of insurance business:

11 (a) Hospital service corporations, medical service corporations,  
12 dental service corporations, optometric service corporations or hospital,  
13 medical, dental and optometric service corporations as defined in section  
14 20-822.

15 (b) Health care services organizations as defined in section  
16 20-1051.

17 (c) Prepaid dental plan organizations as defined in section  
18 20-1001.

19 (d) Prepaid legal insurance contracts as defined in section  
20 20-1097.

21 (e) Business of title insurance as defined in section 20-1562.

22 (f) Personal motor vehicle or homeowner's insurance coverage or any  
23 component of that insurance coverage.

24 (g) Mortgage guaranty insurance as defined in section 20-1541.

25 (h) Workers' compensation or employers' liability insurance  
26 policies except in connection with a self-insurance program as prescribed  
27 in this subsection.

28 2. A pure captive insurer shall not provide direct coverage of  
29 workers' compensation or employers' liability in this state unless the  
30 coverage is provided under a self-insurance program that is approved by  
31 the industrial commission of Arizona pursuant to section 23-961. A  
32 captive insurance program that is authorized by section 23-961 is subject  
33 to and shall comply with all requirements of title 23, chapter 6 that are  
34 applicable to self-insurance.

35 3. A pure captive insurer shall not provide direct coverage of  
36 workers' compensation or employers' liability insurance in another state  
37 unless the coverage is provided under a self-insurance program that is  
38 qualified as a self-insurance program under the applicable state or  
39 federal law, as determined by the agency or other entity that has  
40 jurisdiction over the self-insurance program.

41 4. An agency captive insurer directly insuring life or disability  
42 income insurance risk as specified in subsection A, paragraph 3 of this  
43 section:

44 (a) Shall mark each policy and certificate with a conspicuously  
45 stamped or written notice in bold-faced type that states the following:

1           This policy is issued by an insurer that is not a member  
2           of an Arizona insurance guaranty fund. If the insurer that  
3           issued this policy becomes insolvent, insureds or claimants  
4           will not be eligible for insurance guaranty fund protection  
5           pursuant to title 20, Arizona Revised Statutes.

6           (b) May insure only life and disability income insurance risks as  
7           specified in subsection A, paragraph 3 of this section for employers that  
8           maintain their principal place of business within this state.

9           (c) May not be owned or controlled by an insurer that is granted  
10          authority by the director to transact insurance in this state.

11          (d) Shall have its financial statements audited by an independent  
12          certified public accountant pursuant to section 20-1098.07, subsection B.

13          (e) May not directly insure life or disability income insurance  
14          risks as specified in subsection A, paragraph 3 of this section in this  
15          state unless all of the following apply:

16          (i) An insurance producer or managing general agent that owns the  
17          agency captive insurer remains in regulatory good standing in all states  
18          in which it is licensed.

19          (ii) The agency captive insurer insures only the risks of employer  
20          group term life insurance, employer group disability income insurance and  
21          reimbursement of employer health plan deductibles that are placed by or  
22          through an insurance producer or managing general agent that owns the  
23          agency captive insurer and, if required by the director, provides the  
24          director the form of such policies.

25          (iii) The agency captive insurer discloses to the original  
26          policyholder or policyholders, in a form or manner approved by the  
27          director, all limitations, rights and obligations held by the agency  
28          captive insurer as a result of its affiliation with an insurance producer  
29          or managing general agent.

30          5. This subsection does not prohibit a captive insurer from  
31          directly insuring deductible reimbursement risk.

32          6. This subsection does not prohibit a captive insurer from  
33          directly insuring employment practices liability risk.

34          C. A captive insurer shall not accept or cede reinsurance except as  
35          provided in section 20-1098.11.

36          D. A captive insurer that writes life insurance or disability  
37          insurance shall comply with all applicable state and federal laws.

38          E. A captive insurer shall:

39          1. Hold at least one meeting of its board of directors or, for  
40          reciprocal insurers, its subscribers' advisory committee each year in this  
41          state.

42          2. Maintain its principal place of business in this state.

43          3. Appoint a resident statutory agent to accept service of process  
44          and to otherwise act on its behalf in this state and shall file the  
45          appointment with the director. In the case of a captive insurer formed as

1 a ~~corporation or~~ reciprocal insurer, if the statutory agent cannot with  
2 reasonable diligence be found at the registered office of the captive  
3 insurer, the director is an agent of the captive insurer on whom any  
4 process, notice or demand may be served.

5 F. Before receiving a license, an applicant for a captive insurer  
6 license shall file with the director the following:

7 1. If formed as a corporation, a certified copy of its articles of  
8 incorporation, articles of organization or other organizational document,  
9 a copy of its duly adopted bylaws or other governance rules, a statement  
10 under oath of its president and secretary showing its financial condition  
11 and any other statement or document required by the director.

12 2. If formed as a reciprocal insurer, a copy of the power of  
13 attorney of its attorney-in-fact, a copy of its subscribers' agreement, a  
14 copy of its duly adopted bylaws or other governance rules, a statement  
15 under oath of its attorney-in-fact showing its financial condition and any  
16 other statement or document required by the director.

17 G. In addition to the information required by subsection F of this  
18 section, each applicant for a captive insurer license shall file with the  
19 director evidence of all of the following:

20 1. The amount and liquidity of its assets relative to the risks to  
21 be assumed.

22 2. The adequacy of the expertise, experience and character of the  
23 directors and officers of the captive insurer.

24 3. The overall soundness of its plan of operation.

25 4. The adequacy of the loss prevention programs of its insureds.

26 5. The engagement of a competent manager that does business at a  
27 location in this state.

28 6. The establishment of business relationships with any  
29 accountants, banks, attorneys and other professionals that are acceptable  
30 to the department.

31 7. The ability of the captive insurer's owners or members to pay  
32 claims to third parties if the captive insurer is unable to pay those  
33 claims.

34 8. Other factors deemed relevant by the director in ascertaining  
35 whether the proposed captive insurer will be able to meet its policy  
36 obligations.

37 H. In addition to the information required by subsections F and G  
38 of this section, if the applicant is seeking authority as a protected cell  
39 captive insurer, the applicant shall file:

40 1. A business plan that demonstrates, in a manner acceptable to the  
41 director, how the applicant will account for the loss and expense  
42 experience of each protected cell and report that information to the  
43 director.

1           2. A statement acknowledging that all financial records of the  
2 protected cell captive insurer, including records pertaining to protected  
3 cells, shall be available for inspection or examination by the director or  
4 the director's designee.

5           3. Its form for all participant contracts.

6           4. Evidence that the protected cell captive insurer will allocate  
7 expenses fairly and equitably to each protected cell.

8           I. Before the issuance of a license, an applicant shall promptly  
9 notify the director of any material change in the information filed  
10 pursuant to this section.

11           J. An applicant for a captive insurer license shall pay to the  
12 director a nonrefundable fee for the issuance of a captive insurance  
13 license pursuant to section 20-167. The captive insurer shall pay the  
14 license renewal fee pursuant to section 20-167 when the captive insurer  
15 files the annual report prescribed in section 20-1098.07.

16           K. If the director is satisfied that the documents and statements  
17 that the applicant has filed comply with this article, the director may  
18 grant the applicant a captive insurer license that authorizes the captive  
19 insurer to transact captive insurance business in this state.

20           L. The director shall approve or deny an application for a license  
21 to transact captive insurance business within thirty days after the  
22 director deems the application complete.

23           Sec. 3. Section 20-1098.08, Arizona Revised Statutes, is amended to  
24 read:

25           20-1098.08. Examinations

26           A. Whenever the director determines it to be prudent, the director  
27 may examine the business, transactions and affairs of each captive insurer  
28 to ascertain the captive insurer's financial condition and ability to  
29 fulfill its obligations and whether the captive insurer has complied with  
30 this article.

31           B. Section 20-1098.23 applies to all examination reports,  
32 preliminary examination reports or results, working papers, recorded  
33 information, documents and copies of any of those reports, results,  
34 papers, information or documents produced by, obtained by or disclosed to  
35 the director in the course of an examination made under this section.

36           C. The director may use independent contractor examiners pursuant  
37 to sections 20-148 and 20-159 to conduct examinations pursuant to this  
38 section. All examinations and examination related expenses shall be borne  
39 by the captive insurer and shall be paid by the insurance examiners'  
40 revolving fund pursuant to section 20-159.

41           D. ~~As a condition of licensure,~~ An alien captive insurer OR FOREIGN  
42 CAPTIVE INSURER THAT ESTABLISHES A BUSINESS UNIT IN THIS STATE AND THAT IS  
43 LICENSED AS A BRANCH CAPTIVE INSURER shall consent to the examination by  
44 the director of the affairs of the alien captive insurer OR FOREIGN  
45 CAPTIVE INSURER in the jurisdiction in which the alien captive insurer OR



1 FOREIGN CAPTIVE INSURER is formed. The examination of a branch captive  
2 insurer shall be of branch business and branch operations only, during the  
3 period the branch captive insurer is formed, and must demonstrate to the  
4 director's satisfaction that the alien captive insurer OR FOREIGN CAPTIVE  
5 INSURER is operating in a sound financial condition pursuant to all the  
6 applicable laws and regulations of the jurisdiction.

7 Sec. 4. Section 20-1098.15, Arizona Revised Statutes, is amended to  
8 read:

9 20-1098.15. Applicability

10 A. Chapter 2, article 6 of this title relating to unfair trade  
11 practices and frauds applies to captive insurers, except to the extent the  
12 director determines the nature of captive insurance renders particular  
13 provisions of chapter 2, article 6 of this title inappropriate.

14 B. All other provisions of this title that are not inconsistent  
15 with this article apply to captive insurers, except to the extent the  
16 director determines the nature of captive insurance renders particular  
17 provisions of this title inappropriate.

18 C. A captive insurer that is formed as a corporation is subject to  
19 the applicable provisions of title 10, except as otherwise prescribed in  
20 this article.

21 D. A captive insurer that is formed as a limited liability company  
22 is subject to the applicable provisions of title 29, except as otherwise  
23 prescribed in this article.

24 E. The provisions of article 1 of this chapter relating to mergers,  
25 consolidations, conversions, mutualizations and redomestications apply in  
26 determining the procedures to be followed by captive insurers in carrying  
27 out those transactions, except that the director may waive or modify the  
28 requirements for a public notice and hearing prescribed in section 20-731.  
29 NOTWITHSTANDING SECTION 20-731, A DOMESTIC CAPTIVE INSURER MAY MERGE OR  
30 CONSOLIDATE WITH ANY OTHER DOMESTIC CAPTIVE INSURER, FOREIGN CAPTIVE  
31 INSURER OR ALIEN CAPTIVE INSURER EVEN IF THE DOMESTIC CAPTIVE INSURER,  
32 FOREIGN CAPTIVE INSURER OR ALIEN CAPTIVE INSURER WAS FORMED AS A LIMITED  
33 LIABILITY COMPANY OR A STOCK CORPORATION.

34 F. Chapter 2, article 8 of this title relating to insurance holding  
35 company systems applies to risk retention groups as defined in section  
36 20-1098 or 20-2401.

37 G. Chapter 2, article 12 of this title relating to risk-based  
38 capital, as modified by the national association of insurance  
39 commissioners for risk retention groups, applies to risk retention groups  
40 as defined in section 20-1098 or 20-2401. If a risk retention group is  
41 subject to regulatory action as prescribed in section 20-488.02,  
42 20-488.03, 20-488.04 or 20-488.05, the regulatory action shall be at the  
43 discretion of the director.

44 H. Unless otherwise prescribed by the director based on a risk  
45 retention group's business plan, remoteness of the risk and claim

1 frequency, section 20-260, subsection A, relating to individual risk  
2 limitation, applies to risk retention groups as defined in section 20-1098  
3 or 20-2401.

4 Sec. 5. Section 20-1098.19, Arizona Revised Statutes, is amended to  
5 read:

6 20-1098.19. Establishment of branch captive insurer

7 A. AN ALIEN CAPTIVE INSURER OR FOREIGN CAPTIVE INSURER MAY  
8 ESTABLISH A BUSINESS UNIT IN THIS STATE AND BECOME LICENSED AS a branch  
9 captive insurer ~~may be established~~ in this state pursuant to this chapter  
10 to write insurance or reinsurance in this state except as provided in  
11 section 20-1098.01, subsection B and other than workers' compensation or  
12 employers' liability insurance.

13 B. A branch captive insurer shall not conduct any ~~insurance~~ BRANCH  
14 business in this state unless it maintains the principal place of business  
15 for its branch operations in this state.

16 C. A branch captive insurer shall be a pure captive insurer with  
17 respect to operations and minimum capitalization in this state unless  
18 otherwise permitted by the director.

19 Sec. 6. Section 20-1098.21, Arizona Revised Statutes, is amended to  
20 read:

21 20-1098.21. Branch captive insurer reports

22 Within sixty days after its fiscal year end, a branch captive  
23 insurer shall file with the director a copy of all reports and statements  
24 that are required to be filed under the laws of the jurisdiction in which  
25 the alien captive insurer OR FOREIGN CAPTIVE INSURER is formed and that  
26 are verified by oath of two of its executive officers.

APPROVED BY THE GOVERNOR APRIL 13, 2023.

FILED IN THE OFFICE OF THE SECRETARY OF STATE APRIL 13, 2023.