

**MEMORANDUM**

**TO:** Vicki Rich, Ohio Department of Insurance  
**FROM:** Paula Steele, Regulatory Policy Advocate  
**DATE:** March 26, 2015  
**RE:** **CSI Review – Special Purpose Financial Captives** (OAC 3901-11-05 and 3901-11-06)

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On behalf of Lt. Governor Mary Taylor, and pursuant to the authority granted to the Common Sense Initiative (CSI) Office under Ohio Revised Code (ORC) section 107.54, the CSI Office has reviewed the abovementioned administrative rule package and associated Business Impact Analysis (BIA). This memo represents the CSI Office's comments to the Agency as provided for in ORC 107.54.

**Analysis**

The Ohio Department of Insurance (ODI) rule package consists of two new draft rules being proposed as a result of the recently-enacted House Bill (HB) 117 which created a new section in statute to allow for registration and regulation of special purpose financial captive insurance companies. The rule package was submitted to the CSI Office on March 2, 2015 and the public comment period ended on March 13, 2015. No comments were received during that time.

ORC 3964.01 defines a captive insurance company as any insurer that insures only the risks of its parent or affiliated companies of its parent. A special purpose financial captive (SPFC) is a captive insurance company organized in a particular way according to Ohio statute. The proposed rules articulate the Revised Code requirements to define alternative reserve basis and acceptable total capital and surplus requirements for insurance companies that cede risk and obligations to SPFCs. Rules 3901-11-05 and 3901-11-06 prescribe the processes and methodologies for SPFCs seeking use of an alternative reserve basis and determining acceptable capital and surplus requirements.

According to the BIA, ODI engaged stakeholders during the development of the proposed rules

and during that time stakeholder input helped craft the proposed rules. In particular, rule 3901-11-05 was revised to eliminate redundancies concerning contract reserves.

While under the CSI Office review, ODI submitted a technical revision to OAC 3901-11-05. The revision added the descriptor of “unqualified” to “written actuarial opinion,” and was revised due to the Department’s ongoing dialog with a stakeholder.

The CSI Office followed up with ODI to request a revised BIA to address in more detail the adverse impact to business. Upon review of the proposed rules and revised BIA, the CSI Office has determined that the rules satisfactorily meet the standards espoused by the CSI Office, and the purpose of the proposed rules are justified.

### **Recommendations**

For the reasons discussed above, the CSI Office does not have any recommendations for this rule package.

### **Conclusion**

Based on the above comments, the CSI Office concludes that the Department of Insurance should proceed with the formal filing of this rule package with the Joint Committee on Agency Rule Review.

cc: Mark Hamlin, Lt. Governor’s Office