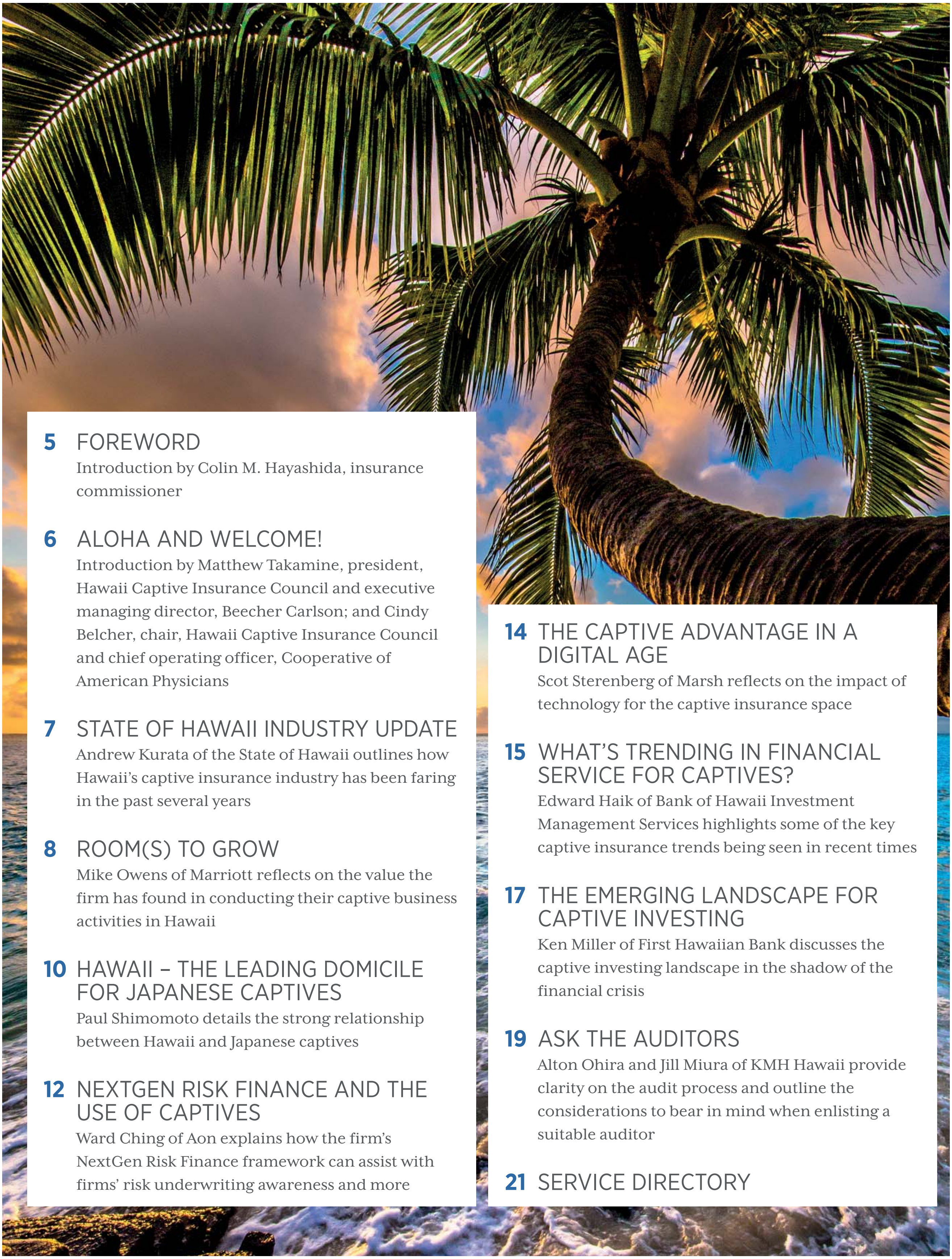
HAWAII 2020

BIG IN JAPAN
Long-standing business ties

SUITABILITY
A domicile for all types

ONSHORE
Stable and consistent

From the publishers of
CAPTIVE REVIEW



Special Message from

Governor David Y. Ige

Captive Review
Hawaiʻi Report 2020

Sustainability, in its broadest sense, touches every aspect of our lives. It's housing, jobs, education, the environment, economy and our people's well-being. As governor, I am pleased to say that the captive insurance industry in the islands, a part of the bigger picture of creating a sustainable economy and a sustainable Hawaiʻi, is thriving successfully on every level.

Hawaiʻi is one of the oldest and largest captive domiciles in the nation. In fact, the maturity and strength of our captive industry garnered the prestigious 2018 Domicile of the Year Award at the U.S. Captive Review Awards, a symbol of our excellence and trustworthiness. Our growth and success are due to the efforts of Hawaiʻi's captive owners, service providers and regulators.

The State of Hawaiʻi's captive insurance team, headed by Insurance Commissioner Colin Hayashida and Deputy Commissioner and Captive Insurance Administrator Andrew Kurata, has continued to provide and maintain a stable regulatory environment. Captive insurance helps local businesses to survive with effective risk management. It just makes sense for economic sustainability and diversification.

To local business owners and those from abroad, E KOMO MAI (welcome). As you consider Hawaiʻi as your captive domicile, I proudly welcome you to a special place to do business, a special place to live and work, and a special place to call home.

With warmest regards,

DAVID Y. IGE
Governor, State of Hawaiʻi

Captives have become an essential risk management tool

Hawaii has long been a world-class captive domicile and has over 30 years of experience working collaboratively with our captive owners and service providers, to ensure our captives are successful, while still maintaining prudent and effective regulation.

We are one of the few captive jurisdictions with an experienced and dedicated staff within the insurance division specialising in and working solely on captive insurance regulation and development.

Hawaii's captive service providers and the Hawaii Captive Insurance Council's knowledge, experience and expertise also set Hawaii apart. Hawaii's captive laws are business friendly. They allow for the writing of all traditional lines of insurance, including casualty, marine and wet marine transportation, protection and indemnity, property, surety, title, credit life and disability, as well as other lines of insurance that may not currently be available in the commercial market, as the commissioner may allow. We avoid double taxing captive premiums that were already taxed elsewhere and have a maximum premium tax of $200,000. We also continually strive to update our laws and regulations to ensure we are keeping up with the dynamic changes in the insurance, financial and regulatory areas, both nationally and globally.

Thank you for your interest in Hawaii as a captive insurance domicile. I hope you'll consider joining the 231 captive insurance companies (at 31/12/19) that have chosen Hawaii as their domicile.

Colin M. Hayashida
Insurance Commissioner

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ALOHA AND WELCOME!

On behalf of the board of directors of the Hawaii Captive Insurance Council (HCIC), our membership, and Hawaii's 230+ captive insurance companies, we thank you for your interest in and support of Hawaii's captive insurance industry.

For over 33 years, Hawaii has distinguished itself as one of the world's premier captive insurance jurisdictions. Known throughout the industry for its high-quality, business-friendly environment, Hawaii was honoured to have been recognised as Domicile of Year (200+ Captives) by *Captive Review* magazine in 2018.

Hawaii's tradition of stability and excellence is why so many Fortune 500 companies select Hawaii over other captive jurisdictions. At the core of Hawaii's success is the public-private partnership between the State of Hawaii Insurance Division and the HCIC – the trade association comprised of and which represents Hawaii's captive owners and service providers.

As a pioneer in the captive industry, Hawaii has vast knowledge and experience with captive insurance and alternative risk. Unlike most captive jurisdictions, the State of Hawaii maintains a dedicated, self-sustaining captive regulatory branch. This means that they have knowledgeable and experienced staff who are responsive to the needs of captive owners and managers. This also means they can keep nearly all captive regulatory examinations in-house, which drastically reduces the cost of doing business for Hawaii's captive owners.

Matt Takamine

Matt Takamine is the head of Beecher Carlson's Hawaii office and executive managing director and captive operations leader for Beecher Carlson's national captive practice. He is highly involved with the Hawaii Captive Insurance Council (HCIC), the trade association of captive owners and service providers who comprise and support Hawaii's captive insurance industry. He currently serves as the president of the HCIC's board of directors and also as its government relations liaison. In his roles with the HCIC, Takamine is heavily involved with the development of Hawaii's captive policy, domicile direction, legislation and strategic planning.

Cindy Belcher

Cindy Belcher is chief operating officer of the Cooperative of American Physicians, Inc. (CAP), a physician-owned and governed organisation known for its medical professional liability protection and unparalleled practice resources for California's finest physicians. She is also chief operating officer and president of the Cooperative of American Physicians Insurance Company, Inc. (CAPIC). Ms. Belcher is a graduate of Oregon State University, Corvallis, where she earned Bachelor of Science degrees in both Science Education and Microbiology.

As a result of Hawaii's long-standing commitment to captive insurance, we're also proud to maintain a robust, multi-disciplinary service provider infrastructure that is deep, highly experienced, and responsive to the needs of our captive owners. Captive owners can find some of the industry's best captive managers, attorneys, CPAs and investment advisers in the State of Hawaii.

While the majority (85%) of Hawaii's captive owners are US-based, Hawaii has also become the world's leading jurisdiction for Japanese captive insurers. In partnership with the State of Hawaii, the HCIC has travelled to Japan to conduct educational sessions for over 15 years to show Japanese business owners how they can benefit from captive insurance. Hawaii's captive expertise, geographical location, and cultural alignment all make Hawaii an ideal domicile for Japanese captives.

Mahalo Nui Loa – thank you very much – for your interest in and support of Hawaii's captive insurance industry. We know that you have a choice of domicile and we appreciate the opportunity to serve you and to provide value to your business. With your support, Hawaii continues to be one of the world's premier captive insurance jurisdictions. Aloha!

Matthew Takamine
President, Hawaii Captive Insurance Council
Executive managing director, Beecher Carlson

Cindy Belcher
Chair, Hawaii Captive Insurance Council
Chief operating officer, Cooperative of American Physicians

STATE OF HAWAII INDUSTRY UPDATE

Andrew Kurata of the State of Hawaii outlines how Hawaii's captive insurance industry has been faring in the past several years

The State of Hawaii is recognised as a leading captive domicile in the United States and the world. Since its establishment as a captive domicile in 1986, Hawaii has steadily grown through the commitment and cooperation of our government, captive owners and service providers to create a flexible, dynamic and stable business environment. As of 31 December 2019, there are 231 licensed captive insurance companies that call Hawaii home.

In 2019, there was a slight downturn in the number of captives licensed with only 11. However, the overall financial numbers of the captive insurance companies domiciled in Hawaii continue to see growth. In 2018, the captive insurance companies wrote over $10bn in premiums, direct and assumed, and had over $30bn in total assets with over $6bn in capital and surplus. For premiums written and total assets, this represents a 36% and 15% increase from the prior year, respectively. Given a net increase of six in the number of captives for that year, this increase has contributed to the growth of the current captive insurance companies already domiciled in Hawaii. We are expecting these numbers to continue to increase when the 2019 numbers are reported. This showcases the ability of Hawaii as a captive domicile to create a business environment in which a captive can thrive and meet its risk management objectives.

The State of Hawaii has shown its support for the industry through the creation of the Captive Insurance Administrative Fund, which allowed the implementation of a dedicated captive insurance branch within the insurance division. There are currently 14 full-time employees of the captive insurance branch, with the ability for growth given the demand to service the ever-evolving and growing captive insurance industry. Having a dedicated captive insurance branch allows Hawaii to have a specialised and experienced team providing sound regulatory oversight of the industry.

Andrew Kurata

Andrew Kurata serves as deputy insurance commissioner and captive insurance administrator for the State of Hawaii. As captive insurance administrator, he oversees the ongoing, day-to-day regulation of all captives licensed in the State of Hawaii. Kurata has been with the Hawaii Insurance Division since 2011, serving as a captive insurance examiner and programme specialist.

As of 31 December 2018, the captive insurance companies domiciled in Hawaii contributed over $30m in economic benefit to the State of Hawaii. This number is calculated annually through the summation of expenditures paid in Hawaii, which include but aren't limited to fees to Hawaii-based service providers, like captive managers, legal and auditing, premium taxes, and travel expenses. Also as of 31 December 2018, the captive insurance companies domiciled in Hawaii held over $1.66bn in cash and investments held in Hawaii banks. We are expecting these numbers to either remain consistent or increase when the 2019 numbers are finalised. These figures have a significant impact on the overall Hawaii economy and ensure the continued commitment and support from the legislature.

Historically, the majority of the captive owners have been from the western United States, and this continues to be the case as they consist of approximately 66% of the captive insurance companies in Hawaii. However, we have recently seen significant growth from Japanese captive owners. Representatives from the captive insurance industry in Hawaii have been travelling to Japan annually to provide educational seminars for nearly 20 years, and we are starting to see a rapid growth in formations. As of 31 December 2019, there were 35 Japan-owned captive insurance companies, which is roughly 15% of the captive insurance companies in Hawaii. As of 31 December 2016, there were 19 Japan-owned captive insurance companies, which represents an 84% increase over the past three years. Over the same period, 41% of the new licences were from Japan-owned captive insurance companies. We expect this trend to continue and would not be surprised to see years in which 50% of the new licences are from Japan-owned captive insurance companies.

In discussions with captive owners and other professionals in the insurance industry, it appears the commercial property and casualty market is hardening. As such, we are starting to see the utilisation of captive insurance companies to address the situation. This will most likely result with additional lines of coverage being implemented into current insurance programmes of captive insurance companies, and possibly an increase in the formation of new ones. Regardless, with a specialised captive insurance branch and experienced service providers, Hawaii as a captive insurance domicile is sufficiently equipped to efficiently and effectively meet the needs of any current or prospective captive insurance company.

For more information regarding the State of Hawaii as a captive insurance domicile and to find out why you should create a captive in Hawaii, please visit our website at cca.hawaii.gov/ins/captive or email us at captiveins@dcca.hawaii.gov.

ROOM(S) TO GROW

Mike Owens of Marriott reflects on the value the firm has found in conducting their captive business activities in Hawaii

Marriott has a long and successful relationship of doing business in Hawaii, dating back to 1981. In that year, Marriott opened its first hotel in Hawaii and hundredth hotel in the company's history, the Maui Marriott Resort. Later, in 1995, the Kaua'i Marriott Resort became the thousandth hotel in the chain, a major milestone for the company. Along the way, Marriott has also opened several captive insurance companies, and these have become an integral part of Marriott's Risk Management programme to help steer that growth. This article will discuss a few aspects of how Marriott has successfully utilised captives in Hawaii as a part of its growth in operations.

Mike Owens

Mike Owens is the vice-president, risk finance in the risk management department at Marriott International located in Bethesda, Maryland. He is responsible for overseeing all risk finance and related systems activity, including oversight of two captive insurance companies in Hawaii. He has worked in various capacities at Marriott since 1984. Owens is a graduate of Loyola University in Baltimore, MD, with a Master's degree in Finance and a Bachelor's degree in Business Administration. He holds certifications as a CPA, CIA, and CISA.

Captive Review (CR): Tell us about Marriott and its captives.

Mike Owens (MO): Marriott International, Inc. operates, franchises, and licences hotel, residential, and timeshare properties worldwide. Marriott now has approximately 7,200 properties under 30 hotel brands in 134 countries and territories. The company was founded in 1927 in Washington, DC, starting with a nine-seat root beer stand that opened on the same day that Charles Lindbergh embarked on his historic flight over the Atlantic Ocean. Marriott now has over 700,000 associates affiliated with its brands, and is headquartered in Bethesda, Maryland. Since opening its first hotel in 1957, Marriott has experienced rapid growth in the hotel industry and is well-positioned for future growth with about 500,000 rooms in its development pipeline.

Marriott currently operates two captive insurance companies domiciled in Hawaii. F.L. Insurance Corporation (FLIC) was chartered in 1994 and primarily provides reinsurance for Marriott operating exposures including property, casualty and cyber. Marquis Insurance Corporation (MIC) was founded in 2001 and primarily provides casualty insurance coverage as a part of the self-insurance programmes overseen by Marriott's Risk Management department.

CR: What does the FL stand for in F.L. Insurance Corporation?

MO: Occasionally, you hear some interesting stories about how captives are named. Marriott is no different. Before the current two captives now in place, Marriott had two other captives, one named C.L. International Insurance Corporation (CLIIC) and the other named G.L. Insurance Company (GLIC). When CLIIC was formed in Bermuda in the 1970s, the team at that time was taking suggestions on what to name the new captive. After some debate, one executive exclaimed something to the effect of: "I don't care what you name it. You can name it Chicken Little for all I care." And thus, CLIIC was named. When it was time to open another captive in the 1980s, the tradition was continued with GLIC (Goosey Lucy), and thereafter in the 1990s, with FLIC (Foxy Loxy). With the turn of the millennium, the nursery rhyme tradition was discontinued and Marquis Insurance Corporation was named to reflect the enduring value and prestige of that hotel brand.

CR: Why did Marriott choose Hawaii as its captive domicile?

MO: Hawaii is a superb fit for Marriott's captive insurance needs. It is a mature domicile with a very robust infrastructure of captive insurance providers, including captive managers supported by banking, legal, audit and regulatory resources. With 33 Marriott branded hotels in Hawaii already in operation and more in the pipeline, Marriott continues to have a significant business presence in Hawaii. Also, as Marriott's operations continue to grow significantly in the Asia Pacific realm, Hawaii has become a logical place as a base of captive operations. The captive insurance industry, and particularly our experience in Hawaii, has been instrumental in enabling our ability to respond to numerous business challenges and opportunities with effective risk management strategies and solutions.

CR: Why do you continue to believe Hawaii is the right domicile for Marriott?

MO: For over 25 years, Marriott has had a great experience in operating captives in Hawaii. As business needs and plans change, Hawaii has consistently shown the ability to be responsive to the changing and growing needs of Marriott. The low premium tax structure, responsiveness of service providers and relatively low operating costs have continued to make Hawaii the right answer for us. And it's not a bad place to visit once in a while, too!

CR: Can you provide an example where Hawaii stepped up to meet your needs?

MO: A good example can be found in our experience associated with the Starwood transaction. Prior to its acquisition by Marriott in 2016, Starwood was a large hotel management company with a risk management operation including a captive insurance company. As a result of the acquisition, we were faced with a decision as to whether to continue to operate the Starwood captive or merge it into one of our Hawaii captives. The issue required considerable study and we eventually decided to merge it into one of our existing captives. Throughout the process, various financial, legal and captive management resources from Hawaii stepped up to assist us in planning and executing the necessary steps. The regulatory approval process went smoothly and we were able to close the transaction on time. This resulted in numerous administrative efficiencies and lower operating costs as well.

> "As Marriott's operations continue to grow significantly in the Asia Pacific realm, Hawaii has become a logical place as a base of captive operations"

CR: Any other aspects of doing business in Hawaii that you'd like to mention?

MO: The Hawaii Captive Insurance Council (HCIC) and State of Hawaii do a great job of outreach to the captive owner community. Through participation in or sponsorship of events like RIMS, Hawaii On The Hill and the HCIC Annual Conference in Hawaii, they ensure a dynamic, informative experience for existing and prospective clients. The Aloha spirit brought to all business dealings makes Hawaii a natural fit for a hospitality company like Marriott and is consistent with the Marriott ethos of 'The Spirit to Serve'. Hawaii truly has industry leaders in the captive arena and is a wonderful community in which to do business.

CR: How do you analyse the benefit of having a captive?

MO: As is generally true of the experience of other captive owners, there are numerous cashflow and programme structure advantages that a captive provides. But perhaps the most important benefit is in how our captives have enabled us to respond to various business challenges that arise – tightening insurance markets, business acquisitions, availability of policy coverage, and other matters. The captive programmes and service teams available in Hawaii have done a superb job in helping us to anticipate and respond to these challenges. That's really the best value that the captives bring. As a large, dynamic, growth-oriented company, we have to be continually prepared to anticipate business opportunities and respond to a rapidly changing hospitality industry and challenging insurance markets. Having two operating captives ready to help us respond to these challenges enables us to provide comprehensive programmes, manage risks and take advantage of cost-saving opportunities.

CR: Where is Marriott headed with its captive programmes?

MO: As Marriott continues to grow, we anticipate that our captive programmes will continue to grow and flourish as well. While the captives have traditionally been geared primarily towards domestic workers' compensation and general liability lines, in recent years we have been evaluating and strategically placing certain elements of other lines of business in the captives as well, such as global property and cyber. Our service providers have been instrumental in helping us to evaluate and place this coverage when advantageous to do so. As we look to a bright future with even more rooms to sell and new ventures to consider, we anticipate that our captives will continue to play an important role in helping us to minimise our insurance costs and maximise our programme flexibility.

HAWAII – THE LEADING DOMICILE FOR JAPANESE CAPTIVES

Paul Shimomoto details the strong relationship between Hawaii and Japanese captives

Paul Shimomoto

Paul Shimomoto is a partner in the Honolulu law firm of Goodsill Anderson Quinn & Stifel. Over the past 20 years, he has represented, and continues to represent, the vast majority of captive insurance companies domiciled in Hawaii, whose parent companies include publicly traded, global and/or Fortune 500 companies and highly successful privately held businesses. Shimomoto is an officer and director of the Hawaii Captive Insurance Council and also serves as its industry liaison and chair of its marketing committee.

The first Japanese immigrants, known as 'issei' (meaning 'first generation'), began arriving on Hawaii's shores in about 1885, in what was then the Kingdom of Hawaii. Most of those immigrants were single men who came looking for better financial opportunities and who found employment in Hawaii's vast and thriving sugar cane plantations. Many female Japanese immigrants, on the other hand, came to Hawaii as picture brides.

A significant number of the first immigrants returned to Japan following the completion of their initial work contracts, having endured back-breaking work and primitive living conditions on the plantations. Those that stayed, however, sought to embed themselves into the cultural fabric of Hawaii, quickly establishing schools and Buddhist temples. They also fought to improve working conditions and wages on the plantations and even led efforts to organise labour.

Although the issei /ee-say/ experience in Hawaii was arduous and toilsome, it became the cornerstone of an important foundation for Hawaii's second generation of Japanese inhabitants known as nisei /nee-say/. Nisei are the first American-born generation. Many Hawaii nisei were born between 1905 to 1925, while US mainland nisei were born about a decade later.

Much of the nisei experience in both Hawaii and the mainland United States is cast in the dark shadows of World War II. During World War II, persons of Japanese ancestry on the US West Coast were forcibly evacuated from their homes and relocated to inland detention centres as a result of mass hysteria following the Japanese attack on Pearl Harbor on 7 December 1941. Despite this treatment, nearly 17,600 nisei were able to prove their loyalty to the United States and honourably served in various branches of the US Armed Forces, including perhaps the most notable nisei, Daniel K. Inouye, who was a member of the famed 442nd Regimental Combat Team. He later became the second longest serving US senator in history. Since then, many others of Japanese ancestry have risen to positions of prominence in both state and national spheres, including former Hawaii governor and nisei George Ariyoshi, current Hawaii governor and sansei (third generation) David Ige, and current US Senator Mazie Hirono, who was actually born in Fukushima, Japan.

Today, US census data indicates that Japanese is the largest represented ethnic group in Hawaii, with nearly 17% of its resident population having Japanese ancestry. Hawaii has also proven to be one of the most desired travel destinations for Japanese visitors. In 2019 alone, there were nearly 1.6 million air arrivals from Japan, comprising nearly 17% of all tourist travel to the islands. Hawaii's geographic proximity to Japan, its temperate climate, along with its world-class beaches and resorts, are obvious reasons for this. Adding to this, however, are the strong cultural similarities between the two countries and Hawaii's high level of Japanese language proficiency. Given the deep historical and ethnic ties between Hawaii and Japan, it was only logical, and perhaps just a matter of time, before Hawaii became a popular domicile for Japanese-owned captive insurance companies.

2019: a record year for Japanese captives in Hawaii

For the first time in Hawaii's history as a captive insurance domicile, the number of newly licensed captives owned by Japanese corporations exceeded the number of newly licensed captives owned by US mainland corporations. In 2019, Hawaii licensed 11 new captives, eight of which are owned by Japanese companies. As of 31 December 2019, Hawaii had 35 licensed captives from Japan, representing roughly 15% of its total captive portfolio.

For those of us who have been around the captive insurance industry in Hawaii long enough, these results are heartening, but unsurprising. On one hand, the numbers are logical considering the high degree of captive 'saturation' in the United States, where an estimated 85% of public US companies in the S&P 500 operate (or have operated) a captive insurance company. On the other hand, these results serve as validation of Hawaii's 20-year commitment to providing captive insurance education in Japan.

Secrets of success

Over two decades, while we have provided ever-expanding information and education about captives to a seemingly endless network of Japanese executives, commercial insurers, agents and independent consultants, we too have learned a tremendous amount about the Japanese insurance marketplace and its appetite for self-insurance.

It is widely known that Japan's property and casualty industry is one of the largest industries in the world. Reportedly, the largest private property and casualty insurers in the country are Tokio Marine, Sompo Japan, and Mitsui Sumitomo and Aioi. Insurance agencies are the main sales channel and they account for over 90% of net premiums written for primary insurance business. Thus, it was clear from the outset that buy-in and acceptance by Japan's largest commercial carriers for the introduction of captive insurance facilities – which would be owned by its most valued customers – would be key. However, this buy-in and acceptance would not be forthcoming for quite some time due, in large part, to the Japanese concept of keiretsu /kay-ret-su/ – a longstanding traditional system of obligational relationships based on trust and goodwill. As you might imagine, our initial efforts to educate and inform Japanese companies about the benefits of forming a captive were seen as incongruent with those obligational relationships. But we remained committed and undaunted, and with our two decades of networking and relationship-building behind us, we have forged stronger and deeper levels of trust and confidence with the commercial markets, and they increasingly view us as value-added partners rather than existential threats to their customer relationships.

Over our 20-year history of captive education in Japan, we also have strengthened and expanded long-standing partnerships with large, worldwide brokerage firms that typically have access to large, publicly traded captive insurance prospects. But we have also established new relationships with accounting firms, wealth advisers, financial institutions, independent brokers and consultants located all across Japan who are able to introduce small to middle-market companies to the concept of captive insurance.

"As of 31 December 2019, Hawaii had 35 licensed captives from Japan, representing roughly 15% of its total captive portfolio"

Our educational approach has also become more sophisticated and refined. We have always hosted an annual informational event in Japan. And in the early days, we were fortunate to attract 50 total attendees to our events. Today, our annual captive prospect event attracts nearly 200 attendees and is a standing-room only event. In 2020, we will also host our third annual Japan captive owners' educational summit. At this exclusive, invite-only event, Japanese companies with Hawaii-domiciled captives are able to discreetly network with each other and they are treated to case-study presentations by other prominent and seasoned Hawaii captive owners.

Hawaii, a sensible choice for Japanese companies

Cultural and historical reasons aside, an increasing number of Japanese companies are learning that there are many practical and operational benefits to domiciling their captive in Hawaii. Here are some of the most notable:

- Hawaii is a US (onshore) jurisdiction
- Hawaii has stable, experienced and dedicated regulators who understand the Japanese market
- Japanese captives have access to US investment managers and reinsurance markets
- No premium tax on assumed reinsurance
- The ability to use yen as the captive's functional currency to mitigate foreign currency exchange risk
- Close geographic proximity to Japan with direct flights from all regions in Japan
- Highly experienced, bilingual captive insurance service providers
- Japanese captive owners can conduct business in Japan, Hawaii and the US west coast, all in the same business day

Our success in the Japanese market is, and always will be, the result of a concerted team effort. We are fortunate to have historical and cultural ties that bind us with Japan, but we also would not be the leading domicile for Japanese captives without the tremendous level of support we receive from the State of Hawaii and the many private sector captive insurance professionals based in Hawaii. With these foundations in place, our possibilities in Japan couldn't be more promising.

NEXTGEN RISK FINANCE AND THE USE OF CAPTIVES

Ward Ching of Aon explains how the firm's NextGen Risk Finance framework can assist with firms' risk underwriting awareness and more

For some time, enterprise risk management has been engaged in better utilising risk data to predict hazard risk appetite and risk assumption. Current insurance market price and capacity constrictions in the global insurance and risk transfer marketplace have encouraged large publicly and privately traded companies, who also successfully operate captive insurance companies, to re-evaluate their philosophical position relative to risk and insurance. The central questions they are asking include:

- Is the risk transfer market correctly analysing and underwriting my risks?
- What is the efficient 'strike price' for my exposures in the open insurance market?
- Does my data tell me that I can underwrite and price my risks more effectively and economically than the market?
- What analytics should I be using to better understand my risk appetite and risk bearing capacity?
- Is a portfolio approach to risk finance a more effective way to manage risk volatility and provide me with more predictable cost projections than conventional approaches?

NextGen Risk Finance is a rapidly evolving enterprise risk management framework that encourages organisations to utilise emerging analytic finance, treasury, and risk portfolio management techniques to leverage the firm's risk underwriting awareness and capacity pivoting towards becoming the 'underwriter of choice'.

Ward Ching

Ward Ching is managing director – Western Region, Global Risk Consulting located in San Francisco, California. He is primarily responsible for captive and insurance management services, domicile management, and supports a variety of Aon Management Consulting Services to clients. Ward is also part of Aon's Alternative Risk Finance Practice and Aon's Multinational Client Council, servicing Aon's largest international client base.

> "We now can 'see' risk opportunities and advantages in the traditionally collected risk finance and risk management data that we could not see five years ago"

Key tenets of NextGen Risk Finance

- We now can 'see' risk opportunities and advantages in the traditionally collected risk finance and risk management data that we could not see five years ago. We are now connecting the risk information with company performance information to help inform strategy and financial performance.
- We now recognise that while insurance coverages are generally organised and placed individually, there is an advantage in reorganising and analysing coverages in a more robust risk portfolio. Utilising a 'risk portfolio' approach allows organisations to leverage their understanding of total cost of risk into managing 'bounded' risk volatility. Risk volatility can now be used to establish risk retention and risk transfer.
- Risk portfolios can now 'house' basket aggregate or more inclusive lines of coverage across all hazard, financial and operational risk categories. In effect, the risk portfolio is becoming the financial underpinning for enterprise-wide risk finance.
- By employing new analytic tools to establish a corporation's conceptual efficient risk frontier and measure it against risk mitigation strategies, NextGen Risk Finance provides senior management with an enhanced view of the firm's risk

profile, risk appetite and retention potential.

These analytic tools now allow us to ask different questions and undertake the following processes around risk, risk tolerance, risk appetite and risk retention:

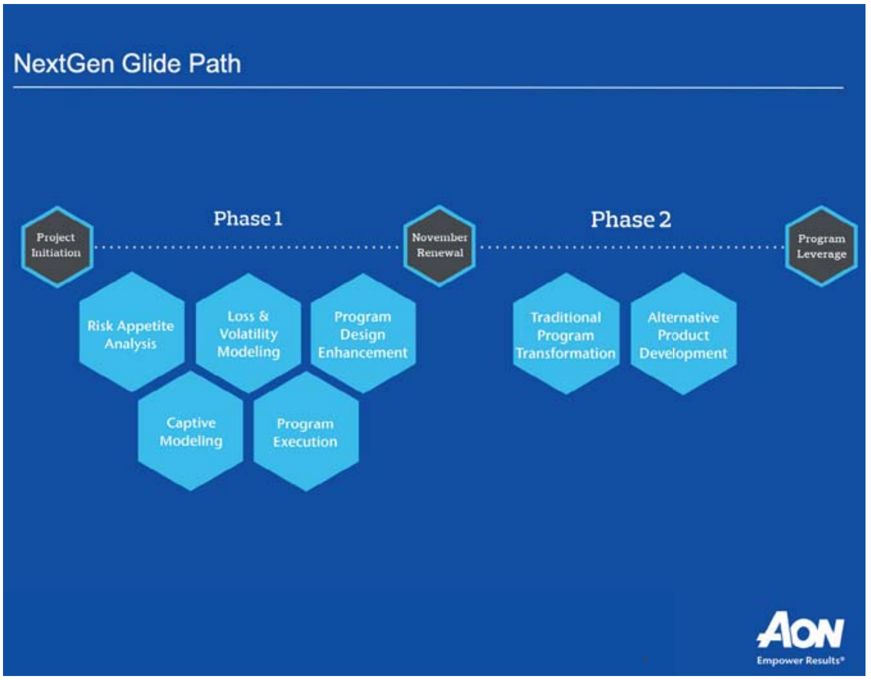
- We now can underwrite the corporation's risk and price risk transfer organically, irrespective of market perception or historical risk pricing. By doing so, we are now able to understand the value of the carrier's portfolio underwriting impact on price and programme design.
- We are now able to underwrite the company risk portfolio to determine the effective trading price with the market accounting for retention and layering strategy.
- New analytics position the company to assume the best risk layer positions at effective prices.
- Using a recalibrated and priced risk portfolio, we can initiate a new and different dialogue with the market where the company 'signals' their price intentions across the portfolio. Where the market meets or 'beats the strike price', the company trades. Where the market does not meet the strike price, the company retains the risk in some vehicle (captive) or balance sheet.

The captive plays a central role as 'housing' for the risk portfolio. This is not a new concept in that the multiyear/multiline insurance concept has been around for some time. What makes the current approach different is that the captive is being used to handle basket aggregate-type programmes at the retention layer of the corporate programme. For many companies, the layer may be several tens of millions of dollars in size.

How a corporation might think about better understanding the use of NextGen and their captive is shown in the image on this page.

NextGen analytics would involve two distinct phases. Phase one is essentially doing the math where the corporation's risk appetite and programme volatility modelling takes place. Captive modelling would take individual insurance line simulations and a combined portfolio view of risk and establish the operational capital and surplus requirements of the captive and set appropriate strike prices, where the captive is prepared to assume risk at specified premium levels.

Phase two extends the portfolio calculations to envision other lines of coverage or risk finance approaches. The captive effectively becomes the centrepiece of the NextGen Risk Finance approach.



Risk Appetite Analysis
To establish Client's appetite for unbudgeted loss. The analysis evaluates the impact of selected volatility parameters on financial performance. The risk appetite calculation is used to determine an organization's ability to meet its stated financial goals and serves as a base for the risk tolerance calculations applied in the Loss & Volatility modelling component.

Loss & Volatility Modelling
To determine the exposure to identified risks. Stochastic models will illustrate the range of potential loss exposures. The modelling will also define the risk appetite breach points and calculate the potential for catastrophic losses.

Program Design Enhancement
To devise and evaluate alternatives. For each alternative, the model quantifies the annual average Total Cost of Risk (TCOR), defines the risk appetite breach point and calculates the potential for catastrophic losses. This component will provide the client with the information it needs to make highly informed decisions about alternative risk mitigation options.

Captive Modelling
We will outline the financial and operational impact on the captive, focusing on additional capital requirements and cash-flow implications for the program selected in the program design enhancement step.

Program Execution
Should the recommended strategy result in a material change to the captive's business plan, Aon will develop, submit and project manage the required Regulatory license application.

Summary

As our ability to do the math enables financial and operational insights into the portfolio impact of risk on a company's performance, the captive will increasingly be utilised as a strategic tool to drive business risk management and competitive opportunities.

THE CAPTIVE ADVANTAGE IN A DIGITAL AGE

Scot Sterenberg of Marsh reflects on the impact of technology for the captive insurance space

The golden age of digital transformation has dawned and is no less full of threats and opportunities than the industrial revolution some 200 years ago. You see it right in front of you with the following:

- Virtual experience: paperless claims handling working towards touchless handling altogether.
- Blockchain: digital ledger with the potential to transform certificate or proof of insurance process.
- Artificial intelligence: the use of which may significantly reduce the time required for claim intake or automated underwriting.
- Sensors and connected devices: wearables and other biometric sensors are transforming emergency response and virtual medicine.
- Information economy: third-party data sources are now abundant and updated in real time, leading to insurance programme optimisation.

Where does captive insurance stand?

In many ways, captive financing strategies have been far ahead of their time, almost waiting for this period to arrive. Leading organisations today want to:

- control their own destiny and not be forced into standard insurance forms/coverages

Scot Sterenberg

Scot Sterenberg is a senior vice-president at Marsh Management Services in Honolulu, Hawaii. He leads the brokerage, risk advisory and captive services for Marsh in Honolulu. Sterenberg provides strategic direction and leadership for the Marsh Captive Solutions team in Hawaii, and he takes a leading role in business development, senior relationship management and service team oversite for all accounts in geography.

- enhance the customer experience
- improve economic outcomes in transaction flow
- have less exposure to volatile insurance markets
- own predictable risk with more consistent cash flow
- optimise tax position.

The captive concept is well suited to serve each one of those needs and the primary reason captive use has boomed, especially in the US and particularly in technology-centric industries. Captive insurance was once perceived as a threat to traditional insurance markets, and now many global commercial markets stand ready to offer fronting and reinsurance arrangements on multi-lines.

The US captive domiciles, and the Hawaii domicile especially, have seen most of this growth in this digital age as organisations recognise the need for professional, deeply talented captive insurance professionals that can quickly evaluate and launch a new captive.

There is rarely a day that passes where I don't have a conversation with a start-up or a longer-established entity where they are looking for the flexibility offered by a captive construct. Recently, I've worked on the following projects:

- new vendor programme
- new extended warranty
- voluntary employee benefits
- customer-specific offering where no commercial viable market exists
- corporate risk programme where transforming (read: 'hard') insurance market is causing re-evaluation.

The captive insurance option is now always part of our conversations, and whether it's a large multinational corporation or family business, the captive concept needs to be evaluated.

If you are not already up to speed on this conversation, now is the time to get educated and explore your options.

Captives have been around for about 50 years (sort of like me) but only now are they coming into their own (hopefully like me).

WHAT'S TRENDING IN FINANCIAL SERVICE FOR CAPTIVES?

Edward Haik of Bank of Hawaii Investment Management Services highlights some of the key captive insurance trends being seen in recent times

As one of the oldest and largest domiciles in the US, and a premier location for captive insurance both nationally and globally (the state was honoured as the 2018 Domicile of the Year by *Captive Review*), Hawaii has a clear view of how captive insurance companies frequently handle their finances.

Captive Review (CR): What's trending in reinsurance trust services for captives?
Edward Haik (EH): Reinsurance trusts are accounts created to satisfy a captive's collateral requirements to strengthen and guarantee their insurance programmes.

The collateral requirements for captives can be handled via a segregated reinsurance trust or a letter of credit (LOC), and the rates for both are influenced by client-specific size, needs and objectives. Pre-financial crisis, the costs for LOCs were low. After the financial crisis, LOC rates got more expensive. Now we see the market trend as more balanced between the two. Clients depend on the bank LOC providers and the expertise of their financial service professionals to place them into what's most advantageous for their circumstances.

Size is often the primary determinant for which way to go: LOC or trust. A smaller account will normally look first to an LOC, but as reserves grow, a captive may choose to open up a reinsurance trust account and invest the funds in a high-quality bond portfolio (with a Federal Reserve Bank member for Regulation 114 Trusts) to maintain their required collateral balances.

Edward Haik

Edward Haik has over 30 years of experience in the investment industry, and has worked at Bank of Hawaii for the last 25 years. In addition to his Bank of Hawaii responsibilities, he also serves on the board of the Hawaii Captive Insurance Council and several boards of the Nonprofits Insurance Alliance: insurancefornonprofits.org. Bank of Hawaii's trust division is the largest full-service trust institution in Hawaii, with total assets under management and administration of $9bn.

CR: What's happening in the Japanese captive market?
EH: Japanese corporations are known for being very conservative and discerning regarding their financial decisions, and somewhat measured in their use of captives. However, captive insurance risk management awareness among Japanese owners continues to increase as corporations seek to protect real properties, supply chains and other physical assets from the effects of natural disasters and other business risks. Many Japanese risk managers are presently looking to expand their insurance capabilities coverage and are actively considering licensing even more Hawaii captives.

The first captive created by a Japanese corporation was a shipping company that licensed in Bermuda in 1973. The captive market developed slowly among large Japanese shipping, oil, trading, food, leasing, airline, travel and automobile industries. This first wave of captives led to a surge of smaller market participants, which in turn helped to reawaken new interest for major market participants. The Tax Cuts and Jobs Act of 2017, which lowered US corporate taxes, has made Hawaii more attractive again as a highly competitive captive domicile. Hawaii's close ties to Japan, plus its proven experience in helping clients navigate towards best-in-class insurance solutions, makes it ideal for serving clients from Japan.

CR: What's current in investments for captives?
EH: From the outset of this domicile, captives with Bank of Hawaii have typically held their reserves almost exclusively in deposits or high-quality bond portfolios. Now, as a more seasoned domicile, what we see trending is significant diversification of reserve investment portfolios to achieve enhanced returns over and above what basic deposits or high-quality bonds will produce. Considering that several global government bond markets are trading with

negative rates, the flexibility Hawaii offers for diversifying reserve portfolios can look especially attractive to some international clients.

Today, new and old captives alike should be aware that from the next dollar contributed to their investment reserves, they can do more in terms of investing if they plan appropriately. More mature captives that only need a prospective 1.5%-2% return on their investments may elect to stay with high-quality bonds. For captives seeking higher return potential for their reserves, we advise them to take advantage of the fact that they are a Hawaii-licensed insurance company that can submit a strategic investment policy (SIP) to the Hawaii insurance division for approval.

A SIP basically states how the captive plans to invest its reserves and the risks they will take on behalf of their own insureds. This is an opportunity for clients to think creatively about how they can seek returns over and above the cost savings they are looking to achieve in creating their captive.

High-quality bonds will likely continue helping captives to ensure a smooth path for paying out claims on their insurance policies. Be that as it may, diversification appears to be here to stay for portfolios that once only considered holding bonds; unless a three, four or five per cent short-to-intermediate rate environment suddenly sets in again.

Bank of Hawaii has seen tremendous growth in investment management services for captives domiciled here. For clients and prospects alike, we believe Hawaii offers an idyllic setting to grow your captive supported by the state's solid, stable regulatory framework and the vast deep capacity of numerous seasoned professionals focused on captives.

CR: What's around the corner for captive reserve investments?

EH: One frequently occurring enquiry we are consistently fielding of late is the trend towards ESG (environmental, social and governance) investing. ESG is a growing way to measure sustainability and ethical practices of companies, and is commonly used by investors to screen and evaluate new investments. Bank of Hawaii dedicates important time monitoring and evaluating best-in-class ESG managers because there has been a marked increase in client interest in how to deploy captive reserve assets in investments that align with their corporate philosophies, and their desire to respond to their own shareholder base who want to see more focus on socially responsible investing.

This specific market segment focus is one we feel obligated to support, because it is important to uphold very honourable ideals and clearly our clients have real interest in the topic. Additionally, D.A. Davidson recently ranked Bank of Hawaii No. 1 for ESG among all financial institutions in the United States.

> "The Tax Cuts and Jobs Act of 2017, which lowered US corporate taxes, has made Hawaii more attractive again as a highly competitive captive domicile"

CR: What's trending in banking for captives?

EH: Understandably, security (especially cyber-security) is top of mind for both banks and captives. As a Federal Reserve Bank member, Bank of Hawaii is subject to federal regulations and examined annually. We commit meaningful assets to invest appropriately in precautions to stay ahead of and protect clients from constantly changing trends in cyber-criminal activities. Historic low rates have intensified competition among financial institutions, but above and beyond low yields prudent captives can discern and differentiate providers by their safety track records and reliably high service level standards. Having high confidence in the trustworthiness of the organisations you choose to work with can certainly be another value added for your captive programme. The peace of mind that comes from knowing your financial service provider is a strong and top-rated institution can be priceless.

CR: How can Bank of Hawaii help?

EH: For the past 30 years, Bank of Hawaii has been a leader in the captive insurance industry. Since inception of this industry, we were the first local financial services provider to create our own captive, and the fifth licence in the domicile among now more than 230. We currently provide a full range of banking and investment products to more than 95 diverse captive clients. Ranked as one of the best banks in the country for the past 10 consecutive years, we are the only Hawaiian bank to receive this distinction. Bank of Hawaii's dedicated captive insurance services team members collaborate across their own areas of expertise to create customised strategies to serve businesses in a range of sizes and from a range of industries including healthcare, hospitality, energy, retail, construction and technology. For more information about the sound and prudent captive insurance services at Bank of Hawaii, please contact captives@boh.com.

THE EMERGING LANDSCAPE FOR CAPTIVE INVESTING

Ken Miller of First Hawaiian Bank discusses the captive investing landscape in the shadow of the financial crisis

The strong growth of the captive insurance industry over the past 30 years has coincided with a relentless decline in interest rates that has transformed the investment landscape. Captive insurers, whose investment portfolios are mostly bonds and cash, have benefitted not only from relatively high coupon payments, but also from the gradual fall in rates (the principal value of bonds increase as interest rates decline). But now, with interest rates near rock bottom – often below even the rate of inflation – captives face a more challenging environment.

Historically, interest rates have been largely determined by the economic cycle. This article examines where we are in the current economic cycle, as well as the multi-decade debt 'super-cycle'. Both have implications for the interest rate outlook and for managing captive insurer's investment portfolios. Fortunately, there are ways for captives to increase investment returns while keeping the level of risk manageable.

The most frequent question we hear from clients is "when is the next recession coming?" After the tremendous pain of the 2008–2009 financial crisis, they are determined to avoid the market impacts of another economic downturn. If only it were so easy. Convinced that the next recession was just around the corner, many investors have spent the past 10 years hiding out in ultra-safe investments or cash, largely missing out on the outsized returns of riskier assets during that period.

US stocks, for example, have returned about 450% since the market trough. Although wrong in hindsight, their concerns were understandable. The Federal Reserve had nearly exhausted its tool kit to stimulate the economy, only to produce sluggish growth and lingering vulnerability to shocks like the eurozone sovereign debt crisis and decelerating growth in China.

Today, the US economic data continues to present a mixed picture. For example, while the manufacturing sector is under pressure, the labour market is exceptionally strong. And while the yield curve is partially inverted (historically a fairly reliable indicator of a pending recession), there is little reason to believe that the record length of the current expansion (now in its 11th year) makes us due for a correction. Instead, a great deal will depend on central banks' monetary policy, which if calibrated correctly could produce a 'soft landing' and another leg of economic growth. For the foreseeable future, with little sign of sustained inflation, the Federal Reserve has the luxury of supporting the economy with continued low interest rates. But of course, unpredictable economic shocks such as destructive trade wars, geopolitical events or global pandemics have the potential to upset the apple cart.

The super-cycle

The current economic expansion, although extended, is superimposed on an even longer debt super-cycle. In particular, since the early 1980s when inflation and interest rates were at double-digit levels, the developed economies exhibited a seemingly unquenchable demand for borrowing, driving economic growth but saddling the private and public sectors with more and more debt. That

Ken Miller

Ken Miller, CFA, with over 25 years of industry experience, is chief investment officer and manager of First Hawaiian Bank's Institutional Advisory Services Division. First Hawaiian Bank was a founding member of the Hawaii Captive Insurance Council more than 30 year ago, and today provides banking and investment solutions for dozens of Hawaii-domiciled captives, both domestic and international, with assets totaling approximately $1bn. Contact Ken at kmiller@fhb.com or (808) 525-8733.

process culminated with the financial crisis, when the private sector finally began to deleverage. Private debt as a proportion of GDP in the developed economies has declined by 20% since 2009.

At the same time public debt has grown, due in no small part to the US federal government deficit, leaving aggregate debt levels about flat relative to GDP. Low interest rates reflect generally weak demand for credit. US corporations – still smarting from the last recession – have had to be enticed by extremely low rates to fuel borrowing. The implication of the debt super-cycle is that rates will continue to be affected by a prolonged reluctance by businesses and consumers to return to the debt-fuelled growth of the early 2000s.

Thus, our positioning in the current economic cycle and the longer debt super-cycle, combined with lower potential growth rates in the advanced economies as well as global deflationary forces, will tend to keep rates low for the foreseeable future, in our view. For captive insurers the implication is clear: safe fixed income investments will likely provide minimal inflation-adjusted returns, and captives should consider diversifying into other asset classes with higher potential returns.

Individual circumstances will determine a captive's ability to invest in higher-returning assets. Typically, the optimal investment strategy for a captive insurer changes over time. In the start-up phase, a captive may be focused on building capital to fund short-term cash needs and liabilities. The overriding investment objective is capital preservation, and assets are largely cash-equivalents or short-duration government securities.

> "Individual circumstances will determine a captive's ability to invest in higher-returning assets"

As the captive develops some cashflow history and builds reserves, some additional duration-risk exposure may be permitted to more efficiently hedge longer-term liabilities. Intermediate-duration government bonds and investment-grade corporate bonds may be added to the mix, and consideration given to an equity allocation. Eventually a fully mature captive, with a well-understood cashflow profile and accumulated surplus, may further increase duration and credit risk, as well as adding exposure to equities and alternative assets. Today's low-interest-rate environment, which we expect to persist, amplifies the importance of these decisions.

The long view

The strategy modification likely to have the biggest impact on portfolio returns is the addition of some equity exposure. Equities have historically had much higher returns than bonds, although with higher volatility. Yet over longer time periods, equity returns have been reliable: over 10-year rolling period returns since 1871, 97% of the time stocks have had positive total returns.

The implication is that equities have manageable risk for longer-time horizons; for example, to fund liabilities that are years out into the future. Nonetheless, equities are used sparingly by captive insurers, with the highest concentration in larger captives. In our view, smaller captives should also be exploring the opportunity to increase returns and portfolio efficiency by diversifying their cash and fixed income holdings with other asset classes, particularly equities.

Finally, equity exposure can now be obtained efficiently and cheaply through exchange-traded funds, an innovation that has also transformed the investment landscape over recent years.

ASK THE AUDITORS

Alton Ohira and Jill Miura of KMH Hawaii provide clarity on the audit process and outline the considerations to bear in mind when enlisting a suitable auditor

Hello, I am the CFO of a large company that manufactures various types of heavy-duty equipment used in the farming industry. Our manufacturing process is state of the art.

Although technology plays a major role in the manufacturing processes, we still have a fairly large workforce involved in quality control and the delivery functions. Because we have excellent processes in place that minimise the risk to our workers resulting in minimal workers' compensation claims, we have been advised to assess the feasibility of forming a captive insurance company.

We are at the end of our assessment process and will most likely transfer our workers' compensation coverage to a pure captive insurance company. I have been told that the local regulators require the captive to be audited by an approved, certified public accounting firm. I will be in charge of the captive insurance company as CEO and as board chair and will serve as the primary contact for the audit.

Since I am currently responsible for getting the audit done in my current role as CFO, is it appropriate for me to assume that an audit of a captive insurance company would be conducted in the same manner as I am accustomed to, and are there any unique components of a captive audit that I should be made aware of?

That's a good question. The answer is that you can assume that many aspects of a captive audit are the same; however, there are a few differences that if not understood and addressed could lead to an unsuccessful audit process. As you know, an unsuccessful audit could lead to missed deadlines, and in a regulated environment, missed deadlines could have an adverse impact on the operations of the captive in addition to all of the heartache and frustration if an audit process does not go well.

So what are these differences? Some of the more significant ones are as follows.

Unique parties involved in the audit process

There is typically the involvement of more third parties that play a major role in the audit process than in a normal audit. The operations of a captive insurance company are unique. The company typically does not have any 'operating' employees. All functions are outsourced. As a result, the auditors need to carefully and completely coordinate on a timely basis all audit activ-

Alton Ohira

Alton Ohira is a partner in the Assurance & Advisory Services division. Prior to joining KMH in 2005, he was an assurance and consulting partner at KPMG. Ohira brings over 30 years of experience in the insurance industry working on various property and casualty, life and captive insurance companies. Ohira has also served many non-profit organisations in Hawaii.

Jill Miura

Jill Miura is a principal in the Audit and Advisory Services division of KMH. She has over 20 years of experience serving captive insurance clients as well as traditional insurance companies and has previously served as a captive manager. Miura is a director and active member of the Hawaii Captive Insurance Council.

ities with more people that are outside of the company.

Why is this important?

The more people involved in the audit process means that there are more variables that need to be coordinated to get the audit done. The coordination process is also more difficult because most of the participants reside in different organisations. For example, in a typical captive audit, you may have the following additional third parties involved in the audit process:

- a captive manager
- the captive insurance actuary
- one or more third-party administrators of claims
- one or more insurance brokers
- the auditor's consulting actuary.

Unique client auditor relationship

In the audit of your manufacturing company, you, as CFO, have periodic and timely communication with the auditors. Communication is critical to getting the audit completed as planned. In a captive audit, communication usually takes place between the captive manager and the auditor. Unless specifically requested, you will have less direct communication with the auditors.

Why is this?

The primary reason is that the captive manager is typically responsible for the financial records and is usually the custodian of all source documents, such as agreements and contracts. In this regard, for all practical purposes, the CFO of the parent company often delegates to the captive manager the task of getting the audit done.

Unique accounting and financial statement presentation

A captive insurance company prepares its financial statements, depending on type and regulatory jurisdiction, on a statutory basis or on specialised insurance-accounting principles defined in generally accepted accounting principles. These principles differ significantly from the accounting principles used in what you are familiar with in the manufacturing arena.

As such, this creates a unique situation in which you as our 'client' are not accustomed to the principles used in the company that is being audited. Certainly, this could result in the need to have tailored meetings to resolve issues – very similar to trying to solve issues in another language. Issues (different accounting barriers) can be resolved but to do so may require more coordination and increased planning.

Uniqueness in understanding and analysing the captive's financial statements

Fully understanding what financial story a set of financial statements is telling you can be tricky for a number of reasons:

- The basis of accounting, as discussed above, is not 'normal' for a person involved in the manufacturing industry.
- The fundamental nature of the captive insurance company's transactions is not always at arm's length, adding confusion as to how a financial transaction should be interpreted.

> "You need to find out how the auditor intends to make sure deadlines are met and that there are no surprises at the end of the audit"

- The true substance, nature and management intent of transactions may not be evident on the face of the financial statements. It often appears simpler than it actually is. The substance behind each financial statement account or transaction may appear to be straightforward but may be – this is often the case – supported by a complex arrangement that contains many variable terms.

For example, receivables and payables relating to reinsurance contracts appear to be just amounts to be received and amounts to be paid.

However, within those amounts to pay or receive are complex calculations involving subjective decision-making and the involvement of the expertise of a third party. Analysis also may include subjective evaluations as to whether the contract even qualifies for insurance accounting or subjective evaluations to account for retrospective premium adjustment terms.

What should I consider in selecting my audit firm and what expectations should I set for them in conduct the audit?

Being that you are not in the insurance industry, spending some additional time in your due diligence in selecting your audit firm can certainly help in ensuring that your audit is a success – with 'success' defined as meeting deadlines and having no surprises at the end of the audit process.

Due to the specialised nature of the basis of accounting and your limited experience in the insurance industry, it is imperative that you engage a firm with significant experience and commitment in auditing captive insurance companies. It is important that your auditor understands why you set up the captive programme and how the captive's operations impact its parent company.

In selecting a suitable auditor, the following aspects should be considered:

- the experience levels from partner to staff
- whether doing captive audits is a side-line of the business or a primary line
- whether the auditing firm have dedicated staff working in the captive insurance industry
- whether the auditing firm have auditors with private company experience in the captive insurance industry.

Generally speaking, it is also important to gain an understanding of the audit process. You need to find out how the auditor intends to make sure deadlines are met and that there are no surprises at the end of the audit. Does the audit firm have a process that has been proven to work? Remember – each auditing firm is required to follow the same auditing standards, but their auditing processes will differ.

Does the audit firm have, as a part of its process, a communication plan? Because there are additional parties involved, and because they all reside in different organisations, a complete communications plan is a must for a successful audit. You should ask the auditor to show you a proven communication plan.

Validate the representations of the auditing firm. Ask for references.

www.captiveinsurance.hawaii.gov

STATE OF HAWAII

Andrew Kurata
akurata@dcca.hawaii.gov
808-586-0979
335 Merchant St., Room 213, Honolulu, HI 96813

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Christina Kamaka
christina.kamaka@aon.com
808-540-4305
201 Merchant Street, Suite 2400, Honolulu, HI 96813

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www.boh.com

BANK OF HAWAII

Ed Haik
ehaik@boh.com
808-694-4759
111 S. King Street, Honolulu, HI 96813

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www.beechercarlson.com

BEECHER CARLSON INSURANCE SERVICES, LLC

Matthew Takamine
mtakamine@beechercarlson.com
808-526-2900
1001 Bishop Street, Suite 2788, Honolulu, HI 96813

Beecher Carlson manages over 100 captives in ten domiciles across the globe and ranks as the third largest captive manager in the world.

FIRST HAWAIIAN BANK

Jerelyn Sullivan
jsullivan@fhb.com
808-525-5869
999 Bishop Street, Honolulu, HI 96813

First Hawaiian Bank was a founding member of the Hawaii Captive Insurance Council more than 30 year ago, and today provides banking and investment solutions for dozens of Hawaii-domiciled captives, both domestic and international, with assets totaling approximately $1bn.

www.fhb.com

GOODSILL ANDERSON QUINN & STIFEL, LLLP

Paul Shimomoto, Esq.
pshimomoto@goodsill.com
808-547-5721
999 Bishop Street, Suite 2100, Honolulu, HI 96813

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www.goodsill.com

KMH LLP

Jill Miura
jmura@khmllp.com
808-527-2212
1003 Bishop Street, Suite 2400, Honolulu, HI 96813

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www.kmhllp.com

MARSH MANAGEMENT SERVICES INC.

Scot Sterenberg
scot.sterenberg@marsh.com
808-585-3591
745 Fort Street, Suite 1100, Honolulu, HI 96813

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