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LAWRENCE M. REIFURTH
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RONALD BOYER
DEPUTY DIRECTOR

TO THE SENATE COMMITTEE ON WAYS AND MEANS

TWENTY-FOURTH LEGISLATURE
Regular Session of 2008

Friday, February 22, 2008
11:00 a.m.

TESTIMONY ON SENATE BILL NO. 3023, SD1 – RELATING TO INSURANCE

TO THE HONORABLE ROSALYN H. BAKER, 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, as amended by the Senate Committee on Commerce, Consumer Protection and Affordable Housing.

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 a “Special Purpose Financial Captive Insurance Company” (“SPFCIC”). This amended version also provides clarity on sponsored captive insurance companies. The passage of this bill is necessary to keep Hawaii at the forefront of the very competitive national and international captive insurance industry.

Securitization is a financing process that basically allows a company to obtain current funding from illiquid assets that cannot be readily sold or converted to cash. 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.

This version of the bill also provides an important and timely update for "sponsored captive insurance companies". Sponsored captives are organized by financially strong and operationally stable companies, and allow for the segregation of assets and liabilities ("cells") to insure the risks of the sponsor or those of its customers and clients. This type of captive was enacted in our captive laws in 1999 and was referred to as "Class 4 Leased Capital Facilities". At the time, our "Leased Capital Facilities" was one of the first of its kind in the U.S. and has been used by about 3 captives in Hawaii. However, as the U.S. captive industry has evolved over the last few years, these types of captives have been more commonly referred to as "sponsored captives". These types of captives can be used to insure risks of smaller companies and organizations that may not be large or sophisticated enough to fund their own captive.

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



TESTIMONY IN SUPPORT OF
S.B. NO. 3023 S.D. 1

THE SENATE
COMMITTEE ON WAYS AND MEANS
Senator Rosalyn H. Baker, Chair
Senator Shan S. Tsutsui, Vice Chair

22nd day of February, 2008, 11:00 a.m.
State Capitol, Conference Room 211

My name is Matthew Takamine, Senior Vice President and Office Head of Beecher Carlson Insurance Services, LLC. We thank you for the opportunity to provide this written testimony. Beecher Carlson Insurance Services, LLC is the second largest captive management firm in the State of Hawaii, representing 32 captive insurance companies.

We strongly support S.B. No. 3023 S.D. 1. This legislation is critical in keeping Hawaii competitive as a leading captive insurance domicile in the U.S. and throughout the world. Special Purpose Financial Captive Insurance Companies will allow national and international insurance companies to provide securitization of insurance risks through a Hawaii captive insurance company. Other captive domiciles have had increased activity with regard to securitization captives, and this legislation will help to ensure that Hawaii remains on the forefront as a captive domicile.

We are in strong support of this bill and urge the Committee to pass S.B. No. 3023 S.D. 1. Thank you for this opportunity to testify.

Very truly yours,

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

Matthew D. R. Takamine, CPA
Senior Vice President
Beecher Carlson Insurance Services, LLC

ARTEX RISK SOLUTIONS, INC.

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TESTIMONY ON S.B. NO. 3023 S.D. 1

**THE SENATE
COMMITTEE ON WAYS AND MEANS
Senator Rosalyn H. Baker, Chair
Senator Shan S. Tsutsui, Vice Chair**

22nd day of February, 2008, 11:00 a.m.
State Capitol, Conference Room 211

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 S.D. 1, 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. This bill seeks to provide more specific language for this type of captive, which would be viewed favorably by organizers of these captives. There is increased interest in this type of captive in other captive domiciles.

S.B. 3023 S.D. 1 also includes an amendment related to Class 4 captives (formerly called "leased capital facilities, now proposed to be referred to as "sponsored captives"). This amendment again clarifies language related to this type of captive and reduces the minimum capital requirement from \$1,000,000 to \$500,000.

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 Hawaii 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 that reads "Fay Okamoto".

Fay Okamoto
Artex Risk Solutions, Inc.



P.O. Box 2815
Honolulu, Hawaii 96803

TESTIMONY IN SUPPORT OF
S.B. NO. 3023 S.D. 1

THE SENATE
COMMITTEE ON WAYS AND MEANS
Senator Rosalyn H. Baker, Chair
Senator Shan S. Tsutsui, Vice Chair

22nd day of February, 2008, 11:00 a.m.
State Capitol, Conference Room 211

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. 3023 S.D. 1, which would keep Hawaii competitive as a leading captive insurance domicile in the U.S. and throughout the world. Keeping Hawaii at the forefront of the U.S. captive domiciles will ensure that we continue to attract new captive formations by reputable corporations in the future. Special Purpose Financial Captive Insurance Companies will allow national and international insurance companies to provide securitization of insurance risks through a Hawaii captive insurance company. In recent years, we are seeing increased interest and activity in securitization captives in other domiciles such as Vermont and South Carolina.

S.B. 3023 S.D. 1 also includes an amendment introduced by the Hawaii Captive Insurance Council which renames the Class 4 captives (formerly called "leased capital facilities") to "sponsored captives". The amendment also proposes a decrease in the minimum capital requirement from \$1,000,000 to \$500,000. Renaming Class 4 captives will

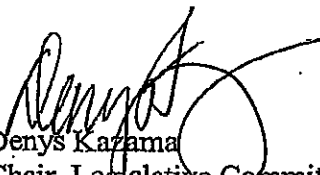
enable potential organizers to readily recognize the structure as "sponsored captives" has become the common reference for this captive type.

Although Hawaii is the second largest captive insurance domicile in the United States, we face increasing competition from other states that have recognized the value of implementing captive insurance regulations. While there were only a handful of captive insurance domiciles when Hawaii licensed its first captive insurance company in 1987, there has been a significant increase in U.S. jurisdictions that have enacted captive insurance legislation in recent years.

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. The captive industry in Hawaii has provided professional employment in captive management companies, financial institutions and law firms for Hawaii residents. In addition, local banks and investment firms manage hundreds of millions of dollars in deposits and investments on behalf of the captive insurance companies. Captive insurance companies are required to hold at least one Board meeting a year in the State. As the majority of the captive owners are corporations based outside of Hawaii, this requirement contributes to our visitor industry.

We are in strong support of this bill and urge the Committee to pass S.B. No. 3023 S.D. 1. Thank you for this opportunity to testify.

Respectfully submitted,



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

February 20, 2008

VIA E-MAIL

Senator Rosalyn H. Baker, Chair
Senator Shan S. Tsutsui, Vice Chair
Committee on Ways and Means
Hawaii State Senate

Re: SB 3023 SD1 Relating to Insurance

Dear Senators Baker and Tsutsui:

I am submitting testimony with regard to SB 3023, SD1 relating to insurance, scheduled for committee hearing on Friday, February 22, 2008 at 11:00 a.m.

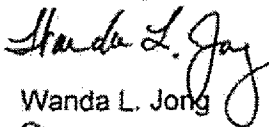
My company is a minority-owned Hawaii small business that services the needs of captive insurance companies domiciled in Hawaii. My clients wrote premiums of approximately \$37 million in 2007 and hold assets in Hawaii banks of about \$19 million.

This bill would allow further opportunities for captives to be formed in Hawaii thereby increasing employment of Hawaii professionals and also additional visitor revenue to the State.

Please support this bill.

Thank you for the opportunity to submit testimony on this important legislation.

Yours truly,



Wanda L. Jong
Owner