

Hawaiian PUNCH

The Aloha State's domicile could top \$10 billion in assets this year.

by Dennis Gorski

Hawaii, a tropical paradise to the world's vacationers, is also touted as the perfect captive domicile by state administrators who are eager to promote its unique location, decades of experience and "spirit of Aloha" attitude.

For George Sumner, administrator of the state's 172 licensed captives, the island's magic touch comes from a "prudent but flexible regulatory environment" as well as "great infrastructure—we've been around for 25 years now, so we've done a few captives in our past."

The Aloha State notched another 10 captives in 2011—thus reaching its highest total of active captives ever—and already was working on five new applications in January of this year.

(Hawaii lost five captives in 2011, Sumner said.)

What's more, 2012 could also be the year that Hawaii crosses another major threshold, Sumner said, by topping the \$10 billion mark in assets held in its domicile.

"From 2010 to 2011, we went from roughly \$7 billion in assets to \$9 billion and I think we're going to be surpassing the \$10 billion for 2012," he said early last month. In terms of total assets, only Vermont has more in the United States.

Japan Strategy

Meanwhile, the state has turned its attention once again to Japan, which is ranked fifth in the world based on gross domestic product

(estimated for 2011) according to the CIA World Factbook, for additional captives. Although the state is home to more than a dozen Japanese captives, Sumner said, "We haven't seen a lot of growth in the last few years."

He believes several factors have led to the slowdown, including tougher competition and a sluggish international economy. "We have 16 captives from Japan," he said, "10 of which are doing risk in Japan and six that are American

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—George Sumner,
Hawaii Department of Commerce and
Consumer Affairs

subsidiaries of Japanese companies." But he's eager to bring in more captives now that global conditions are improving.

"We go every year [to Japan]," Sumner said. "What we did last year is set up individual meetings with captive managers. We thought that was very successful. By breaking down the meetings into smaller individual meetings with the captive managers, we got very good interest. Time will tell how many captives result from the meetings we had last year."

Sumner and Insurance Commissioner Gordon Ito also conducted two captive insurance seminars in Tokyo to further familiarize the

Key Points

- ▶ **The Situation:** In 2011, Hawaii reached its highest total of active captives.
- ▶ **The Back Story:** The state's 25-year history as a domicile is a top selling point.
- ▶ **The Outlook:** Japan is a renewed focus as Hawaii tries to keep its captive program rolling.

business community about the advantages of Hawaii.

Establishing a Japanese captive in Hawaii is "a fairly simple process," he added.

"Typically they have fronting companies for Japanese businesses, and that always gives the regulator a lot more comfort because you have another set of underwriting eyes from the fronting company, making sure they agree with the amount of reserves that are put up to support the lines and reserves that they're putting into the captive."

What's Available

Sumner and his group watch over a collection of mostly traditional pure captives.

He said Hawaii is also home to about 20 risk retention groups, "and we have a broad cross-section of captives where they're doing traditional coverages and some interesting newer coverages."

As for classes of captives, "it covers pretty much the gamut, from health care to financial to construction," Sumner said. Other categories include telecommunications, manufacturing, retail, transportation and energy.

Premium written exceeded \$1.2 billion in 2010, the latest year for which totals are available; and taxes generated that year were nearly \$1.5 million.

Each captive's annual tax is capped at \$200,000.

The state tax rate is .25% on the first \$25 million and is incrementally less as premium rises. In addition, the state does not assess taxes on premium already taxed in another jurisdiction.

Sumner added that "typically, reinsurance does not pay premium tax. It's really a lower tax than a lot of domiciles and we basically are trying to run the department as a break-even."

He said the benefit to Hawaii "is the infrastructure that generates the private-sector jobs and the professional jobs such as CPAs, attorneys, captive managers and that sort of thing."

For Hawaii, the name of the game is turning its perceived negatives, such as isolation and distance, into positives—excellent infrastructure, reputation, experience, and the fact that, if it's afternoon in Honolulu, it's morning in Tokyo (although it's always "tomorrow" morning in Japan). So phone calls and emails to Japan from Hawaii get answered, and vice versa, right away. "We like the Japanese business and we think it's a very good fit for Hawaii," Sumner said.

As for the overall outlook, he said, "We look very, very healthy from a growth standpoint. Even though I've hired additional examiners in 2011, we're still going to be looking at growing our captive insurance branch due to this growth that we've seen." **BR**



Audio:

Listen to an interview with George Sumner at www.bestreview.com/audio.

Hawaii: A Closer Look

Name of Enabling Legislation: Hawaii Session Act 253

Year Enabling Legislation Passed: 1986 (numerous amendments since)

Year First Captive Established: 1987

Total Number of Captives, End of 2011: 172

Types of Captives Permitted: P/C, workers' comp, securitization of insurance risk, 831(b) micro-captives, other lines if approved by state insurance commissioner. Companies may be stock, non-profit, mutual, reciprocal or LLC.

Captive Classes and Minimum Capital Requirements:

- **Class 1:** Single owner; reinsurance only. Minimum \$100,000
- **Class 2:** Single owner; direct or reinsurance. Minimum \$250,000
- **Class 3:** Multiowner; association or RRG. Minimum \$500,000 association or RRG
- **Class 4:** Sponsored captive; protected cells. Minimum \$500,000
- **Class 5:** Reinsurance or excess insurance. Minimum determined by commissioner

Tax Structure Annually, Premiums Only:

- .25% up to \$25 million
- .15% from \$25 million to \$50 million
- .05% from \$50 million to \$250 million; no tax thereafter.

Minimum Tax: \$0
Maximum tax per year capped at \$200,000 per captive.

Captives by Industry:

- 53 construction/real estate
- 30 telecom/manufacturing
- 28 health care
- 23 retail/other services
- 18 financial services
- 18 transport/energy

Ownership,

- **U.S. Firms:** 162
- **Non-U.S.:** 10

Number of Single Parent Captives, 2011: 154

Number of Group Captives, 2011: 18

Premium Written, 2010: \$1.21 billion

Premium Tax Generated, 2010: \$1.48 million

Sources: Hawaii Insurance Division; Hawaii Captive Insurance Council; Marsh USA; Captive Insurance Companies Association

