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SEAN E. TARWATER, SR.
27TH DISTRICT

Oral Proponent Testimony on HB2334

Chairwoman Dietrich, Vice Chair Fagg, Ranking Member Francisco, and members of the committee, thank you for the opportunity to testify as a proponent of HB2334.

A **Captive Insurance Company** is a way for a company or a group of affiliated or controlled companies to self-insure portions of their risk. Captives operate under the regulation of the State Insurance Commissioner, just like any other insurance company.

Benefits of Captive Insurance:

1. **Cost Savings**

The company I work for historically paid millions in annual premiums while experiencing minimal claims. In 2024, we had an exceptionally low **10% loss ratio**, yet our renewal costs still increased by over **12%**. Since transitioning to a Captive, we have already saved over **\$100,000 this year alone**.

2. **Greater Cost Control**

By eliminating the profit margins, administrative expenses, and commissions of traditional insurers, businesses can **retain and reinvest** these funds. This leads to **more stable premiums, enhanced coverage, and protection from market volatility**.

3. **Stability & Capacity**

With many commercial insurers withdrawing from property and liability markets due to rising claims and regulatory pressures, Captives provide **stable, predictable, and lower-cost insurance options**, particularly in markets where major carriers are exiting.

4. **Flexible Coverage & Underwriting**

Captives allow for **customized underwriting, policy terms, and coverage limits**, accommodating unique and emerging risks. This is particularly beneficial for properties in high-risk areas like **Florida and California**, where Captives enable tailored coverage solutions unavailable in the traditional market.

5. **Claims Management & Efficiency**

Captives offer **greater control over claims processing**, leading to **faster resolutions, better outcomes, and lower costs**. By directly managing claims, companies can avoid unnecessary delays and disputes, ensuring efficient and fair settlements.

I recently had the privilege of working alongside our Insurance Commissioner to establish the first Property and Casualty Captive Insurance Company in Kansas. It's worth noting that our Insurance Commissioner was a strong advocate for Captive Insurance during her tenure in the Kansas Senate, and she remains a strong proponent of this industry.

Through this collaboration, we identified several areas where improvements are needed to make the process more efficient. Additionally, my active participation in national Captive Insurance associations coupled with my recent degree in Captive Insurance have allowed me to identify opportunities to expand and enhance Kansas' approach to Captive Insurance.

Currently, many Kansas-based companies utilize Captive Insurance, but none of them are domiciled in Kansas. This represents a significant lost revenue opportunity that we need to bring back to the state.

Key Provisions of HB2334:

This bill introduces several reforms designed to strengthen and modernize Captive Insurance regulations in Kansas:

1. **Protected Cell Captives** – Adopts provisions from Tennessee's statutes, allowing smaller companies to form protected cells within a larger Captive. This structure enables shared risk management, accounting, auditing, and actuarial services, significantly reducing costs.
2. **Surplus Requirements** – Establishes a surplus requirement of **\$100,000** for cell captives unless the commissioner determines a higher amount is necessary. The existing **\$250,000 surplus requirement for Pure Captives remains unchanged**.
3. **Expanded Coverage for Controlled Unaffiliated Businesses** – Increases the allowable percentage of controlled unaffiliated businesses (previously limited to 5%) that a Captive can insure. These businesses, which have contractual relationships with the Captive owner, will now be eligible for coverage similar to affiliated businesses.
4. **Workers' Compensation & Medical Stop-Loss Coverage** – Allows Captives to provide workers' compensation and medical stop-loss insurance. Kansas is one of the few states that still prohibit this coverage.
5. **Provisional Certificates of Authority** – Grants the commissioner the ability to issue provisional certificates while applications are under review, allowing companies to move forward with establishing their Captive while completing the approval process.

6. **Application & Renewal Fee Reduction** – Lowers the application and renewal fee from **\$10,000 to \$2,500** to make Captive Insurance more accessible. The current \$10,000 fee is cost-prohibitive for many businesses.
7. **Financial Review Adjustments** – Changes the mandatory financial review period from **three years to five years** to align with other states, while still allowing the commissioner to request a review at any time.
8. **Clarification on Captive Exemptions** – Explicitly states that Captives are not required to participate in a rating or policy form organization.

Conclusion

HB2334 presents a significant opportunity to **strengthen Kansas' Captive Insurance sector**, attract new business, and retain valuable revenue within the state. By adopting these reforms, Kansas can become a more competitive and business-friendly jurisdiction for Captive Insurance.

The bill passed the House Insurance Committee **unanimously** and passed **110-10** in the House Chamber.

I appreciate your time and consideration and urge your support of HB2334. Thank you.



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KANSAS HOUSE OF REPRESENTATIVES, DISTRICT 27

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