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**OFFICE OF THE DIRECTOR**  
**DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS**

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**Testimony of the Department of Commerce and Consumer Affairs**

**Before the**  
**Senate Committee on Commerce and Consumer Protection**  
**Tuesday, January 31, 2023**  
**9:05 a.m.**  
**State Capitol, Conference Room 229 and Via Videoconference**

**On the following measure:**  
**S.B. 434, RELATING TO INSURANCE**

Chair Keohokalole and Members of the Committee:

My name is Gordon I. Ito, and I am the Insurance Commissioner of the Department of Commerce and Consumer Affairs' (Department) Insurance Division. The Department opposes Section 2 of this bill and does not object to the remaining sections of this bill.

The purpose of this bill is to require sponsored captive insurance companies to maintain separate protected cells for separate participant contracts except for risk retention captive insurance companies, authorizes captive insurance companies to apply for a certificate of exemption from examination from the Insurance Commissioner, provided certain conditions are met; requires protected cells established by sponsored captive insurance companies to be approved by the Insurance Commissioner; authorizes sponsored captive insurance companies to establish and maintain protected cells to insure risks of parties unaffiliated with a participant under certain circumstances;

and requires a participant, through a sponsored captive insurance company, to insure only risks approved by the Insurance Commissioner.

Section 2 of this bill would amend Hawaii by Revised Statutes (HRS) section 431:19-108 by creating provisions to exempt captive insurance companies from certain examination requirements. This will dilute the regulatory standards of Hawaii's captive insurance laws and may contribute to a negative perception of the state's regulatory standards. Hawaii benefits from attracting captive insurance companies that value strong regulatory oversight as opposed to captive insurance companies seeking less robust standards.

Examination of captive insurance companies allows the Insurance Division to assess a captive insurance company's internal controls, financial condition, ability to fulfill insurance obligations, and compliance with insurance laws.

Further, the conditions for a certificate of exemption described in Section 2 of this bill at page 6, lines 5 to 10, are vague and may result in confusion and disputes with captive insurance companies seeking a certificate of exemption.

We do not object to the remaining sections of this bill.

Thank you for the opportunity to testify on this bill.



**TESTIMONY ON PROPOSED AMENDMENTS TO  
ARTICLE 19, CHAPTER 431, HAWAII REVISED STATUTES  
RELATING TO INSURANCE**

COMMITTEE ON COMMERCE AND CONSUMER PROTECTION

Senator Jarrett Keohokalole, Chair  
Senator Carol Fukunaga, Vice Chair

Tuesday, January 31, 2023, 09:05 a.m.  
Conference Room 229 & Videoconference  
State Capitol  
415 South Beretania Street  
Honolulu, Hawaii 96813

To Senator Jarrett Keohokalole – Chair; Senator Carol Fukunaga – Vice Chair; and members of the Committee on Commerce and Consumer Protection:

My name is Paul Shimomoto, and I am submitting this testimony as President of the Hawaii Captive Insurance Council (“HCIC”). The HCIC is a nonprofit corporation whose mission is to promote, develop, and maintain a strong, stable and reputable captive insurance industry in the State of Hawaii. We do this in partnership with the State of Hawaii Insurance Division (“Division”) on a local, national, and international level.

Today, Hawaii is home to 255 actively operating and licensed captive insurance companies. Their parent companies are headquartered all over the US, in Japan and Europe. A large portion of them are traded on major stock exchanges globally and are regularly included in Forbes’ Global 100 and 500 lists. As of the end of 2021, Hawaii was ranked the fifth largest captive domicile (in terms of number of active licenses) in the US, and the eighth largest domicile worldwide. Hawaii is also currently the domicile of choice for 40 Japanese-owned captive insurance companies, making it the global leader. On a combined basis as of December 31, 2021, these captive insurance companies wrote \$12.3 billion of gross written premium and had invested assets in Hawaii financial institutions that totaled \$1.6 billion.

The captive industry that represents and supports the State of Hawaii as a captive domicile has been, and continues to be, a shining example of real, economic diversification. This industry provides local, professional job opportunities in the legal, accounting, banking and finance, and insurance management sectors to name a few, and it is estimated that it currently contributes nearly \$67 million to Hawaii’s economy annually.

Hawaii’s prominence within the global captive insurance industry is, however, not without competition. In the US, there are approximately 39 other states that are active captive insurance domiciles. This means that prospective captive owners – as well as current captive owners – have choices as to where they domicile and operate their captive insurance companies. Although

Hawaii is an established and well-respected captive domicile, it nevertheless has some inherent challenges given its location and certain perceptions of “doing business” in Hawaii. Thus, it is critically important that our legal and regulatory framework is structured and operates in a manner that incentivizes prospective captive owners to choose Hawaii in the first place and continually reaffirms the value proposition for existing captive owners already domiciled here. We believe the proposed amendments to Article 19, Chapter 431 of the Hawaii Revised Statutes set forth in Senate Bill 434 (“Bill”) will help us achieve those goals by ensuring 1) that our laws are flexible and support the desires and needs of the constituency we serve, and 2) that our regulatory environment remains as responsive and efficient as possible.

For the foregoing reasons, the HCIC strongly **supports** the Bill.

Thank you for the opportunity to submit this testimony. We look forward to your kind and favorable consideration.

Respectfully submitted,

*Paul B. Shimomoto*

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Paul Shimomoto, President  
Hawaii Captive Insurance Council

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To Senator Jarrett Keohokalole – Chair; Senator Carol Fukunaga – Vice Chair; and members of the Committee on Commerce and Consumer Protection:

My name is Jill Miura, and I am submitting this testimony as Treasurer and member of the Board of Directors of the Hawaii Captive Insurance Council (HCIC). The HCIC is a nonprofit corporation whose mission is to promote, develop, and maintain a strong, stable and reputable captive insurance industry in the State of Hawaii.

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Respectfully submitted,

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Jill Miura, Treasurer  
Hawaii Captive Insurance Council



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To Senator Jarrett Keohokalole – Chair; Senator Carol Fukunaga – Vice Chair; and members of the Committee on Commerce and Consumer Protection:

My name is William H. Baxley, and I am submitting this testimony as Senior Vice President, Finance & Treasurer of Freeman Decorating Co. (“Freeman”) and its Hawaii domiciled captive insurance company, Alice Re, Ltd. Freeman was founded in Iowa in 1927, and we are one of the largest live event management companies in the world producing over 5,000 in-person, digital and hybrid events each year, including events for the global insurance industry.

In 2010, Freeman redomesticated its captive insurance subsidiary to Hawaii from another major captive domicile. We chose to move our captive to Hawaii due to the strength of the State of Hawaii Insurance Division (“Division”) and its support of the captive insurance community as well as Hawaii’s overall excellent reputation as a business environment. We have not been disappointed. Our captive insurance company is supported in Hawaii by many business partners including a local law firm, captive management company and one of the major Hawaiian banks headquartered on Oahu. These partners, along with the Division, have given us tremendous support over our 13 years in Hawaii and helped to create an environment in which our overall global business operations flourish. We plan for this to continue long into the future.

Our captive insurance company, Alice Re, Ltd., has been a member of the Hawaii Captive Insurance Council (HCIC) since its move to Hawaii, and we hold our annual meeting locally each year during the HCIC Forum. We use the captive to insure our primary workers compensation, general liability and automobile liability coverages, and we plan to continue to grow the captive and its premium in the coming years by adding additional lines of coverage to its operations.



As you know, Hawaii now has 255 licensed and operating captive insurance companies based in the domicile. Our company is headquartered in Dallas, Texas, but there are companies based all over the US (and in many other countries) that have captives in Hawaii. This significant number of captives provides meaningful economic benefits to the State of Hawaii, and for this to remain, we believe that the State should continually review opportunities to structure its legal and regulatory framework in a manner that incentivizes prospective captive owners to choose Hawaii and also reaffirms the value proposition for existing captive owners already domiciled in the state.

We believe the proposed amendments to Article 19, Chapter 431 of the Hawaii Revised Statutes set forth in Senate Bill 434 (“Bill”) will help achieve those goals by ensuring that the laws in Hawaii are flexible and support the desires and needs of the constituency served and that the regulatory environment remains as responsive and as efficient as possible.

For the foregoing reasons, we strongly support the Bill.

Thank you for the opportunity to submit this testimony. We look forward to many more successful years as a member of the Hawaii captive insurance community.

Respectfully submitted,

*William H. Baxley*

William H. Baxley

Freeman Decorating Co. (Alice Re, Ltd.)



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To Senator Jarrett Keohokalole – Chair; Senator Carol Fukunaga – Vice Chair; and members of the Committee on Commerce and Consumer Protection:

My name is Christina Kamaka, Director and Secretary of the Hawaii Captive Insurance Council. As a member of the Hawaii Captive Insurance Council (“HCIC”) and Office Head of Aon’s Captive Management group, we thank you for the opportunity to provide this written testimony. Aon provides consulting and captive management services for 43 of Hawaii captive insurance companies.

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For the foregoing reasons, we strongly support the Bill.

Thank you for the opportunity to submit this testimony. We look forward to your kind and favorable consideration.

Respectfully submitted,



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Christina Kamaka, Vice President  
Aon Insurance Managers (USA) Inc.  
201 Merchant Street, Suite 2400  
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