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## A BILL FOR AN ACT

RELATING TO INSURANCE.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The State of Hawaii, through the department of  
2 accounting and general services, currently purchases third-party  
3 insurance to cover the State's property and casualty insurance  
4 risks. In an effort to reduce the State's insurance premium  
5 costs, the legislature finds that it may be worthwhile to  
6 explore the possibility of having the State of Hawaii establish  
7 a captive insurance company to insure all or a portion of the  
8 State's property and casualty insurance risks. Before moving  
9 forward with such a proposal, the legislature finds that it  
10 would be prudent to initiate a feasibility study to establish  
11 the scope of the proposed captive insurance company relative to  
12 issues involving control, cost, and capacity.

13           The purpose of this Act is to require the auditor to  
14 conduct a study on the feasibility of having the State of Hawaii  
15 establish a captive insurance company to manage the State's  
16 property and casualty insurance risks.

17           SECTION 2. (a) The auditor shall conduct a study on the  
18 feasibility of having the State of Hawaii establish a captive



1 insurance company to manage the State's property and casualty  
2 insurance risks.

3 (b) When conducting the feasibility study, the auditor  
4 shall examine the following:

5 (1) The general purpose and main objectives of the  
6 proposed captive insurance company;

7 (2) The initial capital of the proposed captive insurance  
8 company and how the proposed captive insurance company  
9 will be funded;

10 (3) If the proposed captive insurance company will be a  
11 reinsurer, the assumed net limits and retentions and  
12 how much of the underlying liability will be ceded to  
13 reinsurers;

14 (4) The assumptions underlying the determination of the  
15 premium rates and projected premium growth, including  
16 the basis for determining rates and projected premium  
17 growth;

18 (5) Expense assumptions regarding potential change  
19 relative to economic conditions, growth, and economies  
20 of scale;



- 1           (6) Estimated gross premium income, net premium income  
2                   after reinsurance ceded, expenses, and taxes for the  
3                   first five years of operation;
- 4           (7) The expected leverage ratio of the proposed captive  
5                   insurance company;
- 6           (8) Net premium and capital ratios;
- 7           (9) Whether the proposed captive insurance company meets  
8                   preliminary tests for regulatory compliance related to  
9                   minimum capital and mandatory provisions under section  
10                  431:6-201, Hawaii Revised Statutes;
- 11          (10) Assumptions with regard to:
- 12                   (A) Economic and inflation adjustments;
- 13                   (B) Expected number of claims;
- 14                   (C) Allocated loss expense ratio;
- 15                   (D) Unallocated loss expense ratio;
- 16                   (E) Policy regarding discounting and reserves; and
- 17                   (F) Method by which incurred but not reported losses  
18                          are treated;
- 19          (11) The proposed captive insurance company's investment  
20                   philosophy and cash flow position, including cash flow  
21                   exhibits, interest rate assumptions, and portfolio  
22                   assumptions;



- 1           (12) Pro forma balance sheet, including:
- 2                 (A) Assets (including cash, investments, real
- 3                         property, and other assets);
- 4                 (B) Liabilities (including loss reserves, other
- 5                         liabilities, and paid capital);
- 6                 (C) Retained earnings;
- 7                 (D) Tax impacts;
- 8                 (E) Underwriting profit and loss;
- 9                 (F) Dividends, whether paid or declared; and
- 10                (G) Capital and surplus; and
- 11           (13) Any other consideration deemed necessary by the
- 12                 auditor.
- 13           (c) In conducting the feasibility study, the auditor shall
- 14 consult with the comptroller, director of finance, insurance
- 15 commissioner, and individuals possessing expertise in the
- 16 formation, management, and examination of captive insurance
- 17 companies;
- 18           (d) The auditor shall submit the feasibility study,
- 19 including its findings and recommendations, to the legislature
- 20 no later than twenty days prior to the convening of the regular
- 21 session of 2015.



1 SECTION 3. There is appropriated out of the general  
 2 revenues of the State of Hawaii the sum of \$ \_\_\_\_\_ or so much  
 3 thereof as may be necessary for fiscal year 2014-2015 for the  
 4 auditor to conduct a study on the feasibility of having the  
 5 State of Hawaii establish a captive insurance company to manage  
 6 the State's property and casualty insurance risks.

7 The sum appropriated shall be expended by the auditor for  
 8 the purposes of this Act.

9 SECTION 4. This Act shall take effect on July 1, 2014.

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INTRODUCED BY:

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# H.B. NO. 2107

**Report Title:**

State Property and Casualty Captive Insurance Company;  
Feasibility Study; Auditor

**Description:**

Requires the auditor to conduct a study on the feasibility of the State of Hawaii establishing a captive insurance company to manage the State's property and casualty insurance risks. Appropriates funds for the feasibility study. Effective July 1, 2014.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

