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TO THE HOUSE COMMITTEE ON
CONSUMER PROTECTION & COMMERCE

TWENTY-SIXTH LEGISLATURE
Regular Session of 2011

Wednesday, February 2, 2011
2 p.m.

TESTIMONY ON HOUSE BILL NO. 881 – RELATING TO CAPTIVE INSURANCE COMPANIES.

TO THE HONORABLE ROBERT HERKES, 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"). The Department supports the intent of this bill but has concerns about sections 1 and 2 of the bill.

This purpose of this bill is to amend: (1) the definitions of "affiliated entity" and "parent" in Hawaii Revised Statutes ("HRS") § 431:19-101; (2) applicable laws governing captive insurance companies in HRS § 431:19-115(a); and (3) the reference in HRS § 431:19-308 to part I, rather than part II.

The Department is working with interested stakeholders to come up with compromise language.

We thank this Committee for the opportunity to present testimony on this matter.

TESTIMONY ON H.B. NO. 881
RELATING TO CAPTIVE INSURANCE COMPANIES

HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE
Rep. Robert N. Herkes, Chair
Rep. Ryan I. Yamane, Vice Chair

Wednesday, February 2, 2011, 2:05 p.m.
State Capitol, Conference Room 325

My name is Gerald C. Yoshida, Chairman of the Legislative Committee of the Hawai'i Captive Insurance Council (HCIC), a trade organization of captive insurance companies and service providers who comprise and support Hawai'i's captive insurance industry.

HCIC strongly supports H.B. No. 881, which amends Hawai'i's captive insurance laws by:

1. Refining the definitions of "affiliate" and "parent" in HRS § 431:19-101 to resolve issues in the current language of these provisions, which in practice cause unintended consequences relative to attracting and structuring otherwise appropriate and qualified entities to be licensed as captive insurance companies in this State, and ;
2. Streamlining and simplifying exceptions to the laws applicable to various classes of captive insurance companies in HRS § 431:19-115, by eliminating duplicative aspects of regulatory reporting and oversight; and
3. Making housekeeping amendments to correct mistaken statutory references in HRS § 431:19-308 that occurred when new Part III was added to article 19 in 2008 and a blank space in section 1 of Act 190 S.L.H. 2008 was incorrectly designated in the published HRS as "Part II" instead of "Part I".

The purpose of this bill is to "tweak" or refine existing provisions in Hawai'i's captive insurance laws so as to optimize the statutory environment in a manner that will allow Hawai'i to continue to attract and license new captive insurance company formations by reputable business entities. While Hawai'i remains one of the premier U.S. domiciles for captive insurance companies, the State faces increasing competition from other U.S. domiciles. Whereas there were approximately only four or five other states that had captive insurance enabling legislation when Hawai'i licensed its first captive in 1987, there are now over 30+ states that have such laws. It is therefore critical for Hawai'i to maintain a balanced regulatory and business friendly environment that will allow it to continue to compete as a preferred domicile in the increasingly competitive captive insurance marketplace. This bill helps to achieve that balance.

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House Committee on Consumer Protection and Commerce
February 2, 2011
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Thank you for this opportunity to submit testimony in support of H.B. No. 881.

Respectfully submitted:

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Chair, Legislative Committee
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TESTIMONY ON H.B. NO. 881
RELATING TO CAPTIVE INSURANCE COMPANIES

HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE
Rep. Robert N. Herkes, Chair
Rep. Ryan I. Yamane, Vice Chair

Wednesday, February 2, 2011, 2:05 p.m.
State Capitol, Conference Room 325

My name is Matthew D. R. Takamine, CPA, Senior Vice President of Beecher Carlson, and President of the Hawaii Captive Insurance Council.

We strongly support H.B. No. 881, which makes clarifying and housekeeping amendments to Hawaii's captive insurance laws. Specifically, this bill:

1. Amends the definitions of "affiliate" and "parent" in HRS § 431:19-101 to provide greater flexibility with regard to determining what kinds of related entities may be affiliated with and insured by a pure captive insurance company;
2. Streamlines and simplifies exceptions to the laws applicable to various classes of captive insurance companies in HRS § 431:19-115; and
3. Makes housekeeping amendments to correct statutory references in HRS § 431:19-308.

With increasing competition from other U.S. domiciles, it is critical that Hawaii continues to attract new captive formations by reputable business entities. Passing this measure would enable Hawaii to continue to compete as a preferred domicile in the increasingly competitive captive insurance marketplace.

Thank you for this opportunity to submit testimony in support of H.B. No. 881.

Respectfully submitted:



Matthew D. R. Takamine, CPA
Senior Vice President, Beecher Carlson
President, Hawaii Captive Insurance Council

TESTIMONY OF JASON PALMER ON BEHALF OF WILLIS CAPTIVE PRACTICE

**TESTIMONY ON H.B. NO. 881
RELATING TO CAPTIVE INSURANCE COMPANIES**

HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

**Rep. Robert N. Herkes, Chair
Rep. Ryan I. Yamane, Vice Chair**

**Wednesday, February 2, 2011, 2:05 p.m.
State Capitol, Conference Room 325**

My name is Jason Palmer, 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.

We strongly support H.B. No. 881, which makes clarifying and housekeeping amendments to Hawaii's captive insurance laws. Specifically, this bill:

- Amends the definitions of "affiliate" and "parent" in HRS § 431:19-101 to provide greater flexibility with regard to determining what kinds of related entities may be affiliated with and insured by a pure captive insurance company;
- Streamlines and simplifies exceptions to the laws applicable to various classes of captive insurance companies in HRS § 431:19-115; and
- Makes housekeeping amendments to correct statutory references in HRS § 431:19-308.

In our experience the amendments made in 2007 to the definitions in HRS § 431:19-101 of "affiliate" and "parent" have resulted in limiting expansion opportunities for current Hawaii domiciled captive entities, which I do not believe was the intent of the changes at the time. The revised definitions will allow a greater amount of flexibility within the statute to meet today's challenging business environment for not only current captive entities, but also those that may choose to domicile in Hawaii in the future.

Captive insurance entities not only contribute premium tax revenue to the State, the formation and maintenance of captive business in Hawaii generates significant revenues and benefits in the form of general excise, income, and transient accommodation taxes paid by service providers and others doing business with captives in Hawaii. With increasing competition from other U.S. domiciles, it is critical that Hawaii continue to attract new captive formations by reputable business entities and enhance opportunities for those captive entities currently domiciled in Hawaii. Passing this measure, will enable Hawaii to continue its position as a preferred domicile in the increasingly competitive captive insurance marketplace.

Thank you for this opportunity to submit testimony in opposition of H.B. No. 881.

Respectfully submitted:



Jason Palmer, CPA

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