



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

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. 3019 – 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”). Thank you for scheduling a hearing on this bill. The Department
strongly supports this Administration bill.

The purpose of this bill is to allow insurers greater flexibility with their investment
decisions without a reduction in protection of their policyholders. The bill achieves this
by proposing to replace existing law with more current regulatory standards.

The current insurer investment provisions have remained relatively unchanged
since they were established during the re-codification of insurance laws in 1987. Since
then, the National Association of Insurance Commissioners (“NAIC”) has continuously
modernized the criteria and limits for allowable investments. The NAIC’s guidance and
authoritative standards now provide for greater flexibility and diversification of insurers’
investment portfolios.

We know that these types of changes cannot occur overnight. Therefore, the
proposed bill has a delayed effective date that would allow insurers the opportunity to

adjust their investments and investment strategies to comply with the revised provisions.

The companion measure, House Bill No. 3096, 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) Add definition of "cash" and "cash equivalents" to section 1 of the bill amending HRS § 431:6-101 so that page 1, line 18, reads:

"Cash" means cash and cash equivalents.

"Cash equivalents" means highly rated and highly liquid investments or securities with a remaining term of ninety days or less and rated in the highest short-term category by a nationally recognized statistical rating organization.

(2) Add the word "admitted" in the definition of "surplus as regards to policyholders" in section 1 of the bill so page 2, lines 11-12, reads:

"Surplus as regards to policyholders" means the excess of the insurer's admitted assets over its liabilities.

(3) Add a new section to the bill amending HRS § 431:6-103(c) to read:

"(c) Any limitation based upon the amount of the insurer's assets or surplus shall relate to assets or surplus as shown by the insurer's annual statement as of December 31 preceding date of investment."

(4) Add a new section to the bill amending HRS § 431:6-104(a) to read:

" (a) Notwithstanding the provisions of section 431:6-321, no security or other investment shall be eligible for purchase or acquisition under this article unless it is interest bearing or interest accruing or ~~dividend or~~ income paying or, is not then in default in any respect, and the insurer is entitled to receive for its exclusive account and benefit, the interest or income accruing thereon; except, that it may acquire real property and non-dividend paying securities as provided in this article. An insurer's aggregate investment in non-dividend paying securities shall not exceed the greater of twenty-five per cent of its admitted

assets or fifty per cent of its surplus as regards to policyholders as defined in section 431:6-101."

(5) Add the word "premium" after "reinsurance" on page 3, line 1, and delete the phrase "as defined by section 431:5-201" on page 3, line 2, amending HRS § 431:6-201(b) in section 2 of the bill to read:

"(b) In addition to the investments required by subsection (a), an insurer shall ~~[investment and keep invested its funds]~~ maintain an amount aggregating not less than one hundred per cent of its reserves and one hundred per cent of its ceded reinsurance premium payable as required by this code, in the following assets: cash ~~[or]~~, premiums in course of collection, reinsurance recoverable on paid losses, or ~~[in]~~ investments eligible in accordance with this article~~[-]~~, including interest and dividends receivable on the investments."

(6) Add a new section to the bill amending HRS § 431:6-313 to read:

"§431:6-313 Foreign securities. (a) An insurer authorized to transact insurance in a foreign country may invest any of its funds, in an aggregate amount not exceeding its deposit and reserve obligations incurred in such country, in securities of or in such country possessing characteristics and of a quality similar to those required pursuant to this article for investments in the United States.

(b) An insurer may invest any of its funds, in an aggregate amount not exceeding fifteen per cent of its assets, in addition to any amount permitted pursuant to subsection (a), in obligations of the governments of the Dominion of Canada, or of Canadian provinces, or municipalities, and in obligations of Canadian corporations, which have not been in default during the five years next preceding date of acquisition, and which are otherwise of equal quality to like United States public or corporate securities as prescribed in this article.

(c) In addition to investments permitted under subsections (a) and (b) of this section, an insurer may acquire foreign investments, including American

Depository Receipts, or engage in investment practices with persons of or in foreign jurisdictions of substantially the same types as those permitted under this article, if as a result and given effect to the investment:

- (1) The aggregate amount of foreign investments then held by the insurer under this subsection shall not exceed twenty per cent of its admitted assets; and
- (2) The aggregate amount of foreign investments then held by the insurer under this subsection in a single foreign jurisdiction shall not exceed ten per cent of its admitted assets as to a foreign jurisdiction that has a sovereign debt rating of SVO 1 or three per cent of its admitted assets as to any other foreign jurisdiction.

(d) Investments acquired under this section shall be aggregated with investments of the same types made under all other sections of this article, and in a similar manner, for the purposes of determining compliance with limitations, if any, contained in the other sections."

(7) Delete the phrase "that do not qualify under subsection (a)" in subsection (b) on page 7, line 22 to page 8, line 1 and add a new subsection (c) amending HRS § 431:6-317 in section 5 of the bill so that page 7, line 21, reads:

(b) An insurer may invest any of its funds in common shares of stock in solvent United States corporations after satisfying the requirements of section 431:6-201.

(c) An insurer's aggregate amount of investment in non-dividend paying stocks is subject to the limitations of section 431:6-104.

(8) Change the description of HRS § 431:6-322 in section 6 of the bill on page 8, line 5 to include "and exchange traded funds" to read:

"§431:6-322 Common trust funds [;]; mutual funds[-]; and exchange traded funds.

(9) Add a new paragraph (3) amending HRS § 431:6-322 in section 6 of the bill on page 8, line 19, to read:

(3) An exchange traded fund that is registered with the federal Securities and Exchange Commission under the Investment Company Act of 1940, as amended, and is traded on a public exchange.

(10) Add a new subsection (c) to HRS § 431:6-322 in section 6 of the bill on page 9, line 5, to read:

"(c) An insurer may invest any of its funds in common trust funds, mutual funds, and exchange traded funds after satisfying the requirements of section 431:6-201."

The above revisions and amendments are reflected in the attached Proposed Senate Draft 1.

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

Report Title:

Insurance; Investments

Description:

Amends current provisions of the insurance investment statutes allowing insurers more investment flexibility without significantly lessening protection to insurance policyholders and to reflect more current regulatory standards.

S.B. NO. 3019 Prop. S.D. 1

A BILL FOR AN ACT

RELATING TO INSURANCE.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. Section 431:6-101, Hawaii Revised Statutes, is
2 amended by amending subsection (a) to read as follows:

3 "(a) For purposes of this article:

4 ~~[(1) Obligation includes bonds, debentures, notes, or
5 other evidences of indebtedness.~~

6 ~~[(2) Institution includes corporations, joint stock
7 associations, and business trusts.~~

8 ~~[(3) Net earnings available for fixed charges means net
9 income after deducting operating and maintenance
10 expenses, taxes other than federal and state income
11 taxes, depreciation, and depletion, but excluding
12 extraordinary nonrecurring items of income or expense
13 appearing in the regular financial statements of such
14 institution.~~

15 ~~[(4) Fixed charges includes means interest on funded and
16 unfunded debt, amortization of debt discount, and rentals for
17 leased properties.]~~

18 "Cash" includes cash equivalents.

1 "Cash equivalents" means highly rated and highly liquid
2 investments or securities with a remaining term of ninety days
3 or less and rated in the highest short-term category by a
4 nationally recognized statistical rating organization.

5 "Fixed charges" means interest on funded and unfunded debt,
6 amortization of debt discount, and rentals for leased
7 properties.

8 "Institution" means corporations, joint-stock associations,
9 and business trusts.

10 "Net earnings available for fixed charges" means net income
11 after deducting operating and maintenance expenses, taxes other
12 than federal and state income taxes, depreciation, and
13 depletion, but excluding extraordinary nonrecurring items of
14 income or expense appearing in the regular financial statements
15 of such institution.

16 "Obligation" means bonds, debentures, notes, or other
17 evidence of indebtedness.

18 "Surplus as regards to policyholders" means the excess of
19 the insurer's admitted assets over its liabilities.

20 "SVO" means the Securities Valuation Office of the National
21 Association of Insurance Commissioners.

S.B. NO. 3019 Prop. S.D. 1

1 [~~(5) Value~~] "Value" means fair value. Market value is
2 the best evidence of fair value."

3 SECTION 2. Section 431:6-103, Hawaii Revised Statutes, is
4 amended by amending subsection (c) to read as follows:

5 "(c) Any limitation based upon the amount of the insurer's
6 assets or surplus shall relate to assets or surplus as shown by
7 the insurer's annual statement as of December 31 preceding date
8 of investment."

9 SECTION 3. Section 431:6-104, Hawaii Revised Statutes, is
10 amended by amending subsection (a) to read as follows:

11 "(a) Notwithstanding the provisions of section 431:6-321,
12 no security or other investment shall be eligible for purchase
13 or acquisition under this article unless it is interest bearing
14 or interest accruing or [~~dividend or~~] income paying or, is not
15 then in default in any respect, and the insurer is entitled to
16 receive for its exclusive account and benefit, the interest or
17 income accruing thereon; except, that it may acquire real
18 property and non-dividend paying securities as provided in this
19 article. An insurer's aggregate investment in non-dividend
20 paying securities shall not exceed the greater of twenty-five
21 per cent of its admitted assets or fifty per cent of its surplus
22 as regards to policyholders as defined in section 431:6-101."

S.B. NO. 3019 Prop. S.D. 1

1 SECTION 4. Section 431:6-201, Hawaii Revised Statutes, is
2 amended by amending subsection (b) to read as follows:

3 "(b) In addition to the investments required by subsection
4 (a), an insurer shall ~~[invest and keep invested its funds]~~
5 maintain an amount aggregating not less than one hundred per
6 cent of its reserves and one hundred per cent of its ceded
7 reinsurance premium payable required by this code, in the
8 following assets: cash ~~[or]~~, premiums in course of collection,
9 reinsurance recoverable on paid losses, or ~~[in]~~ investments
10 eligible in accordance with this article~~[r]~~, including interest
11 and dividends receivable on the investments."

12 SECTION 5. Section 431:6-302, Hawaii Revised Statutes, is
13 amended to read as follows:

14 "**§431:6-302 Corporate obligations.** An insurer may invest
15 any of its funds in obligations other than those eligible for
16 investment under section 431:6-306 if they are ~~[issued]~~:

17 (1) Issued, assumed, or guaranteed by any solvent
18 institution created or existing under the laws of the
19 United States or of any state, or district thereof~~[r]~~;
20 and ~~[are qualified under any of the following:~~

21 ~~(1) Obligations which are secured by adequate collateral~~
22 ~~security and bear fixed interest, if during each of~~

1 ~~any three, including the last two, of the five fiscal~~
2 ~~years next preceding the date of acquisition by the~~
3 ~~insurer, the net earnings of the issuing, assuming, or~~
4 ~~guaranteeing institution available for its fixed~~
5 ~~charges, as defined in section 431:6-101, have been~~
6 ~~not less than one and one-fourth times the total of~~
7 ~~its fixed charges for such year. In determining the~~
8 ~~adequacy of collateral security, not more than one-~~
9 ~~third of the total value of the required collateral~~
10 ~~shall consist of stock other than stock meeting the~~
11 ~~requirements of section 431:6-303;~~

12 ~~(2) Fixed interest-bearing obligations, other than those~~
13 ~~described in item (1), if the net earnings of the~~
14 ~~issuing, assuming, or guaranteeing institution~~
15 ~~available for its fixed charges for a period of five~~
16 ~~fiscal years next preceding the date of acquisition by~~
17 ~~the insurer, have averaged per year not less than one~~
18 ~~and one-half times its average annual fixed charges~~
19 ~~applicable to the period, and if during the last year~~
20 ~~of the period, the net earnings have been not less~~
21 ~~than one and one-half times its fixed charges for the~~
22 ~~year; or~~

1 ~~(3) Adjustment, income or other contingent interest~~
2 ~~obligations, if the net earnings of the issuing,~~
3 ~~assuming, or guaranteeing institution available for~~
4 ~~its fixed charges for a period of five fiscal years~~
5 ~~next preceding the date of acquisition by the insurer~~
6 ~~have averaged per year not less than one and one-half~~
7 ~~times the sum of its annual fixed charges and its~~
8 ~~average maximum contingent interest applicable to the~~
9 ~~period, and if during each of [the] last two years of~~
10 ~~the period, the net earnings have been not less than~~
11 ~~one and one-half times the sum of its fixed charges~~
12 ~~and maximum contingent interest for the year.]~~

13 (2) Filed with the SVO or are considered "filing exempt"
14 by the Purposes and Procedures Manual of the SVO, or
15 its successor publication."

16 SECTION 6. Section 431:6-303, Hawaii Revised Statutes, is
17 amended to read as follows:

18 "**§431:6-303 Preferred or guaranteed stocks or shares.** An
19 insurer may invest any of its funds, in an aggregate amount not
20 exceeding fifteen per cent of its assets, in preferred or
21 guaranteed stocks or shares, other than common stocks, of

1 solvent institutions existing under the laws of the United
2 States or of any state, district, or territory thereof, if
3 all of the prior obligations and prior preferred stocks, if any,
4 of [~~such~~] the institution at the date of acquisition by the
5 insurer are [~~eligible~~]:

6 (1) Eligible as investments under this article; and [~~if~~
7 ~~qualified under either of the following:~~

8 ~~(1) Preferred stocks or shares shall be deemed qualified~~
9 ~~if:~~

10 ~~(A) The net earnings of the institution available for~~
11 ~~its fixed charges for a period of five fiscal~~
12 ~~years next preceding the date of acquisition by~~
13 ~~the insurer must have averaged per year not less~~
14 ~~than one and one-half times the sum of its~~
15 ~~average annual fixed charges, if any, its average~~
16 ~~annual maximum contingent interest, if any, and~~
17 ~~its average annual preferred dividend~~
18 ~~requirements applicable to the period; and~~

19 ~~(B) During each of the last two years of such period,~~
20 ~~the net earnings must have been not less than one~~
21 ~~and one-half times the sum of its fixed charges,~~
22 ~~contingent interest, and preferred dividend~~

1 ~~requirements for such year. The term preferred~~
2 ~~dividend requirements shall be deemed to mean~~
3 ~~cumulative or noncumulative dividends whether~~
4 ~~paid or not.~~

5 ~~(2) Guaranteed stocks or shares shall be deemed qualified~~
6 ~~if the assuming or guaranteeing institution meets the~~
7 ~~requirements of section 431:6-302(1), construed so as~~
8 ~~to include as a fixed charge the amount of guaranteed~~
9 ~~dividends of such issue or the rental covering the~~
10 ~~guarantee of such dividends.]~~

11 (2) Filed with the SVO or are considered "filing exempt"
12 by the Purposes and Procedures Manual of the SVO, or
13 its successor publication."

14 SECTION 7. Section 431:6-313 Hawaii Revised Statutes is
15 amended to read as follows:

16 "**§431:6-313 Foreign securities.** (a) An insurer authorized
17 to transact insurance in a foreign country may invest any of its
18 funds, in an aggregate amount not exceeding its deposit and
19 reserve obligations incurred in such country, in securities of
20 or in such country possessing characteristics and of a quality
21 similar to those required pursuant to this article for
22 investments in the United States.

1 (b) An insurer may invest any of its funds, in an
2 aggregate amount not exceeding fifteen per cent of its assets,
3 in addition to any amount permitted pursuant to subsection (a),
4 in obligations of the governments of the Dominion of Canada, or
5 of Canadian provinces, or municipalities, and in obligations of
6 Canadian corporations, which have not been in default during the
7 five years next preceding date of acquisition, and which are
8 otherwise of equal quality to like United States public or
9 corporate securities as prescribed in this article.

10 (c) In addition to investments permitted under subsections
11 (a) and (b) of this section, an insurer may acquire foreign
12 investments, including American Depository Receipts, or engage
13 in investment practices with persons of or in foreign
14 jurisdictions of substantially the same types as those permitted
15 under this article, if as a result and given effect to the
16 investment:

17 (1) The aggregate amount of foreign investments then
18 held by the insurer under this subsection shall
19 not exceed twenty per cent of its admitted
20 assets; and

21 (2) The aggregate amount of foreign investments then
22 held by the insurer under this subsection in a

1 single foreign jurisdiction shall not exceed ten
2 per cent of its admitted assets as to a foreign
3 jurisdiction that has a sovereign debt rating of
4 SVO 1 or three per cent of its admitted assets as
5 to any other foreign jurisdiction.

6 (d) Investments acquired under this section shall be
7 aggregated with investments of the same types made under all
8 other sections of this article, and in a similar manner, for the
9 purposes of determining compliance with limitations, if any,
10 contained in the other sections."

11 SECTION 8. Section 431:6-317, Hawaii Revised Statutes, is
12 amended to read as follows:

13 "~~§431:6-317 Common stocks. [After satisfying the~~
14 ~~requirements of section 431:6-201, an insurer may invest any of~~
15 ~~its funds in common shares of stock in solvent United States~~
16 ~~corporations that qualify as a sound investment.]~~ (a) An
17 insurer may invest any of its funds in common shares of stock
18 that are filed with the SVO or are considered "filing exempt" by
19 the Purposes and Procedures Manual of the SVO, or its successor
20 publication. In aggregate, an insurer's amount of investment in
21 common stocks, including investments made pursuant to section
22 431:6-322 and non-dividend paying stocks, shall not exceed the

S.B. NO. 3019 Prop. S.D. 1

1 greater of twenty-five per cent of its admitted assets or one
2 hundred per cent of its surplus as regards to policyholders as
3 defined in section 431:6-101.

4 (b) An insurer may invest any of its funds in common
5 shares of stock in solvent United States corporations after
6 satisfying the requirements of section 431:6-201.

7 (c) An insurer's aggregate amount of investment in non-
8 dividend paying stocks is subject to the limitations of section
9 431:6-104."

10 SECTION 9. Section 431:6-322 Hawaii Revised Statutes is
11 amended to read as follows:

12 " **§431:6-322 Common trust funds [7]; mutual funds; and**
13 **exchange traded funds.** [~~A~~] (a) Subject to the limitations in
14 subsections (b) and (c), an insurer may invest in:

- 15 (1) A bank's common trust fund as defined in the United
- 16 States Internal Revenue Code of 1986, Section 584;
- 17 (2) The securities of any open-end management type
- 18 investment company or investment trust registered with
- 19 the federal Securities and Exchange Commission under
- 20 the Investment Company Act of 1940, as amended, if the
- 21 investment company or trust, other than one of which
- 22 as a subsidiary of the insurer is investment adviser

1 or principal underwriter, has a new value of not less
2 than \$25,000,000 as of the date of investment by the
3 insurer[-]; and

4 (3) An exchange traded fund that is registered with the
5 federal Securities and Exchange Commission under the
6 Investment Company Act of 1940, as amended, and is
7 traded on a public exchange.

8 (b) In aggregate, an insurer's amount of investment in
9 common trust funds, mutual funds, and exchange traded funds,
10 including investments made pursuant to section 431:6-317(a),
11 shall not exceed the greater of twenty-five per cent of its
12 admitted assets or one hundred per cent of its surplus as
13 regards to policyholders as defined in section 431:6-101. This
14 limitation shall not apply to investments approved on the
15 "Mutual Funds List" from the Purposes and Procedures Manual of
16 the SVO, or its successor publication.

17 (c) An insurer may invest any of its funds in common trust
18 funds, mutual funds, and exchange traded funds after satisfying
19 the requirements of section 431:6-201."

20 SECTION 10. Section 431:6-601, Hawaii Revised Statutes, is
21 amended by:

S.B. NO. 3019 Prop. S.D. 1

1 (1) Amending subsection (a) to repeal the definition of
2 "SVO".

3 [~~"SVO" means the Securities Valuation Office of the
4 National Association of Insurance Commissioners."~~]

5 (2) Amending subsection (b) to read as follows:

6 "(b) An insurer may acquire investments in investment
7 pools that:

8 (1) Invest only in:

9 (A) Obligations that are rated 1 or 2 by the SVO or
10 have an equivalent of an SVO 1 or 2 rating (or,
11 in the absence of a 1 or 2 rating or equivalent
12 rating, the issuer has outstanding obligations
13 with an SVO 1 or 2 or equivalent rating) by a
14 nationally-recognized statistical rating
15 organization recognized by the SVO and have:

16 (i) A remaining maturity of three hundred
17 ninety-seven days or less or a put that
18 entitles the holder to receive the principal
19 amount of the obligation which put may be
20 exercised through maturity at specified
21 intervals not exceeding three hundred
22 ninety-seven days; or

S.B. NO. 3019 Prop. S.D. 1

- 1 (ii) A remaining maturity of three years or less
2 and a floating interest rate that resets no
3 less frequently than quarterly on the basis
4 of a current short-term index (federal
5 funds, prime rate, treasury bills, London
6 InterBank Offered Rate [~~"LIBOR"~~] or
7 commercial paper) and is subject to no
8 maximum limit, if the obligations do not
9 have an interest rate that varies inversely
10 to market interest rate changes;
- 11 (B) Government money market mutual funds or class one
12 money market mutual funds; or
- 13 (C) Securities lending, repurchase, and reverse
14 repurchase transactions that meet all the
15 requirements of section [~~431:6-322~~] 431:6-318;
16 or
- 17 (2) Invest only in investments which an insurer may
18 acquire under this article, if the insurer's
19 proportionate interest in the amount invested in these
20 investments does not exceed the applicable limits of
21 this article."

S.B. NO. 3019 Prop. S.D. 1

1 SECTION 11. Statutory material to be repealed is bracketed
2 and stricken. New statutory material is underscored.

3 SECTION 12. This Act shall take effect on January 1, 2009.

HMSA



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 3019 – 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 3019 which would provide insurers with greater investment flexibility by updating the Insurance Code to reflect the investment strategies, such as stocks, bonds, and notes developed since the Code was last updated in 1987. HMSA supports the intent of this measure.

This bill would update a statute which has remained static for some years and governs how insurers, including health plans, in the state may manage their investments. We appreciate the intent of the Insurance Commissioner to bring in line some of Hawaii's outdated statutes to match language currently offered by the National Association of Insurance Commissioners (NAIC). The investment market has changed rapidly since this statute was put in place and does not cover the full gamut of options currently available.

After a hearing on the companion version of this measure HMSA met with the Insurance Commissioner to discuss some minor changes to the language. The proposed amendments that the Insurance Commissioner will provide to the Committee today include HMSA's requested language. As such, we support this proposed draft of SB 3019 and respectfully urge the Committee to pass it.

Thank you for the opportunity to testify today.

Sincerely,

Jennifer Diesman
Director, Government Relations



P.O. Box 2815
Honolulu, Hawaii 96803

TESTIMONY IN SUPPORT OF
S.B. NO. 3019

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 support S.B. No. 3019 with the following revisions. HCIC has proposed and discussed these revisions with the Insurance Division. We anticipate that the Insurance Division will submit S.B. 3019 S.D.1 to this committee for consideration. The anticipated revisions include:

1. Include a definition of "Cash" in Section 1 – the definition of cash to include cash equivalents.
2. Eligible investments under Section 3 to allow non-dividend paying securities.

We are in support of this bill and urge the Committee to pass S.B. No. 3019. Thank you for this opportunity to testify.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Denys Kazan", with a large, stylized flourish extending from the end of the signature.

Denys Kazan
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. 3019

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. 3019, which would provide greater flexibility in the investments held by domestic, captive, and risk retention group insurers domiciled in the State of Hawaii. With much more competition from various states across the country for captive insurance business, this amendment would continue to support Hawaii's attractiveness as the second largest captive domicile in the nation.

We also understand that the Insurance Commissioner will propose amendments to the bill as SB3019 proposed SD1, which we have not yet had a chance to review in detail. However, based upon discussions between the captive industry and the Insurance Division representatives, we believe the amendments would be favorable, and we would support them as well.

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

Respectfully submitted:

A handwritten signature in cursive script, appearing to read "Fay Okamoto".

Fay Okamoto
Artex Risk Solutions, Inc.