LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

STATE OF HAWAII
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
335 MERCHANT STREET, ROOM 310
P.O. Box 541
HONOLULU, HAWAII 96809
Phone Number: (808) 586-2850
Fax Number: (808) 586-2856
www.hawaii.gov/dcca

LAWRENCE M. REIFURTH
DIRECTOR

RONALD BOYER
DEPUTY DIRECTOR

TO THE HOUSE COMMITTEES ON CONSUMER PROTECTION & COMMERCE
AND
JUDICIARY
TWENTY-FOURTH LEGISLATURE
Regular Session of 2008

Thursday, January 31, 2008
3:00 p.m.

TESTIMONY ON HOUSE BILL NO. 2252 – RELATING TO INSURANCE

TO THE HONORABLE ROBERT N. HERKES AND THE HONORABLE TOMMY WATERS, CHAIRS, AND MEMBERS OF THE COMMITTEES:

My name is J.P. Schmidt, State Insurance Commissioner ("Commissioner"), testifying on behalf of the Department of Commerce and Consumer Affairs ("Department"). In its current form, the Department opposes HB 2252.

This bill implements a new organizational structure to the existing Hawaii Insurance Guaranty Association ("HIGA"). Currently, in times of necessity, HIGA may assess member insurers

> in the proportion that the net direct written premiums of the member insurer for the preceding calendar year bears to the net direct written premiums of all member insurers for the preceding calendar years.
> *(HRS §431:16-108(a)(3))*

This means that in circumstances where HIGA is forced to take action, for example when the aftermath of a hurricane causes an insurer to become insolvent, HIGA may assess each property and casualty insurer an amount based on the insurer's total premium collected.

HB 2252 alters this possibility by creating a guaranty association with three separate accounts: (1) workers compensation; (2) automobile; and (3) all other claims covered by the association. *(§431:16-D)* This bill then states that:

> The assessments of each member insurer shall be in the proportion that the net direct written premiums of the member insurer for the calendar year prior to the assessment on the kinds of insurance in the account bears to the net direct written premiums of all member insurers for the calendar year prior to the assessment on the kinds of insurance in the account. *(§431:16-F(a)(3)(A))*

This means that in circumstances where the new guaranty association is forced to take action because of an insolvent insurer (e.g., the aftermath of a hurricane), the new guaranty association may only assess its property and casualty insurer members based on the amount of premium collected in account number 3: all other claims covered by the association. The amount able to be assessed will be far less then the amount able to be assessed under current law and may be too little to effectively address an insurer crisis.

We thank these Committees for this opportunity to testify and stand ready to assist these Committees to address this issue.

HAWAII INSURANCE GUARANTY ASSOCIATION

P. O. Box 4660
Honolulu, HI 96812-4660
(808) 528-1222
Fax (808) 532-1495

TESTIMONY OF BLAKE OBATA

TO THE HOUSE COMMITTEES ON CONSUMER PROTECTION & COMMERCE
AND
JUDICIARY
TWENTY-FOURTH LEGISLATURE
Regular Session of 2008

Thursday, January 31, 2008
3:00 p.m.

TESTIMONY ON HOUSE BILL NO. 2252 – RELATING TO INSURANCE

TO THE HONORABLE ROBERT N. HERKES AND HONORABLE TOMMY WATERS, CHAIRS, AND MEMBERS OF THE COMMITTEE:

My name is Blake Obata, Executive Director of the Hawaii Insurance Guaranty Association ("HIGA"). HIGA supports HB 2252 with modification.

HIGA's current source of funding is derived from its power and duty to access its members based on a combined basis, meaning all lines of property and casualty insurance to include 1) workers' compensation, 2) automobile, and 3) all other lines, collectively.

H.B. 2252 amends HIGA's power and duty in this regard by creating three separate and distinct accounts as referenced above.

Thus, HIGA's funding source, in the event of need is hampered by amendments sought in HB 2252.

As a specific example, HIGA assessed its members on a levy only basis in 2007, the sum of $35,796,335. Such funding would be available to cover the aftermath of property claims of a hurricane related insurance company insolvency. Under HB 2252, such funding would have been limited to $14,795,004.

Similarly, in the event of an insolvency of a workers' compensation insurer, HIGA's maximum assessment capacity would be limited to $5,405,012, using 2007 premium information as an example.

All told, HIGA's funding capacity to assess its member insurers is severely impaired through amendments sought by HB 2252. With modification to keep HIGA's current assessment authority and duty intact (on a combined basis), HIGA supports HB 2252.

Thank you for the opportunity to offer testimony.

Notes: HB 2252 results in the following assessment for 2007 using separate accounts.

1) WC - $5,405,012
2) Auto - $15,596,338
3) All other - $14,795,004

It should be mentioned that WC does not include HEMIC premium which in 2007 amounted to $87,441,998 (2% assessment amounts to $1,748,840).

PCI
Property Casualty Insurers Association of America

Shaping the Future of American Insurance

1415 L Street, Suite 670, Sacramento, CA 95814-3972

To: The Honorable Robert N. Herkes, Chair
House Consumer Protection & Commerce Committee

The Honorable Tommy Waters, Chair
House Judiciary Committee

From: Samuel Sorich, Vice President

RE: **HB 2252 – Relating to Insurance**
PCI Position: Support

Date: Thursday, January 31, 2008
3:00 p.m.; Conference Room 325

The Property Casualty Insurers Association of America (PCI) is an association of property/casualty insurers. There are more than 100 PCI member companies doing business in Hawaii. PCI members are responsible for approximately 45 percent of the property/casualty insurance premiums written in Hawaii.

PCI supports HB 2252 because the bill promotes clarity and efficiency in the operation of Hawaii's property and liability insurance guaranty association. The bill incorporates the National Conference of Insurance Legislators' (NCOIL) model act on guaranty associations into Hawaii law. The NCOIL model act conforms Hawaii's law and improves the state's guaranty association by reducing administrative costs, enhancing the association's ability to protect claimants and achieving greater efficiency in claims servicing by clarifying the association's rights to obtain claim records.

PCI believes HB 2252 is sound reform to Hawaii's insurance law, and PCI requests that the Committees vote Yes on the bill.

Telephone: 916-449-1370 Facsimile: 916-449-1378 Web: www.pciaa.net