



Hawaii Captive Insurance Briefing and Update

Imperial Hotel
Tokyo, Japan * Wednesday, November 5, 2008



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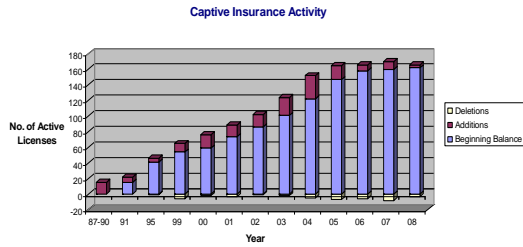
Session 2: Update and Emerging Issues

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Update on Hawaii Captive Insurance Market

Hawaii Captive Licensing Activity



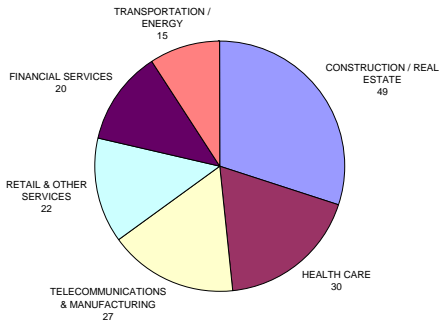
Hawaii Captive Statistics 2007

No. of Captives	163
Combined Total Assets	US\$ 6.4 Billion
Combined Premiums	US\$ 1.7 Billion
Combined Capital & Surplus	US\$1.8 Billion

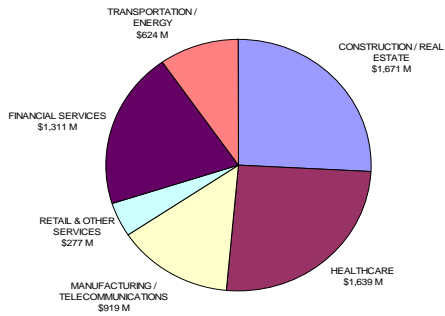
Hawaii Captive Owners by Location

U.S.	Western	122
	Eastern	21
	Central	10
	Total U.S.	153
Non-U.S.	Asia / Pacific	10
	Total at 10/1/2008	163

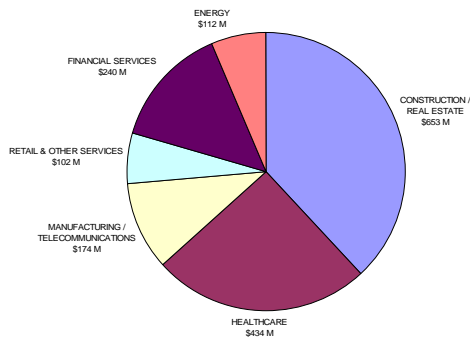
HAWAII CAPTIVES BY INDUSTRY GROUPS



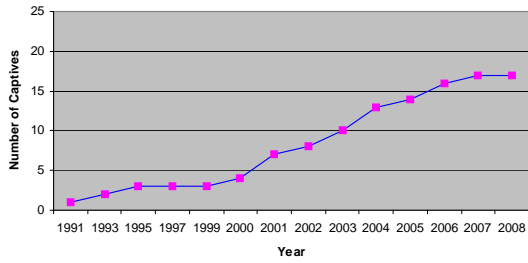
HAWAII TOTAL ASSETS BY INDUSTRY GROUPS



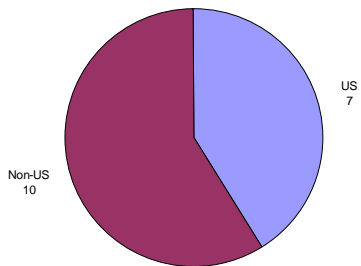
HAWAII TOTAL PREMIUMS BY INDUSTRY GROUPS



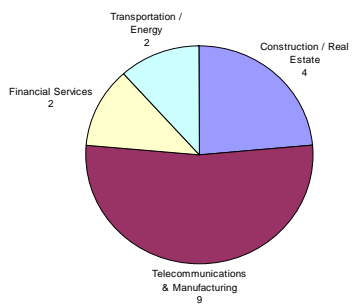
Growth of Japanese-Owned Captives in Hawaii



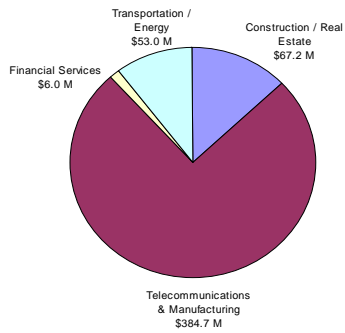
Japanese-Owned Captives in Hawaii (Jurisdiction of Immediate Parent)



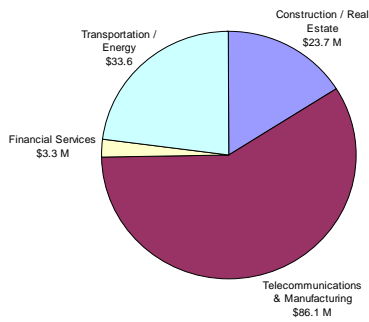
Japanese-Owned Captives in Hawaii by Industry Groups



Total **Assets** of Japanese-Owned Hawaii Captives by Industry Groups



Total **Premiums** of Japanese-Owned Hawaii Captives by Industry Groups





2008 Captive Legislation

- Special Purpose Financial Captives
- Sponsored Captives

SPFCICs & Securitization

- A “*Structured Finance*” Process
- “*Packaging*” of designated pools of assets with an appropriate level of credit enhancement
- Redistribution of the “*Packages*” to investors in the form of securities or loans
- Securities and loans collateralized by underlying pool of assets and related future income stream.
- Captive Insurance Company is the entity that facilitates the transaction among and protects interests of all parties.

Who's Using Securitization and Why?

- While virtually all life reinsurers have securitized, relatively few primary companies have access to this technology
 - Perceived difficulty of execution
 - Rating agency treatment only now becoming clear
- A division of labor is emerging in the industry
 - Reinsurers are becoming expert at capital markets access
 - Primary insurers seek to access the market indirectly
- Commercial banks have been creative in developing and offering a funded letter of credit solution
- Acquisition activity has been sporadic

Insurance Securitization

- Insurance companies are increasingly focused on capital efficiency and balance sheet management
 - Securitization technology developing and maturing in various sectors
 - Rapid increase in the use of captives
- Captives and SPVs are being used in a variety of structures
 - Life insurance
 - Embedded value monetization
 - Reserve relief
 - Mortality risk hedging
 - P&C insurance
 - Catastrophe risk hedging
 - Automobile insurance reserve relief
 - Mortgage insurance

Emerging Issues in Securitization

- Life insurers will continue to seek transactions to release excess reserves, monetize future profits and hedge mortality risk
- Embedded Value Securitization, which can be used as an acquisition currency, to grow at a faster rate than XXX / AXXX
- Captive-based structures are being explored in a number of other sectors
 - Auto insurance
 - Mortgage insurance
 - Health insurance
- Additional catastrophic mortality transactions prompted by continuing bird flu concerns
- Current instability in worldwide financial markets has slowed down new securitizations

Sponsored Captives

- Renames Hawaii Class 4 "*Lease Capital Facilities*" to "*Sponsored Captive*"
- Reduces minimum capital & surplus from \$1 million to \$500,000
- Allows for segregation of assets and liabilities into protected cells for participants
- Opportunity for smaller companies to utilize captive insurance mechanism in soft market

Emerging Issues

- Financial Reporting Standards
- Auditing Standards
- Financial Market Instability

International Financial Reporting Standards (IFRS)

- International Accounting Standards Board (IASB) established in 1997 to develop IFRS
- Global standards for preparation of public company financial statements
- Adopted by 12,000 companies in 100 Countries (Not U.S. and Japan, yet)
- Emphasis on "market-value" accounting vs. "book values" => more fluctuations in financial reports
- Investors would benefit from IFRS
- Potential to distort a company's performance in its business operations

IFRS Implications for U.S. Companies

- American Institute of Certified Public Accountants (AICPA) is a charter member of the IASB
- Securities and Exchange Commission (SEC) is considering voluntary implementation for U.S public companies for Fiscal Year Ending 12/15/2009; mandatory in 2014
- AICPA & American Financial Accounting Standards Board are currently adapting US GAAP to IFRS

IFRS Implications for Japanese Companies

- IASB and the Accounting Standards Board of Japan (ASBJ) concluded Tokyo Agreement in August 2007 to pave way for accelerated convergence of IFRS in Japan
- Direct impact on Japanese companies operating internationally, especially in EU.
- Potential to make it harder for Japanese companies to procure funds from abroad if IFRS is not adopted
- Financial Services Agency (FSA) puts priority on making Japan financial reporting standards compatible with IFRS
- Japanese Institute of Certified Public Accountants (JICPA) seeking active involvement in developing roadmap for IFRS implementation in Japan
- Effective implementation of IFRS requires not just technical expertise, but also accounting systems and company-wide changes

AICPA Audit Standards

- New Risk Assessment Standards => SAS No. 104 through 111 (issued 3/06; eff. 12/15/06)
- Revised fundamental auditing principles for audits of nonpublic entities
- Objective => Strengthen and enhance quality of independent audits
- Less in scope that rule for public company audits
- Consistent with key themes of Sarbanes-Oxley

New U.S. Auditor Requirements

- Obtain more robust understanding of operations, business objectives, and the process for managing risks to achieving those objectives
- Deeper understanding of internal controls
- Conduct more rigorous assessment of risk of material financial statement misstatement, with clearly documented linkage of risks to the audit work performed.

Financial Market Instability

- Sub-prime mortgage crisis is an ongoing financial crisis characterized by:
 - Shrinking liquidity in global credit market and banking systems by failed mortgage companies
 - Investment firms and government sponsored enterprises that heavily invested in sub-prime mortgages
- Liberal mortgage loan underwriting, low interest rates and rising housing prices attract capital market investors
- Increasing interest rates and decline in housing prices in 2007 trigger mortgage defaults, and financial crisis
- Major banks and financial institutions around the world would have reported losses of US\$435 billion in July 2008

Insurance Consumers in U.S. Protected by Solvency Standards

- September 15, 2008 – AIG scrambles for capital because of losses on its mortgage-related debt
- AIG's non-insurance parent company is regulated by the U.S. Federal Government
- AIG's insurance subsidiaries are regulated by State Insurance Regulators and State laws to protect policyholders
- AIG's insurance subsidiaries have value and are being sold to raise capital to repay US\$ 85 billion loan from the U.S. Treasury



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