

STATE OF HAWAII | KA MOKU'ĀINA 'O HAWAI'I
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
House Committee on Finance
Wednesday, March 29, 2023
3:00 p.m.

State Capitol, Conference Room 308 and Via Videoconference

On the following measure:
S.B. 434, S.D. 1, H.D. 1, RELATING TO INSURANCE

Chair Yamashita and Members of the Committee:

My name is Gordon 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; authorize captive insurance companies to apply for a certificate of exemption from examination from the Insurance Commissioner, provided certain conditions are met; require protected cells established by sponsored captive insurance companies to be approved by the Insurance Commissioner; authorize sponsored captive insurance companies to establish and maintain protected cells to insure risks of parties unaffiliated with a participant under certain circumstances; and require 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.

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

Thank you for the opportunity to testify on this bill.



**TESTIMONY SUPPORTING PROPOSED AMENDMENTS TO
ARTICLE 19, CHAPTER 431, HAWAII REVISED STATUTES
RELATING TO INSURANCE (S.B. NO. 434 S.D. 1, H.D. 1)**

HOUSE COMMITTEE ON FINANCE
Representative Kyle T. Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair

Thursday, March 29, 2023
3:00 p.m.
Conference Room 308
State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

To Representative Kyle T. Yamashita, Chair; Representative Lisa Kitagawa, Vice Chair; and members of the House Committee on Finance:

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. And, as Hawaii continues to grow as a domicile for captive insurers, it is increasingly vital that our Captive Insurance Branch has at its disposal as many tools and as much flexibility as possible to manage that growth and deploy assets and personnel accordingly.

We believe the proposed amendments to Article 19, Chapter 431 of the Hawaii Revised Statutes set forth in S.B. No. 434 S.D. 1, H.D. 1 (“Bill”) will help us achieve all of these goals by: 1) ensuring that our laws are flexible and support the desires and needs of the constituency we serve, 2) creating a “race to the top” as regards best practices amongst captive insurers in the State; and 3) providing tools to ensure 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

Paul Shimomoto, President
Hawaii Captive Insurance Council



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To Representative Kyle T. Yamashita, Chair; Representative Lisa Kitagawa, Vice Chair; and members of the House Committee on Finance:

My name is Jamie Asato, and I am submitting this testimony as Managing Director of Accuity LLP.

Accuity LLP (Accuity) is one of the largest CPA and consulting firms in the state, we're proud to serve clients in a variety of industries and sectors, including education, healthcare, technology, real estate, insurance, hospitality, retail, not-for-profit, and state and local government agencies.

Accuity specializes in providing audit, tax and consulting services to insurance companies and the captive insurance industry here in the State of Hawaii. We have a dedicated group of specialists who are specially trained in insurance accounting and reporting, both on a statutory and GAAP basis.

I also submit this testimony as a director 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

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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.

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 S.B. No. 434 S.D. 1 ("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, 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,

Jamie Asato
Managing Director
Accuity LLP

Director
Hawaii Captive Insurance Council



Willis Towers Watson
733 Bishop Street, Suite 1555
Honolulu, Hawaii 96813
(808) 535.0511

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To Representative Kyle T. Yamashita, Chair; Representative Lisa Kitagawa, Vice Chair; and members of the House Committee on Finance:

My name is Denys Kazama, and I submit this testimony as Associate Director at WTW, formerly known as Willis Towers Watson. WTW is a global company with \$8.9B in revenue and \$31.8B in assets that offers a professional consulting and support services related to captive insurance, insurance, pensions and retirement planning. WTW provides captive management and consulting services to over 175 captive insurance companies in over 20 captive domiciles, including twenty-nine (29) captive insurance companies managed by our Honolulu office and owned by publicly traded and privately held U.S. and Japanese companies.

I also submit this testimony as a Director and Vice President of the Hawaii Captive Insurance Council (HCIC). The HCIC is a non-profit corporation organized to promote and develop the State of Hawaii's captive insurance industry as a strong and stable domicile. We partner with the State of Hawaii Insurance Division and represent captive owners to ensure Hawaii maintains its reputation as a premier domicile for captive insurance companies.

In my role as a one of the leaders of WTW's U.S. captive and insurance management practice, we regularly advise companies with respect to where they should domicile their captives. These recommendations are based on thorough domicile analyses which include a number of factors such as quality and consistency of regulation, quality of service providers, travel considerations, and the costs of doing business.

Since 1986, the State of Hawaii has been a pioneer and leader in the captive insurance industry. At that time, there were only five U.S. states with captive-enabling laws on their books. Due to the success of the captive industry across the U.S. and the significant economic benefits it brings to states with minimal footprint or environmental impact, there are now nearly 40 U.S. states which are captive insurance domiciles. Hawaii faces significant competition from these other jurisdictions for quality captive insurance companies and our laws must be conducive to providing a rigorous and comprehensive, yet flexible and business-friendly home for captive insurance

companies. Without a proactive, strategic, and thoughtful approach to our captive environment, Hawaii will continue to lose ground to other jurisdictions.

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.

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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,



Denys Kazama
Associate Director
WTW

Director & Vice President
Hawaii Captive Insurance Council

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To Representative Kyle T. Yamashita, Chair; Representative Lisa Kitagawa, Vice Chair; and members of the House Committee on Finance:

My name is Matthew Takamine, and I submit this testimony as the leader of Brown & Brown’s global captive practice and the head of our Hawaii Risk Solutions office. Brown & Brown is one of the world’s leading captive insurance managers and consultants, managing companies with nearly \$20 billion in assets and writing \$6.8 billion in insurance premiums. Brown & Brown has maintained an office in Hawaii since 1991. We manage captives and advise companies on captive jurisdictions throughout North America, Europe, and Asia.

I also submit this testimony a director 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.

In my role as leader of our captive practice, we regularly advise companies with respect to where they should domicile their captives. These recommendations are based on thorough domicile analyses which include a number of factors such as quality and consistency of regulation, quality of service providers, travel considerations, and the costs of doing business. Today, we actively manage captives in approximately 25 jurisdictions across North America, including the State of Hawaii.

Since 1986, the State of Hawaii has been a pioneer and leader in the captive insurance industry. At that time, there were only five U.S. states with captive-enabling laws on their books. Due to the success of the captive industry across the U.S. and the significant economic benefits it brings to states with minimal footprint or environmental impact, there are now nearly 40 U.S. states which are captive insurance domiciles. Hawaii faces significant competition from these other jurisdictions for quality captive insurance companies and our laws must be conducive to providing a rigorous and comprehensive, yet flexible and business-friendly home for captive insurance companies. Without a proactive, strategic, and thoughtful approach to our captive environment, Hawaii will continue to lose ground to other jurisdictions.

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.

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We believe the proposed amendments to Article 19, Chapter 431 of the Hawaii Revised Statutes set forth in S.B. No. 434 S.D. 1 ("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, we strongly support the Bill.

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

Very Truly Yours,



Matthew D. R. Takamine, CPA
Executive Managing Director, Captive Practice Leader
Brown & Brown

Director
Hawaii Captive Insurance Council





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To Representative Kyle T. Yamashita, Chair; Representative Lisa Kitagawa, Vice Chair; and members of the House Committee on Finance:

My name is Matthew Reece, and I am submitting this testimony as CFO and Treasurer of Paramount Insurance, Inc., and Senior Executive Vice President, CFO, and CAO of Webcor L.P. Paramount Insurance, Inc. (Paramount) is celebrating its twentieth year operating as a licensed captive insurance company in the State of Hawai'i. Members of Paramount's Board of Directors travel annually to Hawai'i to conduct their annual Board meeting and attend the Hawai'i Captive Insurance Council (HCIC) Conference as well as travel to the State to conduct regular captive business. Members of the Paramount Board have presented at the HCIC conference, and on behalf of the HCIC at other out-of-state conferences and were recently elected to the HCIC Board. In addition, Paramount supports the local captive industry by retaining the Honolulu office of its captive manager, Honolulu-based law firm and both local banks for its custodial and investment management needs. Recently, Paramount converted from a Class 2 pure captive to a Class 4 sponsored captive, helping to grow the domicile by adding a protected cell account.

As Paramount's Sponsor, the operating arms of Webcor L.P. provide general contracting and self-perform concrete, drywall and carpentry services in the State of California with its origin dating back to 1971. Paramount functions as an integral component of Webcor's business, fortifying its Sponsor's balance sheet, delivering relatively consistent profit over time, and ensuring certain risks that are challenging to cover in the traditional market. The decision to select Hawai'i over other domiciles was not a difficult one. Twenty years ago, the options were limited, and geographically, Hawai'i made the most sense for a California-based Sponsor. That decision has not only proved to be a great one but is perhaps one of the best strategic decisions ever made by Webcor, and the decision to remain in Hawaii is supported by the State's efforts to fund a specialized captive insurance division that provides fair, prompt, and professional regulatory review responsive to the industry's needs.

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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 S.B. No. 434 S.D. 1 (“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, 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,

A handwritten signature in blue ink, appearing to read "mtrc" followed by a stylized flourish.

Matthew Reece, CFO and Treasurer
Paramount Insurance, Inc.
Senior Executive Vice President, CFO, and CAO
Webcor, L.P.



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To Representative Kyle T. Yamashita, Chair; Representative Lisa Kitagawa, Vice Chair; and members of the House Committee on Finance:

My name is Jill Miura, and I submit this testimony as the 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. We do this in partnership with the State of Hawaii Insurance Division (“Division”) on a local, national, and international level.

Since 1986, the State of Hawaii has been a pioneer and leader in the captive insurance industry. At that time, there were only five U.S. states with captive-enabling laws on their books. Due to the success of the captive industry across the U.S. and the significant economic benefits it brings to states with minimal footprint or environmental impact, there are now nearly 40 U.S. states which are captive insurance domiciles. Hawaii faces significant competition from these other jurisdictions for quality captive insurance companies and our laws must be conducive to providing a rigorous and comprehensive, yet flexible and business-friendly home for captive insurance companies. Without a proactive, strategic, and thoughtful approach to our captive environment, Hawaii will continue to lose ground to other jurisdictions.

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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,

Jill Miura, Treasurer and Director
Hawaii Captive Insurance Council

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To Representative Kyle T. Yamashita, Chair; Representative Lisa Kitagawa, Vice Chair; and members of the House Committee on Finance:

My name is Fay Okamoto, and I am submitting this testimony as a Director 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

I have been a captive manager in Hawaii for over 30 years. As a captive manager, one of our roles is to liaise between captive insurance companies, their owners, and the captive regulatory branch at the State of Hawaii Insurance Division.

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In our role as captive practitioners, companies regularly request us to analyze and compare captive domiciles to help them decide where to license their captive insurance company. These domicile comparisons evaluate a number of factors such as quality and consistency of regulation, quality of regulatory and private service provider infrastructure, travel considerations, and the costs of doing business.

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.

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Respectfully submitted,



Fay Okamoto
Director, Hawaii Captive Insurance Council