

STAND. COM. REP. NO.

703

Honolulu, Hawaii

MAR 03 2017

RE: S.B. No. 1077
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Twenty-Ninth State Legislature
Regular Session of 2017
State of Hawaii

Sir:

Your Committee on Commerce, Consumer Protection, and Health,
to which was referred S.B. No. 1077 entitled:

"A BILL FOR AN ACT RELATING TO INSURANCE,"

begs leave to report as follows:

The purpose and intent of this measure is to clarify that a mutual benefit society shall maintain a minimum net worth calculated based on annual net premium revenues and net health care expenditures.

Your Committee received testimony in support of this measure from the Hawaii Medical Assurance Association, Reinsurance Association of America, and Property Casualty Insurers Association of America. Your Committee received testimony in opposition to this measure from the Department of Commerce and Consumer Affairs.

Your Committee finds that this measure requires calculation of a mutual benefit society's annual premium revenues, annual health care expenditures, and annual operating expenses on a net basis when determining the mutual benefit society's minimum net worth for purposes of protecting against insolvency.

According to testimony received by your Committee, the use of gross premiums to calculate minimum net worth requirements may not reflect the actual risk retained by a mutual benefit society, which can remove a key incentive for a mutual benefit society to



enter into a reinsurance agreement and reduce the benefits of ceding risk. Your Committee also heard testimony that gross premium calculations can cause an avoidance of the use of industry-accepted risk mitigation tools to spread risk, increase financial uncertainty for a mutual benefit society, and diminish economic growth. However, according to testimony from the Department of Commerce and Consumer Affairs, the statutory requirements for calculating a mutual benefit society's minimum net worth intend a gross, rather than net, calculation, as a mutual benefit society is ultimately responsible for all liabilities should its reinsurer fail. Furthermore, the minimum net worth is easier to manipulate if reinsurance recoveries are included in the calculation.

Although your Committee acknowledges the importance of competition in the insurance marketplace and remains sympathetic to the concerns raised by the mutual benefit societies in testimony, your Committee is concerned that this measure would result in lower amounts of mandatory reserve requirements, which are needed to protect the interests of mutual benefit society members in case of insolvency. Amendments to this measure are therefore necessary.

Your Committee has amended this measure by:

- (1) Clarifying that a mutual benefit society's minimum net worth shall be based on gross, rather than net, annual premium revenues and gross, rather than net, annual health care expenditures and operating expenses; and
- (2) Inserting an effective date of July 1, 2050, to encourage further discussion.

As affirmed by the record of votes of the members of your Committee on Commerce, Consumer Protection, and Health that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 1077, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 1077, S.D. 1, and be placed on the calendar for Third Reading.



Respectfully submitted on
behalf of the members of the
Committee on Commerce, Consumer
Protection, and Health,



ROSALYN H. BAKER, Chair



The Senate
 Twenty-Ninth Legislature
 State of Hawai'i

Record of Votes
Committee on Commerce, Consumer Protection, and Health
CPH

Bill / Resolution No.:*	Committee Referral:	Date:		
SB1077	CPH	3/1/17		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
BAKER, Rosalyn H. (C)	/			
NISHIHARA, Clarence K. (VC)	/			
CHANG, Stanley	/			
ESPERO, Will	/			
IHARA, Jr., Les				/
KIDANI, Michelle N.	/			
RUDERMAN, Russell E.				/
TOTAL	5			2
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: <div style="text-align:center;"><i>Clarence K. Nishihara</i></div>				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes