



LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR

STATE OF HAWAII  
OFFICE OF THE DIRECTOR  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

335 MERCHANT STREET, ROOM 310  
P.O. Box 541  
HONOLULU, HAWAII 96809  
Phone Number: (808) 586-2850  
Fax Number: (808) 586-2856  
[www.hawaii.gov/dcca](http://www.hawaii.gov/dcca)

LAWRENCE M. REIFURTH  
DIRECTOR

RONALD BOYER  
DEPUTY DIRECTOR

TO THE SENATE COMMITTEE ON COMMERCE,  
CONSUMER PROTECTION, AND AFFORDABLE HOUSING

TWENTY-FOURTH LEGISLATURE  
Regular Session of 2008

Thursday, February 14, 2008  
9:00 a.m.

**TESTIMONY ON SENATE BILL NO. 3018 – RELATING TO INSURANCE.**

TO THE HONORABLE RUSSELL S. KOKUBUN, CHAIR, AND MEMBERS OF THE  
COMMITTEE:

My name is J. P. Schmidt, State Insurance Commissioner (“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 help ensure that the Insurance Division meets the  
requirements for accreditation by the National Association of Insurance Commissioners  
(“NAIC”). Specifically, this bill clarifies the reporting requirements for insurers and  
makes the standards for actuarial opinions consistent among all insurers, including  
captives, fraternal benefit societies, health maintenance organizations, and mutual  
benefit societies.

The Insurance Division is periodically reviewed by the NAIC for compliance with  
national standards to renew its NAIC accreditation. Accreditation certifies to other  
jurisdictions that Hawaii’s financial surveillance, examination, and reporting on  
insurance licensees are reliable. Without NAIC accreditation, other states will be unable  
to rely upon the analysis and examinations of Hawaii-domiciled insurers conducted by  
the Insurance Division.

NAIC accreditation requires the Insurance Division to adopt certain statutes and rules. This bill proposes to adopt into statute revisions and updates to the current statute and rules governing the disclosure of material transactions that will be current with the NAIC model. If adopted into statute as a new part of article 3, this bill will clarify that all insurers must disclose material transactions, and it will protect the insurers' confidential and proprietary information. Finally, if this bill is adopted, the Insurance Division shall begin to repeal the incorporated existing rules, HAR chapter 16-170.

The companion measure, House Bill No. 3097, was heard by the House Committee on Consumer Protection & Commerce. Based upon comments and concerns raised by members of the insurance industry, the following amendments are suggested:

(1) In section 1 of the bill, add commas after "agreements" on page 1, line 9 and line 12, to read:

agreements<sub>1</sub>, or material new ceded reinsurance agreements affecting in force life insurance business unless the acquisitions and dispositions of assets or material nonrenewals, cancellations, or revisions of ceded reinsurance agreements<sub>1</sub>, or material new ceded...

(2) In section 6 of the bill, delete "property and casualty" and add "risk retention" after the phrase "class 3" such that page 22, lines 18-22, reads:

actuarial opinion summary for class 3 risk retention captive insurance companies shall be filed on or before March 15 each year.

(3) In section 7 of the bill, add "class 3 risk retention" before "captive" and delete the phrase "other than pure captive insurance companies and branch captive insurance companies" such that page 23, lines 15-17, reads:

this chapter shall apply to class 3 risk retention captive insurance companies<sub>1</sub>, [~~other than pure captive insurance companies and branch captive insurance companies,~~]  
unless these other laws are inconsistent ...

**DCCA Testimony of J.P. Schmidt**  
**S. B. No. 3018**  
**February 14, 2008**  
**Page 3**

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

# HMSA



Blue Cross  
Blue Shield  
of Hawaii

An Independent Licensee of the Blue Cross and Blue Shield Association

February 14, 2008

The Honorable Russell Kokubun, Chair  
The Honorable David Ige, Vice Chair

Senate Committee on Commerce, Consumer Protection and Affordable Housing

**Re: SB 3018 – Relating to Insurance**

Dear Chair Kokubun, Vice Chair Ige and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify on SB 3018 which would adopt National Association of Insurance Commissioners (NAIC) Model provisions relating to the insurers' disclosure of material financial transactions and actuarial reports. HMSA has concerns with this measure. We are uncertain as to the type of regulatory expansion this measure provides and the rationale for such an expansion.

There are two documents listed in this measure which health plans would be required to submit to the Division for review; an Actuarial Opinion Summary and a Regulatory Asset Adequacy Issues Summary. We are unsure as to what information would need to be included in this documentation and how it might differ from what is already being submitted to the Division. We are also not sure how these requirements differ from what is already in statute and why they are necessary.

We believe that the current language of this bill may be too vague and could create confusion unless changed to clarify what types of information the Division is seeking to collect.

Thank you for the opportunity to testify on SB 3018.

Sincerely,

A handwritten signature in black ink, appearing to read "JDiesman".

Jennifer Diesman  
Director, Government Relations



P.O. Box 2815  
Honolulu, Hawaii 96803

TESTIMONY IN SUPPORT OF  
S.B. NO. 3018

THE SENATE  
COMMITTEE ON COMMERCE, CONSUMER PROTECTION, AND AFFORDABLE  
HOUSING

Senator Russell S. Kokubun, Chair  
Senator David Y. Ige, Vice Chair

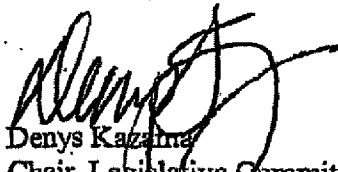
14th day of February, 2008, 9:00 a.m.  
State Capitol, Conference Room 229

My name is Denys Kazama, Chair of the Legislative Committee of the Hawaii Captive Insurance Council. As a member of the Hawaii Captive Insurance Council ("HCIC") and Office Head of Marsh Management Services Inc., we thank you for the opportunity to provide this written testimony. HCIC's members represent 164 active captive insurance companies domiciled in the State of Hawaii, and many of the financial institutions, captive insurance managers, accountants, and other professionals and entities that service these Hawaii-domiciled captive insurance companies.

We strongly support S.B. No. 3018. The proposed bill adopts provisions required for accreditation by the National Association of Insurance Commissioners (NAIC). Accreditation provides assurance to other jurisdictions and current and potential captive owners that Hawaii maintains a sound regulatory environment that is consistent with other NAIC accredited jurisdictions.

We are in strong support of this bill and urge the Committee to pass S.B. No. 3018. Thank you for this opportunity to testify.

Respectfully submitted,



Denys Kazama  
Chair, Legislative Committee, Hawaii Captive Insurance Council  
Office Head, Marsh Management Services Inc.

ARTEX RISK SOLUTIONS, INC.

1132 BISHOP STREET, SUITE 1600 | HONOLULU, HI 96813  
TELEPHONE: 808 533 8700 | EMAIL: ARTEXINFO@ARTEXRISK.COM



TESTIMONY ON S.B. NO. 3018

THE SENATE  
COMMITTEE ON COMMERCE, CONSUMER PROTECTION, AND AFFORDABLE HOUSING  
Senator Russell S. Kokubun, Chair  
Senator David Y. Ige, Vice Chair

14th day of February, 2008, 9:00 a.m.  
State Capitol, Conference Room 229

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 \$50 million in annual premiums.

We support S.B. No. 3018, which would align Hawaii insurance laws with those prescribed by the National Association of Insurance Commissioners (NAIC) Model law provisions concerning the disclosure of material financial transactions and actuarial reports. Adoption of these amendments based upon the current NAIC model will support the continued accreditation of Hawaii's Insurance Division by the NAIC, a standard of significant operational importance to domestic, captive, and risk retention group insurers domiciled in the State of Hawaii.

We also understand that the Insurance Commissioner will propose clarifying amendments to Section 1, Section 6, and Section 7 of the bill. In particular, the amendments proposed to Sections 6 and 7 would limit the applicability of the requirements for disclosure of material financial transactions and certain actuarial reports to class 3 risk retention captives, which we also strongly support.

Thank you for the opportunity to present testimony on this matter.

Respectfully submitted:

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

Fay Okamoto  
Artex Risk Solutions, Inc.

TESTIMONY OF THE AMERICAN COUNCIL OF LIFE INSURERS  
IN SUPPORT OF S.B. 3018 RELATING TO INSURANCE

February 14, 2008

Via E Mail: [testimony@capitol.hawaii.gov](mailto:testimony@capitol.hawaii.gov)

Senator Russell S. Kokubun, Chair

Committee on Commerce, Consumer Protection and Affordable Housing  
State Senate

Hawaii State Capital, Conference Room 229

415 S. Beretania Street

Honolulu, HI 96813

Dear Chair Kokubun and Committee Members:

Thank you for the opportunity to testify in support of SB 3018, relating to Insurance.

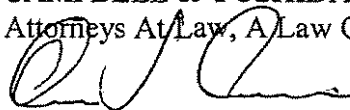
Our firm represents the American Council of Life Insurers ("ACLI"), a national trade association whose three hundred fifty-three (353) member companies account for 93% of the life insurance premiums and 94% of the annuity considerations in the United States among legal reserve life insurance companies. ACLI member company assets account for 93% of legal reserve company total assets. Two hundred sixty-one (261) ACLI member companies currently do business in the State of Hawaii.

SB 3018 adopts the National Association of Insurance Commissioners (NAIC) Model provisions relating to the insurer's disclosure of material financial transactions and actuarial reports.

ACLI supports SB 3018.

Again, thank you for the opportunity to testify in support of SB Bill 3018.

CHAR HAMILTON  
CAMPBELL & YOSHIDA  
Attorneys At Law, A Law Corporation



Oren T. Chikamoto  
737 Bishop Street, Suite 2100  
Honolulu, Hawaii 96813  
Telephone: (808) 524-3800  
Facsimile: (808) 523-1714  
E mail: [ochikamoto@chctlaw.com](mailto:ochikamoto@chctlaw.com)