
HOUSE CONCURRENT RESOLUTION

REQUESTING AN AUDIT OF THE HAWAII EMPLOYERS' MUTUAL INSURANCE
COMPANY.

1 WHEREAS, providing adequate monetary compensation, medical
2 care, and vocational rehabilitation for injured workers at
3 affordable premium costs to employers remains a worthy and
4 desired goal for the citizenry of the State of Hawaii; and
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6 WHEREAS, Article 14A of the Insurance Code, Chapter 431,
7 Hawaii Revised Statutes (HRS), was enacted in 1996 with the
8 stated purpose of establishing the Hawaii Employers' Mutual
9 Insurance Company (HEMIC) "to provide workers' compensation
10 coverage to employers of the State at the highest level of
11 service with the lowest possible cost, consistent with
12 reasonable and applicable actuarial standards and the sound
13 financial integrity of the company" and "to provide the highest
14 standard of workplace safety and loss prevention, to encourage
15 employer involvement, and to be responsive to each
16 policyholder's experience, practice, and operating
17 effectiveness"; and
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19 WHEREAS, from January 1, 1977, through December 31, 2007,
20 HEMIC has been excluded from the surplus requirements of
21 domestic mutual insurers, by Section 431:14A-103, HRS, and from
22 the levy on gross premiums of workers' compensation insurers
23 under sections 386-152 and 386-153, HRS, for the first
24 \$25,000,000 of written premiums in each calendar year; and
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26 WHEREAS, HEMIC was tasked to work with policyholders,
27 health care providers, and employees to develop, implement, and
28 monitor workplace safety and health and return to work programs,
29 including the development of workplace accident and injury
30 reduction plans, and to promote safety programs to policyholders
31 by analyzing reports of industrial accidents of members,
32 conducting risk and hazard identification studies, and



1 conducting educational programs to prevent frequently recurring
2 industrial accidents; and

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4 WHEREAS, assigned risk coverage as authorized in section
5 431:14-116, HRS, was discontinued for workers' compensation
6 insurance on December 31, 1996, with the expectation that HEMIC
7 would provide insurance coverage for such risks and would assist
8 Hawaii employers entitled to workers' compensation coverage but
9 who were unable to purchase such coverage in the voluntary
10 insurance market or through self-insurance; and

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12 WHEREAS, section 431:14A-109.5, HRS, establishes an
13 oversight council for HEMIC whose responsibilities include the
14 review of HEMIC's annual financial report, triennial examination
15 reports by the Insurance Division, and actuarial certifications
16 of loss reserves so that they may determine whether the company
17 is fulfilling the purposes for which HEMIC was established; and

18
19 WHEREAS, HEMIC is required to compile and maintain
20 statistical and actuarial data relating to its determination of
21 premium rates, the incidence of work injuries, the cost of
22 injuries, and other data relating to work injuries and submit
23 this information annually to the Insurance Commissioner; and

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25 WHEREAS, HEMIC is empowered to conduct annual accountings
26 of its incurred loss experience and expenses and, with due
27 regard for the solvency of the company, to declare and apportion
28 dividends to policyholders according to classifications of
29 policies established by its board; and

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31 WHEREAS, for all the foregoing reasons, the Legislature
32 believes that an audit of HEMIC is necessary to assess HEMIC's
33 fiscal performance and management and insure it fulfills the
34 statutory purposes for which it was created; now, therefore,

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36 BE IT RESOLVED by the House of Representatives of the
37 Twenty-fourth Legislature of the State of Hawaii, Regular
38 Session of 2007, the Senate concurring, that the Auditor is
39 requested to conduct an audit and an impact assessment report on
40 the Hawaii Employers' Mutual Insurance Company; and



1 BE IT FURTHER RESOLVED that the Legislature requests that
2 the audit and impact assessment address:

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- 4 (1) Whether HEMIC has fulfilled the statutory objectives
5 for which it was created by providing the highest
6 possible quality of workers' compensation insurance at
7 the lowest possible cost;
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- 9 (2) Whether it should continue to be the sole workers'
10 compensation carrier in the state that is given the
11 power under statute to designate differing tiers of
12 high risk employers;
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- 14 (3) Whether the Oversight Council as established by
15 section 431:14A-109.5, HRS, is providing meaningful
16 oversight of HEMIC with regard to its: operating
17 expenses, profits, board member recruiting and
18 election processes, executive compensation packages,
19 dividends, and political lobbying expenditures;
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- 21 (4) Whether HEMIC's expenditures with regards to
22 advertising, operations, and political lobbying
23 reconciles with its statutory mandate to provide the
24 highest possible quality of workers' compensation
25 insurance at the lowest possible cost;
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- 27 (5) Whether its net income for 2005 and 2006 reconciles
28 with its statutory mandate to provide the highest
29 quality of workers' compensation insurance at the
30 lowest possible cost;
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- 32 (6) Whether it has effectively implemented workplace
33 safety and loss prevention programs for its
34 shareholders;
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- 36 (7) Whether it has prudently managed its finances and
37 justified the special treatment it has received in
38 exemptions from surplus requirements for domestic
39 insurers, and exclusion from the levy on gross
40 premiums for the workers' compensation Special
41 Compensation Fund;



(8) Whether it has met existing needs of marginal insureds and has provided reasonable cost insurance as was intended when the assigned risk pool was abolished;

(9) Whether HEMIC has established fair and reasonably inclusive standards for such insureds who have been unable to obtain insurance in the voluntary insurance market;

(10) To what extent the need for workers' compensation insurance of insureds from the former assigned risk pool are being met;

(11) Whether HEMIC's standards and practice for servicing the injured employees of its insureds are consistent with community practice of private insurance carriers and government entities in terms of prompt resolution and payment of compensable claims;

(12) Whether HEMIC has fairly and reasonably allocated its profits between executive compensation, internal personnel costs, dividends to shareholders, and payments to injured workers it insures; and

(13) Whether HEMIC's reserve is on track to be fully funded;

and

BE IT FURTHER RESOLVED that the Auditor is requested to submit findings and recommendations to the Legislature, including any necessary implementing legislation, not later than twenty days prior to the convening of the Regular Session of 2008; and

BE IT FURTHER RESOLVED that certified copies of this Concurrent Resolution be transmitted to the Auditor and to the Insurance Commissioner, who in turn is requested to transmit copies to the Hawaii Employers' Mutual Insurance Company.

OFFERED BY:

MAR 14 2007

HCR HMS 2007-2988



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