

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 HOUSE COMMITTEE ON JUDICIARY

TWENTY-FOURTH LEGISLATURE
Regular Session of 2008

Tuesday, March 18, 2008
3:45 p.m.

TESTIMONY ON SENATE BILL NO. 3019, S.D. 1 – RELATING TO INSURANCE.

TO THE HONORABLE TOMMY WATERS, 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 and requests one
amendment.

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. This
version of the bill incorporates amendments suggested by various stakeholders.

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.

000022

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 Department respectfully requests adding the words "or surplus" after "assets" on page 3, line 8 in section 2 of the bill such that HRS § 431:6-103(c) reads:

(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.

We thank this Committee for the opportunity to present testimony on this matter and respectfully request that the Committee pass an H.D. 1 with the above amendment.

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 S.D.1

THE HOUSE OF REPRESENTATIVES
COMMITTEE ON JUDICIARY

Rep. Tommy Waters, Chair
Rep. Blake K. Oshiro, Vice Chair

18th day of March, 2008, 3:45 p.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 \$50 million in annual premiums.

We support S.B. No. 3019 SD1, 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 would, however, respectfully request one modification / clarification to Section 4, page 4 to delete the following phrase from lines 8-9: "and one hundred per cent of its ceded reinsurance premium payable".

The bill's proposed requirement related to ceded reinsurance premium payable would create additional financial burden to some captive insurance companies, and is not consistent with the intended purpose of the bill which is to provide greater investment flexibility.

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

Respectfully submitted:

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

Fay Okamoto
Artex Risk Solutions, Inc.

TESTIMONY ON S.B. NO. 3019, S.D. 1
RELATING TO INSURANCE

HOUSE COMMITTEE ON JUDICIARY
Rep. Tommy Waters, Chair
Rep. Blake K. Oshiro, Vice Chair

Tuesday, March 18, 2008, 3:45 p.m.
State Capitol, Conference Room 325

My name is Gerald C. Yoshida, an attorney in the Honolulu law firm of Char Hamilton Campbell & Yoshida. Our firm provides legal services to a number of captive insurance companies currently licensed in the State of Hawaii. I am also Chairman of the Hawaii Captive Insurance Council (HCIC), a trade organization of captive insurance companies and service providers who comprise and support Hawaii's captive insurance industry.

HCIC supports the intent of S.B. No. 3019, S.D. 1, but would like to propose an amendment.

The purpose of this bill is to update investment requirements in the Hawaii Insurance Code, as found in Article 6 of Chapter 431, Hawaii Revised Statutes ("HRS"), to give insurance companies greater investment flexibility, while protecting the interests of policyholders.

We object to section 4 of the bill, which amends HRS §431:6-201(b). As currently written, section 4 is inconsistent with the intent and purpose of this bill, which is to create greater investment flexibility for insurance companies, because it would impose additional regulatory burdens on many captive insurance companies. Accordingly, we respectfully request that this measure be amended by deleting the phrase "and one hundred per cent of its ceded reinsurance premium payable" from page 4, lines 8-9.

Thank you for this opportunity to testify on this measure.

Respectfully submitted:

Gerald C. Yoshida
Char Hamilton Campbell & Yoshida
737 Bishop Street, Suite 2100
Honolulu, Hawaii 96813
Ph: 524-3800

000025

HMSA



Blue Cross
Blue Shield
of Hawaii

An Independent Licensee of the Blue Cross and Blue Shield Association

March 18, 2008

The Honorable Tommy Waters, Chair
The Honorable Blake Oshiro, Vice Chair

House Committee on Judiciary

Re: SB 3019 SD1 – Relating to Insurance

Dear Chair Waters, Vice Chair Oshiro and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify in support of SB 3019 SD1 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.

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.

Thank you for the opportunity to testify today.

Sincerely,

Jennifer Diesman
Assistant Vice President
Government Relations

000026



PACIFIC GUARDIAN LIFE

March 18, 2008

To: THE HONORABLE TOMMY WATERS, CHAIR,
AND MEMBERS OF THE HOUSE COMMITTEE ON JUDICIARY

Subject: SB No. 3019, S.D.1 - Relating to Insurance

Dear Chair Waters and Members of the Committee:

Pacific Guardian Life Insurance Company, Ltd. supports SB No. 3019, S.D.1 – Relating to Insurance.

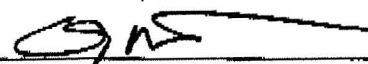
Pacific Guardian Life Insurance Company, Ltd. supports SB No. 3019, S.D.1 (“Bill”) because it will allow Hawaii domestic insurers to invest in a manner similar to their peers in the U.S. insurance industry while still providing significant protections to policyholders. By clarifying and modernizing some areas of permitted investments, the investment limitations in the Bill remain identical to or within those promulgated by the National Association of Insurance Commissioners (“NAIC”) Model Investment Law. In addition, by moving toward uniformity with NAIC Model Investment Law, this Bill will allow Hawaii insurers to compete on a more level playing field with non-Hawaii based insurers. Specifically, the Bill makes three changes that bring it closer to the NAIC Model Investment Law:

- (1) The Bill allows investment in non-dividend and dividend paying US equities within certain limits of admitted assets or surplus. Unlike existing Hawaii law and similar to this Bill, the Model Investment Law does not discriminate between non-dividend and dividend paying equities. The Model Investment Law has similar limits to those noted in this Bill.
- (2) The Bill generally replaces fixed charge requirements for issuers of corporate bonds and preferred stocks owned by insurers with a Securities Valuation Office (“SVO”) rating or ‘exempt’ requirement. The Model Investment Law does not speak to fixed charges, but instead focuses on the overall credit worthiness of the investment through the SVO rating designation. The Model Law’s approach appears more logical, as it is the SVO of the NAIC that is ultimately charged with providing credit ratings for securities held by insurers. And the assessment of credit ratings by the SVO should include consideration of issues well beyond fixed charge ratios of issuers.
- (3) The Bill clarifies limitations on investment in foreign securities with limitations that are identical to the NAIC Model Investment Law.

These three changes do bring Hawaii law closer to the NAIC Model Law and provides for a clearer, more consistent approach to the investments of insurers within the framework of protecting policyholder interests that is the bellwether of all NAIC model laws. Pacific Guardian Life Insurance Company, Ltd. supports SB No. 3019, S.D.1.

Thank you for the opportunity to testify on SB No. 3019, S.D.1.

Respectfully submitted,
PACIFIC GUARDIAN LIFE
INSURANCE COMPANY, LTD.

By: 
Douglas M. Goto
Its: Executive Vice President

000027

TESTIMONY OF JASON L. PALMER, CPA

TESTIMONY ON S.B. NO. 3019, S.D. 1
RELATING TO INSURANCE

HOUSE COMMITTEE ON JUDICIARY

Rep. Tommy Waters, Chair
Rep. Blake K. Oshiro, Vice Chair

Tuesday, March 18, 2008, 3:45 p.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 support S.B. No. 3019 S.D. 1 (except for minor modification suggested below), 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.

The purpose of this bill is to update investment requirements in the Hawaii Insurance Code, as found in Article 6 of Chapter 431, Hawaii Revised Statutes ("HRS"), to give insurance companies greater investment flexibility, while protecting the interests of policyholders.

We object to section 4 of the bill, which amends HRS §431:6-201(b). As currently written, section 4 is inconsistent with the intent and purpose of this bill, which is to create greater investment flexibility for insurance companies, because it would impose additional regulatory burdens on many captive insurance companies. Accordingly, we respectfully request that this measure be amended by deleting the phrase "and one hundred per cent of its ceded reinsurance premium payable" from page 4, lines 8-9.

Willis 000028

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 S.B. No. 3019 S.D. 1. Thank you for this opportunity to testify in support of S.B. No. 3019 S.D. 1.

Respectfully submitted:



Jason L. Palmer, CPA
Managing Director
Willis Management (Hawaii)
American Savings Bank Tower
1001 Bishop Street
Honolulu, HI 96813
Phone 521-0730

Willis 000029