



P.O. Box 2815  
Honolulu, Hawaii 96803

# Hawaii Captive Insurance Council

VOLUME 2, ISSUE 1

MARCH 2012

## HCIC Forum 2012 Updates

### The Hawaii Captive Insurance Council Forum 2012 Conference



*Hawaii Captive Insurance Council invites you to submit a Session for our 2012 Forum which will be celebrating 25 years of Captives in Hawaii!*

If you have a session idea or you are an expert in a particular field involving CAPTIVES, we want to hear from you! Sessions that include Captive Owners who are willing to speak about their programs are encouraged.

The HCIC 2012 Educational Forum will be held at The Hilton Hawaiian Village on the island of

Oahu October 22-24, 2012. For forms and additional information, please visit [www.hawaiicaptives.com](http://www.hawaiicaptives.com).

SPECIAL POINTS OF INTEREST:

- 169 Active Captives in Hawaii
- HCIC has over 100 active members.
- HCIC established since 1987

INSIDE THIS ISSUE:

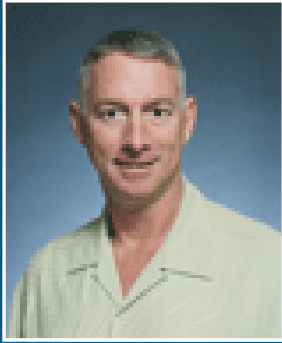
Save The Date	1
State's Message	2
Employee Benefits	3
Captive Anniversaries	4

## Congratulations!

Congratulations to **James Jackson** of Harman Management Corporation. He is the winner of an iPad 2, courtesy of HCIC. Thank you to all those who renewed their HCIC Membership before February 14!



# iPad



George W. Sumner III, ACI  
Deputy Insurance  
Commissioner & Captive  
Insurance Administrator



**HAWAII  
CAPTIVE  
INSURANCE  
COUNCIL**

## A Message From The State

In the May 2011 Newsletter, it was reported that Hawaii licensed 12 new captives in 2010, the most since 2005. In addition to that good news, in 2010, the total gross written and assumed premiums exceeded \$2 billion, an increase of over 80%, and combined total assets exceeded \$9 billion, an increase of over 25%. We have licensed three new captives this year (one of which contributed over \$1 billion in assets) and there are many more formations in the works. This should be another good year for the State of Hawaii's captive insurance industry and the insurance market is still soft.

We filled our 10<sup>th</sup> position at the CIB in June and are in the planning stages to expand for further growth. We also welcome Sang-Woo Lee, the Head of Insurance Team from South Korea that has joined the Insurance Division through the NAIC for the next year. He has a very impressive resume and will be working with the CIB on the final surveillance of both pure captives and RRGs. We look

forward to passing on the skills we have within the Insurance Division as well as learning from him about the Insurance regulation in Korea. We believe this will assist us in improving our dominant position of the premier captive insurance domicile of the Pacific.

The NAIC conducted their accreditation review in July and it went well. The feedback we received from the accreditation team was positive and we are implementing their recommendations to improve on our exams. All states are required to conduct risk focused exams on RRGs in 2011, although Hawaii has been doing these types of exams since 2009 to prepare for this new requirement. I am quite proud of our dedicated examiners and the great job they are doing. We were scheduled to have the results discussed and voted on at the fall NAIC meeting however the meeting was delayed until November due to Hurricane Irene. We look forward to the upcoming meeting and will report the results later this year.

The CIB/HCIC HAR committee is winding up our recommendations for changes and will soon be moving forward on public hearings to vent those changes. The CIB and HCIC will also be discussing recommended changes to the captive laws in the near future. These changes will be forwarded to Governor Abercrombie for further review before referral to the legislators' consideration for next year's session.

Captive Insurance companies are a fantastic tool to adapt and improvise when there is change. Until the next Newsletter, I leave you with: "Anytime there is change there is opportunity. So it is paramount that an organization get energized rather than paralyzed." — Jack Welch, retired GE CEO

DCCA  
Captive Insurance  
335 Merchant Street  
Room 213  
Honolulu, HI 96813

Tel.: (808) 586-0981  
Fax: (808) 586-0987



Check Presentation at American Red Cross Hawaii Offices: Fay Okamoto - HCIC Vice Chairman, Matt Takamine - HCIC President, Coralie Matayoshi - American Red Cross CEO and David Kahaulelio - HCIC Chairman of the Board

## HCIC Gives Back

The HCIC presented a donation recently to the American Red Cross Japan Quake and Tsunami Relief on behalf of its members. Funds collected were matched by the HCIC for a total of \$4000.

# Captive Financing of Employee Benefits

The Hawaii Captive Insurance Council's 2011 Conference features an educational session on employee benefit captives on October 27<sup>th</sup> at 10:30 a.m. Kathleen Waslov of Willis Group and JP Schmidt of Bays, Lung, Rose and Holma will talk about the new trend of using captives to finance employee benefit plans.

Benefit plans are an important part of the relationship between employer and employee and represent the commitment made by employers to provide employees not only with compensation, but also income security and access to services such as medical care. However, in recent times, benefit plans represent an increasingly large liability on employers' balance sheets and expense in their annual budgets.

In the US, for example, benefits comprise 20% to 30% of total compensation costs. A typical large US employer pays \$10,000 to \$20,000 per employee in annual healthcare costs and an additional \$1,000 for accident, death and disability benefits. Similar non-health benefits are offered in many other countries and there is a growing demand for increased levels of private health insurance.

The cost of benefits for an individual plan sponsor depends on the plan provisions and the size and timing of payments to plan participants. Most of these costs are uncertain and payable on the random occurrence of an accident or loss, or in the case of retirement plans, payable for an unknown duration. The risk types in a standard company profile include mortality, morbidity, accident, longevity, and financial risks of inflation, interest rate, and investment return.

Risk management principles apply to these risk exposures, and demand that they be identified, controlled and optimally financed. Typically, benefits plans for active employees are financed with commercial insurance, although most large employers self insure their employee medical plans and buy excess protection. Recently employers are finding that **captive financing** can produce advantages, including cost savings, control of assets and administrative efficiencies.

The potential captive value for employee benefit risks derives from the ability to manage insurance rates and recoup underwriting margins and investment income on cash flow from third-party insurers. The cost difference between commercial insurance and captive insurance varies by line of coverage and changing market conditions, but in general, over the long term, commercial insurers will target profit margins of 10% to 20%, in addition to charging policyholders for the cost of their solvency risk capital. For primary layers of insurance, companies with a strong financial position can retain risk at a lower cost of capital than many insurers.

There are 50-75 multinationals that use their captives to finance employee benefits. Typically they will cover life, accident, disability and private medical benefits through reinsurance of multinational pooling networks. There are a few companies that issue direct policies from their captive. Two companies are using captives to reinsurance pension annuities and thereby controlling pension assets and potential surplus. In the US, where the Department of Labor must approve captive transactions, 25 captives have set up benefit captive operations.

A benefits captive can take time to establish, given the need to collect information on the exposure and claims history, but once in place, it can be relatively easy to maintain and grow.

The key message to remember is that there are opportunities for cost savings when risk management processes and solutions are applied to employee benefit liabilities. Organizations that plan to continue to provide benefits should have a framework for identifying the risk exposures, controlling them and developing cost-efficient solutions for financing them. Captive insurance can play an important role in this risk management function.

**Kathleen Waslov**

Willis

waslovka@willis.com



HCIC extends our congratulations to all captives celebrating these milestone anniversaries in 2011. Thank you for your continued loyalty and commitment to Hawaii as a captive domicile, and we wish you continued success for you and your captive programs. *Not all companies gave us authorization to print their company name, so this is not a complete list of 2011 milestone anniversaries.*

Captive Name	Captive Organizer	
MedAmerica Mutual Risk Retention Group, Inc.		20 years
Sutter Insurance Services Corporation (SISCO)	Sutter Health	20 years
CPN Insurance Corporation	Calpine Corporation	10 years
Marquis Insurance Corporation	Marriott International	10 years
MedAmerica Reinsurance Company, Inc.		10 years
United Church Insurance Company	United Church Insurance Association dba Insurance Board	10 years
Western States Insurance Company	Harman Management Corporation	10 years

“The Hawaii Department of Insurance has been able to balance our RRGs’ business needs with effective regulatory oversight. The Department’s staff is knowledgeable and responsive to our business operations. We are pleased that Hawaii is our domicile!” *Gloria Everett, CEO & President, MedAmerica Mutual Risk Retention Group, Inc. and MedAmerica Reinsurance Company, Inc.*

“We’ve appreciated how responsive and flexible the state has been as we’ve added and eliminated different insurance lines and entered into different investment vehicles. In our minds, Hawaii has more than lived up to its “Captive Friendly” press clippings.” *James S. Jackson, Chief Financial Officer, Western States Insurance Company*

“We are pleased with our selection of Hawaii for our domicile. We’ve built long-standing relationships with business partners and have found the Hawaii regulators to be reasonable and flexible as our business needs changed.” *Cathy Green, President and CEO, United Church Insurance Company*

“Hawaii is a great domicile in which to conduct our captive insurance business. All of the people are knowledgeable and very easy to work with.” *Mike Owens, Marquis Insurance Corporation*

“In the last decade, we have experienced impressive change in our company and our Hawaiian captive has played an integral role in supporting our mission. The Hawaii domicile has the depth of resources and experience we need to operate a successful captive program, and we have enjoyed our business relationship with the State of Hawaii and other organizations involved with our captive. We look forward to continued success in the future.” *Denise Straka, Vice President of Insurance, Calpine Corporation*