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Cover and page top photos:

Waikiki is this issue's subject,
and the focus of Forum 2008
this October on Oahu.

The Hawaii Captive Reporter

A publication of the

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Stable Growth Caps 2007

Hawaii licensed ten new captives in 2007. This slower growth rate follows an industry wide stabilization of the captive market in contrast to prior years of huge growth. The addition of these ten companies demonstrates Hawaii is still competitive and a domicile of choice in the face of increased competition and a softening insurance market.

As the number of captives worldwide contracted in 2007, the number of States with captive legislation increased to twenty-eight. "The addition of new captives to Hawaii in a slowing market shows the value of good regulation, infrastructure and experience", said HCIC President George Sumner. "Hawaii has a strong team led by Craig Watanabe at the Insurance Division, the support of the Insurance Commissioner and State legislature, and expert service providers with experience and knowledge gained from years of working with both captive insurance companies and State of Hawaii Regulators."

Changes enacted by the Hawaii legislature during 2007 enhance Hawaii's attractiveness as a premier captive domicile. The changes allow captives to be formed as limited liability companies, enhance investment options for certain classes of captives,

clarify minimum capital and surplus requirements as well as establish a maximum premium tax. The changes also elevated Craig Watanabe's position as Captive Insurance Administrator to a Deputy Insurance Commissioner.

"HCIC continues to work on behalf of our captive owners to keep Hawaii competitive as a captive domicile. We are working with the Insurance Division, State legislature and industry leaders to keep Hawaii a flexible and attractive domicile for captive business. Hawaii's long-term commitment to captives, consistent approach and large infrastructure new domiciles currently lack, secure Hawaii's place as a prominent domicile in the world. Our experience and commitment to staffing within the Insurance Division make Hawaii more attractive than emerging domiciles with less regulation.

Hawaii's captive industry stands ready to lend assistance to the many challenges facing modern companies, including the potential adverse effect on the commercial insurance markets resulting from the subprime crisis, with losses projected to be greater than those of Hurricane Katrina (*Bloomberg, March 14*). We look forward to another year of growth in 2008." ❖

Aloha Len

HCIC would like to wish a fond Aloha to our friend and colleague, Len Crouse, who will retire as the State of Vermont Deputy Insurance Commissioner on June 1st. Len's work

in support of the captive insurance industry has been important to establishing and growing the captive market throughout the United States. Those who know Len will also miss his fun and energetic personality. His departure from Vermont leaves Craig Watanabe, Deputy Insurance Commissioner and Captive Administrator for the State of Hawaii as the most tenured captive regulator in the United States. ❖



IRS Withdraws Proposed Regulation Changes

On February 20th, the Coalition for Fairness to Captive Insurers (CFCI) announced the IRS was withdrawing its proposed regulation changes which would have adversely affected captive insurance companies. Hawaii Captive Insurance Council was proud to be an active participant in CFCI and thank the Hawaii Legislative Delegation and our members for their efforts in having this proposed Regulation withdrawn. Following is excerpts of a letter sent to CFCI members when the Proposals withdrawal was announced.

The Coalition for Fairness to Captive Insurers is pleased to report the Internal Revenue Service announced that it is withdrawing proposed IRS Regulation §1.1502-13(e) on consolidated returns that would have adversely affected single parent captive insurance companies.

"We are thrilled that the IRS and Treasury Department have chosen to withdraw the portion of the proposed regulation involving captive insurance companies," said Dennis Harwick, Co-Chair of the Coalition and President of the Captive Insurance Companies Association (CICA). "This welcome, but unusual, action is testimony to

the strong technical response that the Coalition developed for the IRS and the on-going conversations that we had with representatives of the IRS and Treasury Department about the technical and policy flaws of the proposed regulation."

The Coalition for Fairness to Captive Insurers was formed last fall shortly after the IRS published its proposed regulation and CICA and VCIA determined that those regulations would have a serious negative effect on many single parent captive insurance companies. The Coalition made a commitment to engaging the best legal minds to prepare a detailed technical response to the proposed regulation, along with a coordinated political effort to oppose implementation of the proposed regulation. "We are gratified that the substance of the arguments put forth in the Coalition's technical response appears to have been a key reason for the IRS's decision," says Harwick. "In addition, it seems clear that marshalling support for the captive industry's position on Capitol Hill was also critically important to this successful outcome.

Our thanks to everyone, inside and outside the Coalition, who helped with this effort." ❖



Forum 2007 A Great Success

In the shadow of Kilauea Volcano, HCIC wrapped up a successful Forum on the Big Isle of Hawaii. Close to 300 captive owners and industry professionals attended. Feedback was very positive about the quality of the presentations and speakers.

Our keynote speaker, Jim Kauahikaua of Hawaiian Volcano Observatory was extremely well-received and fielded many questions from the audience about volcanoes and earthquakes. Jim has been keeping busy since his talk with the current eruption of Kilauea – visit <http://hvo.wr.usgs.gov/> for new photos of lava hitting the sea as well as explosions of smoke and gas emitting from the crater for the first time in more than 80 years!

Many thanks to the Fairmont Orchid which did a terrific job helping our attendees who arrived early stay comfortable during a few days of heavy brushfires in the area.

Thank you again to all of our conference sponsors – Beecher Carlson, Aon Global Insurance Managers, Artex Risk Solutions, Inc., Bank of Hawaii, Marsh Management Services Inc., Perr & Knight, XL Insurance, Char Hamilton Campbell & Yoshida, First Hawaiian Bank, KMH LLP and Willis Management (Hawaii), Inc. as well as all our exhibitors for their ongoing support of the Hawaii captive industry. ❖

CONFERENCE CALENDAR:

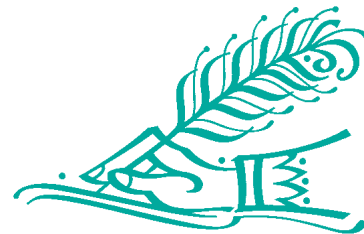


HCIC Attends Industry Events and Tradeshow

HCIC participated in the recent CICA conference and tradeshow held in Arizona. Look for us in the State of Hawaii booth, #1819, at RIMS in San Diego and for our HCIC booth at VCIA's annual conference this summer in Burlington, VT. At VCIA we are booth #115 and will be located in the domicile corridor on the second floor.

In addition to tradeshow, HCIC representatives participated in the Seattle RIMS Chapter "All Industry Day" presenting "Captives – What Works, What Doesn't" to risk managers and industry professionals. We are looking forward to working with the chapter again for the 2009 Western Regional RIMS Conference to be held in Seattle. ♦

LEGISLATIVE UPDATE:



Amendments to Captive Laws Under Consideration

The 2008 Hawaii State Legislature is currently considering amendments to Hawaii's captive insurance laws. Here is a brief summary of the amendments being considered:

• **S.B. No. 3023, S.D. 2, H.D. 1**

Promotes the diversification and development of Hawaii's captive insurance industry by providing for the securitization of insurance risks through the creation of special purpose financial captive insurance companies. This proposed amendment would also provide clarifying provisions with regard to class 4 or "sponsored captive insurance companies" (commonly referred to as "cell captives").

• **S.B. No. 3019, S.D. 1, H.D. 1**

Would provide certain captive insurance companies greater flexibility and diversification with their investment decisions by updating article 6 of the Hawaii Insurance Code ("Article 6") to reflect more current regulatory standards.

HCIC fully supports these new measures and is confident that these proposed amendments will solidify Hawaii's place as one of the world's leading captive domiciles. ♦



HCIC Developing Strategic Plan

On April 19th the Hawaii Captive Insurance Council Board of Directors will hold a one-day retreat working to create a new mission statement, goals and long range plan for HCIC. Thank you to all captive owners and industry

professionals who filled out our long range plan survey over the last six months. Your input has been compiled into a report by our planning facilitator. It will be reviewed and incorporated into the development of our goals and long range plan. HCIC expects to have a new plan for presentation to members at the Annual Membership Meeting this Fall. ♦

Paul Shimomoto Releases Second CD



HCIC's resident musician, Paul Shimomoto, has released a follow up to his successful 2004 debut CD.

The new CD, *Sentimental Alibi*, has already won the Best Contemporary Hawaiian Music category for the 11th Annual Hawaii Music Awards – a people's choice award where the general public can vote for their favorites over the internet. The CD also has been

nominated for seven 2008 (31st Annual) Nā Hōkū Hanohano Awards (Hawaiian "Grammy" Awards) in categories including: Song of the Year; Male Vocalist of the Year; Album of the Year; Island Music Album of the Year; and 3 technical categories. The award ceremony will take place on June 17th. Good luck Paul!

Paul's new CD is available by contacting him at pbshimomoto@chctlaw.com. ♦



Educational Forum 2008



The Island of Oahu will play host to the next HCIC Educational Forum. This is the first time in more than 10 years Oahu will be the site of the conference and the first time the Forum will go to an every year format.

The three day conference will be held at the Hilton Hawaiian Village October 20 - 22nd. The room block is now open and the room rate is \$259/night for a deluxe ocean view room in the Rainbow Tower. Visit the HCIC website at www.hawaiicaptives.com for registration information and a list of educational sessions to be presented.

SCHEDULE OF EVENTS

Monday, October 20th

- Opening Reception

Tuesday, October 21st

- Educational Sessions
- Keynote Speaker Luncheon

Wednesday, October 22nd

- Educational Sessions

Big wave surfing pioneer Burton "Buzzy" Kerbox will be the keynote speaker at Tuesday's luncheon. Buzzy, along with his friend Laird Hamilton, pioneered the concept of big wave tow-in surfing. He was featured in the film "Riding Giants" about the history of big wave surfing in Hawaii. ♦

