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TO THE HOUSE COMMITTEE ON
ECONOMIC DEVELOPMENT AND BUSINESS CONCERNS

TWENTY-FOURTH LEGISLATURE
Regular Session of 2008

Thursday, January 31, 2008
8:30 a.m.

TESTIMONY ON HOUSE BILL NO. 3101 – RELATING TO INSURANCE.

TO THE HONORABLE KYLE T. YAMASHITA, CHAIR, AND MEMBERS OF THE
COMMITTEE:

My name is J. P. Schmidt, State Insurance Commissioner, testifying on behalf of the Department of Commerce and Consumer Affairs (“Department”). The Department strongly supports this Administration bill.

The purpose of this bill is to enhance Hawaii’s position as one of the world’s leading captive insurance jurisdictions by providing the opportunity for qualified captive organizers to pursue the securitization of insurance risks through a Hawaii-licensed captive insurance company and referred to as “Special Purpose Financial Captive Insurance Company” (“SPFCIC”). The passage of this bill is necessary to keep Hawaii at the forefront of the very competitive captive insurance industry. The bill provides a clear and efficient process for accomplishing the securitization of insurance risks.

Securitization is a financing process that basically allows a company to obtain current funding from illiquid assets that cannot be readily sold. Large national and international insurance companies utilize special purpose vehicles, including SPFCICs, to issue securities to sophisticated capital market investors, and then use the proceeds from the securities to fund their respective operations and/or reserves.

This measure proposes to add a new part to Hawaii's existing captive insurance laws to specifically provide for the organization, licensing, operation and regulation of SPFCICs in Hawaii.

The demand for implementing SPFCIC insurance securitization by domestic U.S. life insurers has been very strong over the last three years, with over two dozen transactions involving just over \$10.5 billion. The demand for this type of transaction is anticipated to continue for the next several years as life insurers have to increase their reserves to meet new regulatory reserving standards, as well as catastrophic mortality risks prompted by terrorism and pandemics such as bird flu. SPFCICs are also being explored for other sectors including auto insurance, mortgage insurance and health insurance. Hawaii has the opportunity to attract some of the U.S. demand, as well as the potential demand from emerging Pacific and Asian insurance markets.

We thank this Committee for the opportunity to present testimony on this matter and ask for your favorable consideration.

ARTEX RISK SOLUTIONS, INC.

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TESTIMONY ON H.B. NO. 3101

HOUSE OF REPRESENTATIVES
COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS CONCERNS

Representative Kyle T. Yamashita, Chair
Representative Glenn Wakai, Vice Chair

31st day of January, 2007, 8:30 a.m.
State Capitol, Conference Room 325

My name is Fay Okamoto, Division Senior Vice President of Artex Risk Solutions, Inc., a subsidiary of Arthur J. Gallagher & Co., the world's fourth largest insurance brokerage firm. We currently serve as the captive manager of fifteen captive insurance companies domiciled in the State of Hawaii, ranging in size from under \$1 million to over \$40 million in annual premiums.

We strongly support H.B. No. 3101, which would support the formation of Special Purpose Financial Captive Insurance Companies for national and international insurance companies to provide securitization of insurance risks through a Hawaii captive insurance company.

Hawaii is currently faced with significant competition to attract captive insurance companies to domicile in our state. It is critical that Hawaii maintains its status as a leading domicile for captives.

Not only does the captive insurance industry support and provide employment of accounting, insurance, legal, auditing, tax, and banking professionals, it also supports Hawaii's visitor industry as these captives conduct annual Board meetings in the State each year.

We respectfully request your continued support of this vital and ever-changing industry for the State of Hawaii. Thank you for this opportunity to submit testimony on this bill.

Respectfully submitted:

A handwritten signature in black ink, appearing to read 'Fay Okamoto'.

Fay Okamoto
Artex Risk Solutions, Inc.

TESTIMONY OF JASON L. PALMER, CPA

IN SUPPORT OF
H.B. NO. 3101

HOUSE OF REPRESENTATIVES
COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS CONCERNS
Representative Kyle T. Yamashita, Chair
Representative Glenn Wakai, Vice Chair

31st day, January, 2008, 8:30 a.m.
State Capitol, Conference Room 325

My name is Jason L. Palmer, CPA, Managing Director of Willis Management (Hawaii), a division of Willis, the third largest global insurance broker in the world. Willis Management (Hawaii) serves as a consultant and captive manager to several captive insurance companies domiciled in Hawaii and in other US jurisdictions. In addition, I am a Director and Officer of the Hawaii Captive Insurance Council (“HCIC”) and a Director of several captive insurance companies licensed in Hawaii.

We strongly support H.B. No. 3101, which would help Hawaii in continuing to be a leading captive insurance domicile worldwide and also ensure that Hawaii remains a competitive captive domicile in maintaining captive insurance companies already domiciled in Hawaii, and attracting new captive formations in the future.

Although Hawaii is the second largest captive insurance domicile in the United States, the State faces increasing competition from other states that have recognized the value of implementing captive insurance enabling regulations. While there were only a handful of captive insurance domiciles when Hawaii licensed its first captive insurance company in 1987, there are now over 30 U.S. jurisdictions that have enacted captive insurance legislation. Over the past several years, amongst this competitive landscape, Hawaii has clearly fallen behind, while new formations within the State of Hawaii have been weak, other jurisdictions such as Arizona and Nevada have had very strong results, exhibiting a more attractive captive domicile. While we understand and support the need for

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good regulation, it is our opinion that the proposed legislation still provides for such while providing the flexibility that our industry warrants.

Special Purpose Financial Captive Insurance Companies have become a common form of captive organization and reflect the growing use of capital markets and securitization strategies by captive insurers. Unfortunately, since Hawaii Revised Statutes do not specifically allow for the formation of Special Purpose Financial Captive Insurance Companies, Hawaii is currently unable to compete with other captive domiciles for this type of business.

This is a critical time for Hawaii's captive insurance industry. By passing this bill you will ensure that Hawaii's captive industry will continue to thrive and develop in an increasingly competitive marketplace. We are in strong support of this bill and urge the Committee to pass HB No. 3101. Thank you for this opportunity to testify in support of HB No. 3101.

Respectfully submitted:



Jason L. Palmer, CPA
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