
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.



1 SECTION 2. (a) The auditor shall conduct a study on the
2 feasibility of having the State of Hawaii establish a captive
3 insurance company to manage the State's property and casualty
4 insurance risks. The auditor shall review and use the insurance
5 division's *Findings and Recommendations on a Potential Captive*
6 *Insurance Company for State Risks, 2001*, report as a baseline
7 from which to conduct its feasibility study.

8 (b) When conducting the feasibility study, the auditor
9 shall examine the following:

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

12 (2) The initial capital of the proposed captive insurance
13 company and how the proposed captive insurance company
14 will be funded;

15 (3) If the proposed captive insurance company will be a
16 reinsurer, the assumed net limits and retentions and
17 how much of the underlying liability will be ceded to
18 reinsurers;

19 (4) The assumptions underlying the determination of the
20 premium rates and projected premium growth, including



1 the basis for determining rates and projected premium
2 growth;

3 (5) Expense assumptions regarding potential change
4 relative to economic conditions, growth, and economies
5 of scale;

6 (6) Estimated gross premium income, net premium income
7 after reinsurance ceded, expenses, and taxes for the
8 first five years of operation;

9 (7) The expected leverage ratio of the proposed captive
10 insurance company;

11 (8) Net premium and capital ratios;

12 (9) Whether the proposed captive insurance company meets
13 preliminary tests for regulatory compliance related to
14 minimum capital and mandatory provisions under section
15 431:6-201, Hawaii Revised Statutes;

16 (10) Assumptions with regard to:

17 (A) Economic and inflation adjustments;

18 (B) Expected number of claims;

19 (C) Allocated loss expense ratio;

20 (D) Unallocated loss expense ratio;

21 (E) Policy regarding discounting and reserves; and



1 (F) Method by which incurred but not reported losses
2 are treated;

3 (11) The proposed captive insurance company's investment
4 philosophy and cash flow position, including cash flow
5 exhibits, interest rate assumptions, and portfolio
6 assumptions;

7 (12) Pro forma balance sheet, including:

8 (A) Assets (including cash, investments, real
9 property, and other assets);

10 (B) Liabilities (including loss reserves, other
11 liabilities, and paid capital);

12 (C) Retained earnings;

13 (D) Tax impacts;

14 (E) Underwriting profit and loss;

15 (F) Dividends, whether paid or declared; and

16 (G) Capital and surplus;

17 (13) An objective comparison among options, presented in a
18 format that includes the respective benefits and
19 shortcomings of each, and that the experts selected to
20 explore feasibility include in their reports,



1 comprehensive findings, conclusions, recommendations,
2 and plans for implementation; and

3 (14) Any other consideration deemed necessary by the
4 auditor.

5 (c) In conducting the feasibility study, the auditor shall
6 consult with the comptroller, director of finance, insurance
7 commissioner, and individuals possessing expertise in the
8 formation, management, and examination of captive insurance
9 companies, and possessing knowledge and experience in forming
10 and developing captive insurance programs.

11 (d) The auditor shall submit the feasibility study,
12 including its findings and recommendations, to the legislature
13 no later than twenty days prior to the convening of the regular
14 session of 2016.

15 SECTION 3. There is appropriated out of the general
16 revenues of the State of Hawaii the sum of \$ or so much
17 thereof as may be necessary for fiscal year 2015-2016 for the
18 auditor to conduct a study on the feasibility of having the
19 State of Hawaii establish a captive insurance company to manage
20 the State's property and casualty insurance risks.



1 The sum appropriated shall be expended by the auditor for
2 the purposes of this Act.

3 SECTION 4. This Act shall take effect on July 1, 2015.



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. (HB281 HD1)

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