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TO THE HOUSE COMMITTEE ON FINANCE

TWENTY-SIXTH LEGISLATURE
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3 p.m.

TESTIMONY ON HOUSE BILL NO. 1045 – RELATING TO INSURANCE.

TO THE HONORABLE MARCUS OSHIRO, CHAIR, AND MEMBERS OF THE
COMMITTEE:

My name is Gordon Ito, State Insurance Commissioner ("Commissioner"),
testifying on behalf of the Department of Commerce and Consumer Affairs
("Department"). Thank you for hearing this bill. The Department strongly supports this
Administration bill.

The purpose of this bill is to adopt the National Association of Insurance
Commissioners' ("NAIC") Risk-Based Capital for Health Organizations Model Act. The
intent of this model act is to apply consistent regulatory treatment to health maintenance
organizations ("HMO"), mutual benefit societies ("MBS"), fraternal benefit societies
("FBS"), managed care plans, and similar risk-bearing entities.

Risk-based capital is a method of establishing the minimum amount of capital
appropriate for an insurer to support its overall business operations, in consideration of
its size, structure, and risk profile. The risk-based capital regime allows for graduated
regulatory intervention that is appropriate for the level of trouble that an insurer finds

itself in. It helps the Insurance Division to be pro-active in protecting consumers from the hardship of insurer insolvencies.

Risk-based capital requirements are currently contained in part IV of article 3, of the Insurance Code, HRS chapter 431. These provisions expressly apply to property and casualty insurers and life or accident and health or sickness insurers. Risk-based capital requirements should be extended to include MBS, FBS, and HMO, because the federal health reform under the Patient Protection and Affordable Care Act will introduce significant uncertainty into the market.

Adoption of NAIC model laws and regulations is essential for the Insurance Division to retain NAIC accreditation. The NAIC financial regulation standards and accreditation program ensures that each state has adequate solvency laws and regulations to protect consumers and guarantee funds.

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