

STAND. COM. REP. NO.

1412

Honolulu, Hawaii

MAR 24 2023

RE: H.B. No. 565
H.D. 1
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-Second State Legislature
Regular Session of 2023
State of Hawaii

Sir:

Your Committee on Government Operations, to which was referred H.B. No. 565, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO STATE SELF-INSURANCE AGAINST PROPERTY AND CASUALTY RISKS,"

begs leave to report as follows:

The purpose and intent of this measure is to establish and appropriate funds for the State Self-Insurance Against Property and Casualty Risks Special Fund to be administered by the Comptroller to provide the State with self-insurance coverage against property and casualty risks.

Your Committee received comments on this measure from the Department of Accounting and General Services and Department of Budget and Finance.

Your Committee finds that property and casualty insurance is a prudent risk mitigation strategy, which can cover costs for the damage, theft, or vandalism of property and provide liability protection for accidents or injuries to other people or their belongings. For this reason, the State currently purchases third-party insurance through its Risk Management and Insurance Administration. However, your Committee finds that the State's annual insurance premiums have been costly and notes that they are always subject to future premium increases.



Your Committee notes that one way to address the ever-increasing cost of third-party insurance is to require the State to self-insure against property and casualty risks by creating a state captive, which has been done in many other states. This measure requires that the State self-insure against property and casualty risk through the State Self Insurance Against Property and Casualty Risks Special Fund and eliminates the Comptroller's discretionary ability to purchase third-party property and casualty insurance in the future. However, your Committee finds that these requirements could force the State to set aside hundreds of millions of dollars to meet the actuarial risk of large-scale disasters and could potentially generate huge losses for the State.

Your Committee has heard the testimony of the Department of Accounting and General Services, which expressed serious and grave concerns that an immediate conversion to a fully self-insured program could compromise the State's fiscal position and its ability to manage risk exposure. The Department notes that the better way to address the third-party cost issues described is to follow the lead of other states and to accelerate the creation of a state captive to underwrite the State's property and casualty risks.

Your Committee also finds that, generally, a captive insurer in an insurance company that is wholly-owned and controlled by its insured parties, or party, which in this case would be the State. The Department of Accounting and General Services testified that a captive insurance program could meet the goals of helping to minimize the total cost of insurance, while still protecting the State against catastrophic losses, and may contain other future benefits. Your Committee notes that in order to fully realize the benefits of a state captive, the Department would need to continue to have discretionary ability for reinsurance purposes.

Therefore, your Committee has amended this measure by:

- (1) Inserting a new section to chapter 41D, Hawaii Revised Statutes, to establish a captive insurance program;
- (2) Deleting the amendments to sections 41D-2 and 41D-4, Hawaii Revised Statutes, which removed the Comptroller's discretion to purchase property and casualty insurance




and to pay property and casualty claims from the State Risk Management Revolving Fund;

- (3) Amending section 1 to reflect its amended purpose; and
- (4) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

Lastly, your Committee notes that while the Department provided suggested language to establish a captive insurance program, the Department testified that additional statutory sections are necessary to establish a trust fund and to provide the applicable investment authorization. Should your Committees on Ways and Means and Judiciary choose to deliberate on this measure, your Committee respectfully requests that it considers further examining whether additional statutory sections are necessary, and if so, in what form, to establish a captive insurance program.

As affirmed by the record of votes of the members of your Committee on Government Operations that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 565, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 565, H.D. 1, S.D. 1, and be referred to your Committees on Ways and Means and Judiciary.

Respectfully submitted on
behalf of the members of the
Committee on Government
Operations,

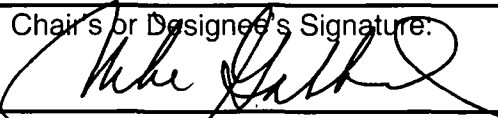


ANGUS L.K. MCKELVEY, Chair



The Senate
 Thirty-Second Legislature
 State of Hawai'i

Record of Votes
Committee on Government Operations
GVO

Bill / Resolution No.:* HB505 HD1	Committee Referral: GVO, WAM/JDC	Date: 03-10-23		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye ✓	Aye (WR)	Nay	Excused
MCKELVEY, Angus L.K. (C)	✓			
GABBARD, Mike (VC)	✓			
SAN BUENAVENTURA, Joy A.	✓			
WAKAI, Glenn				✓
AWA, Brenton	✓			
TOTAL	4	—	—	1
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes