



GOV. MSG. NO 365

EXECUTIVE CHAMBERS
HONOLULU

LINDA LINGLE
GOVERNOR

March 17, 2010

The Honorable Colleen Hanabusa, President
and Members of the Senate
Twenty-Fifth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear Madam President and Members of the Senate:

This is to inform you that on March 17, 2010, the following bill was signed into law:

SB2812 SD1

A BILL FOR AN ACT
RELATING TO CAPTIVE INSURANCE COMPANIES.
ACT 007 (10)

Sincerely,

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

LINDA LINGLE

A BILL FOR AN ACT

RELATING TO CAPTIVE INSURANCE COMPANIES.

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

1 SECTION 1. Section 431:19-108, Hawaii Revised Statutes, is
2 amended by amending subsection (a) to read as follows:

3 "(a) The commissioner or any authorized examiner
4 [~~authorized by the commissioner~~] may conduct an examination of
5 any captive insurance company as often as the commissioner deems
6 appropriate [~~; provided that an examination shall be conducted at~~
7 ~~least once every three years. The commissioner, upon~~
8 ~~application by a captive insurance company, may allow an~~
9 ~~examination to be conducted every five years; provided that the~~
10 ~~commissioner shall have completed at least one triennial~~
11 ~~examination of the company.~~], provided that unless the
12 commissioner requires otherwise:

13 (1) An examination shall be conducted at least once every
14 five years for all captive insurance companies, except
15 as provided in paragraph (2); and

16 (2) An examination of a class 3 risk retention captive
17 insurance company shall be conducted no later than



1 three years after its formation and at least once
2 every five years thereafter.

3 The commissioner or any authorized examiner shall
4 thoroughly inspect and examine the captive insurance company's
5 affairs to ascertain its financial condition, its ability to
6 fulfill its obligations, and whether it has complied with this
7 article."

8 SECTION 2. Section 431:19-109, Hawaii Revised Statutes, is
9 amended by amending subsection (a) to read as follows:

10 "(a) The certificate of authority of a captive insurance
11 company to do business in this State may be suspended or revoked
12 by the commissioner for any of the following reasons:

- 13 (1) Insolvency or impairment of capital or surplus;
- 14 (2) Failure to meet the requirements of section 431:19-104
15 ~~[or section 431:19-105]~~;
- 16 (3) Refusal or failure to submit an annual report, as
17 required by section 431:19-107 or any other report or
18 statement required by law or by lawful order of the
19 commissioner;
- 20 (4) Failure to comply with the provisions of its own
21 articles of incorporation, articles of association, or
22 bylaws;



- 1 (5) Failure to submit to examination or any legal
2 obligation relative thereto, as required by section
3 431:19-108;
- 4 (6) Refusal or failure to pay the cost of examination [~~as~~
5 ~~required by~~] pursuant to section 431:19-108;
- 6 (7) Use of methods that, although not otherwise
7 specifically prohibited by law, nevertheless render
8 its operation detrimental or its condition unsound
9 with respect to the public or to its policyholders;
- 10 (8) Failure to maintain actuarially appropriate loss
11 reserves as determined by the commissioner; provided
12 that the commissioner shall issue at least one warning
13 to the captive insurance company to correct the
14 problem prior to suspending or revoking the
15 certificate of authority; and
- 16 (9) Failure otherwise to comply with the laws of this
17 State."

18 SECTION 3. Section 431:19-303, Hawaii Revised Statutes, is
19 amended to read as follows:

20 "[+]§431:19-303[+] **Protected cells.** A sponsored captive
21 insurance company formed and licensed under this article may



1 establish and maintain one or more protected cells to insure
2 risks of one or more participants, subject to the following:

3 (1) The shareholders or members of a sponsored captive
4 insurance company shall be limited to its participants
5 and sponsors; provided that a sponsored captive
6 insurance company may issue nonvoting securities to
7 other persons on terms approved by the commissioner;

8 (2) A protected cell shall be organized and operated in
9 only those forms of business organization authorized
10 by the commissioner, including an association,
11 corporation, limited liability company, partnership,
12 or trust;

13 [~~2~~] (3) Each protected cell shall be accounted for
14 separately on the books and records of the sponsored
15 captive insurance company to reflect the financial
16 condition and results of operations of the protected
17 cell, net income or loss, dividends or other
18 distributions to participants, and other factors as
19 may be provided in the participant contract or
20 required by the commissioner;

21 [~~3~~] (4) The assets of a protected cell shall not be
22 chargeable with liabilities arising out of any other



1 insurance business the sponsored captive insurance
2 company may conduct;

3 ~~[(4)]~~ (5) No sale, exchange, or other transfer of assets
4 may be made by a sponsored captive insurance company
5 between or among any of its protected cells without
6 the consent of the protected cells;

7 ~~[(5)]~~ (6) No sale, exchange, transfer of assets, dividend,
8 or distribution may be made from a protected cell to a
9 sponsor or participant without the commissioner's
10 approval, and in no event shall the approval be given
11 if the sale, exchange, transfer, dividend, or
12 distribution would result in insolvency or impairment
13 with respect to a protected cell;

14 ~~[(6)]~~ (7) Each sponsored captive insurance company shall
15 annually file with the commissioner, financial reports
16 as the commissioner shall require, that shall include,
17 without limitation, accounting statements detailing
18 the financial experience of each protected cell;

19 ~~[(7)]~~ (8) Each sponsored captive insurance company shall
20 notify the commissioner in writing within ten business
21 days of any protected cell that is insolvent or

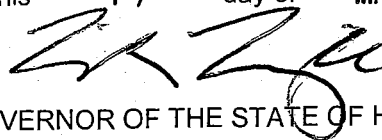


1 otherwise unable to meet its claim or expense
 2 obligations; and
 3 ~~(8)~~ (9) No participant contract shall take effect without
 4 the commissioner's prior written approval, and the
 5 addition of each new protected cell and withdrawal of
 6 any participant or termination of any existing
 7 protected cell shall constitute a change in business
 8 plan requiring the commissioner's prior written
 9 approval."

10 SECTION 4. Statutory material to be repealed is bracketed
 11 and stricken. New statutory material is underscored.

12 SECTION 5. This Act shall take effect upon its approval.
 13

APPROVED this 17 day of MAR, 2010



GOVERNOR OF THE STATE OF HAWAII