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

TWENTY-FOURTH LEGISLATURE
Regular Session of 2008

Thursday, February 07, 2008
9:00 a.m.

TESTIMONY ON SENATE BILL NO. 3023 – RELATING TO INSURANCE

TO THE HONORABLE RUSSELL S. KOKUBUN, 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.

Upon further evaluation of this measure and consideration of feedback from prospective organizers, we have identified three changes that will provide additional protection and certainty for investors, the public and organizers of SPFCICs. We respectfully recommend that the following changes be made to this measure:

(1) On page 7, line 10, after the word "*company*", insert the phrase "*investors who hold special purpose financial captive insurance company securities,*". The revised line 10 (with new language underscored) would read:

"... captive insurance company, investors who hold special purpose financial captive insurance company securities, the public, or a ..."

(2) On page 10, line 25, insert the phrase "*term of the insurance securitization and automatically renewed each April 1 following the date of initial issuance, except as provided for in section L, and*" in place of the words "*next April 1 following the date of initial issuance and may be renewed annually thereafter*". The revised section from page 10 line 25 to page 11 line 2 (with new language underscored, and deleted language struck-through) would read:

~~“shall be valid through the next April 1 following the date of initial issuance and may be renewed annually thereafter, term of the insurance securitization and automatically renewed each April 1 following the date of initial issuance, except as provided for in section L, and”~~ upon the commissioner’s finding that:”

(3) On page 11, line 7, add the word “and” after the semi colon; delete lines 8 and 9 in their entirety; and change the numerical heading for the next paragraph on line 10 from “(4)” to “(3)”. The revised lines 7 through 10 on page 11 would read:

“... comply with this part; and

~~(3) The proposed plan of operation is not hazardous to any counterparty; and~~

~~(4)~~(3) The insurance regulator of the home domicile...”

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 S.B. NO. 3023

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

7th 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 strongly support S.B. No. 3023, 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". The signature is fluid and cursive.

Fay Okamoto
Artex Risk Solutions, Inc.