



Hawaii Captive Insurance Briefing and Update

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



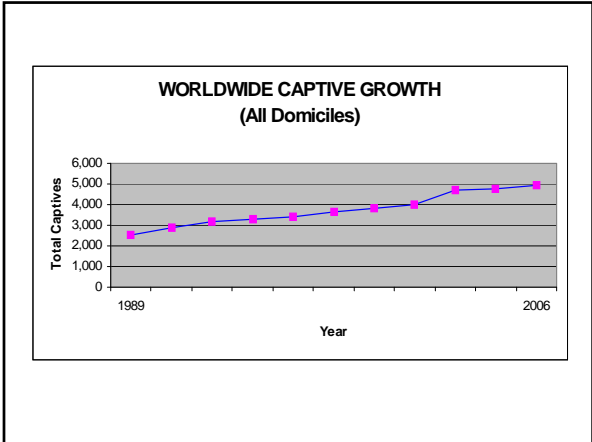
Hawaii Captive Insurance Briefing and Update

Session 1: Captive Basics

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

Historical Background

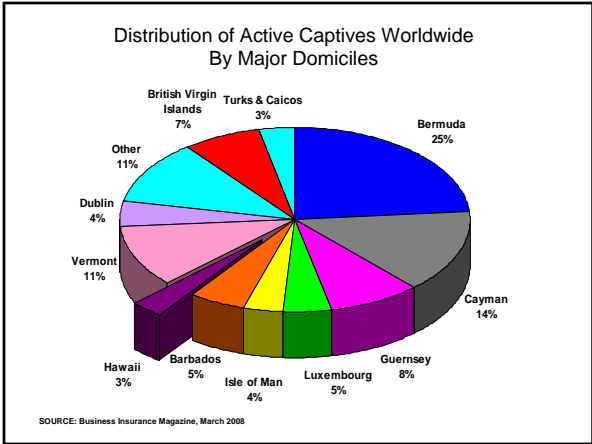
- Captive insurance company concept developed for North American and European Insureds
- Late 1800s – U.S. textile manufacturers establish captive for fire insurance (Factory Mutual)
- Early 1920's - European captives established to retain property exposure of parent companies (Norsk Hydro – Norway; F.L. Smidth – Denmark; Unilever – Netherlands; ICI – U.K.)
- Real growth of captive insurance companies after World War II



World's Largest Captive Domiciles Estimated

Number of Active Licenses at 12.31.2007
Source: Business Insurance Magazine 3.3.2008

Bermuda	958	South Carolina (US)	158
Cayman Islands	765	Isle of Man	155
Vermont (US)	567	Ireland	131
British Virgin Islands	409	Nevada (US)	115
Guernsey	368	Arizona (US)	108
Barbados	256	Utah (US)	92
Luxembourg	210	District of Columbia (US)	77
Turks & Caicos	173	Singapore	62
Hawaii (US)	163	Switzerland	48





Basics of Captive Insurance

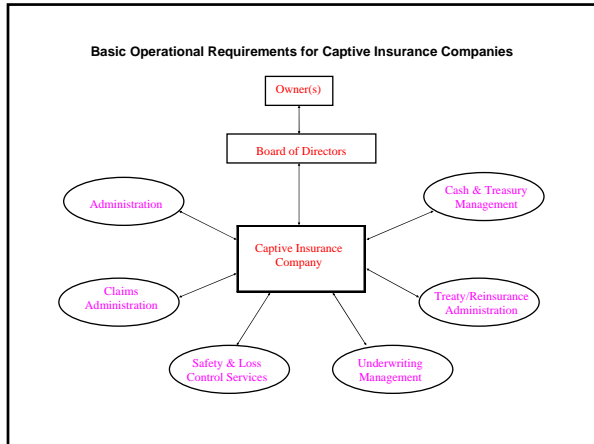
Risk Transfer vs. Risk Retention

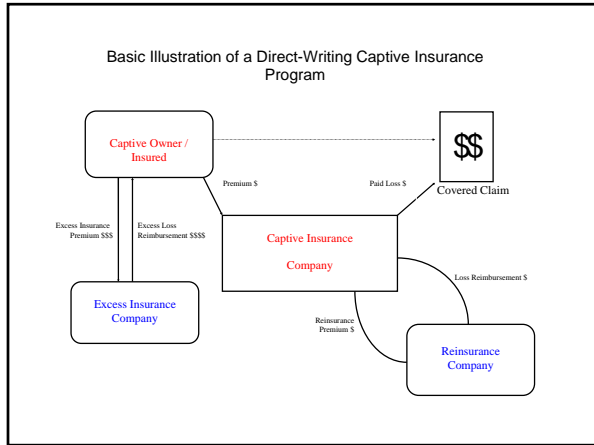
- Fully Insured
 - Loss Sensitive (Retro)
 - Large Deductible
 - Self Insured Retention (SIR)
 - Self Insurance
 - Captive Insurance

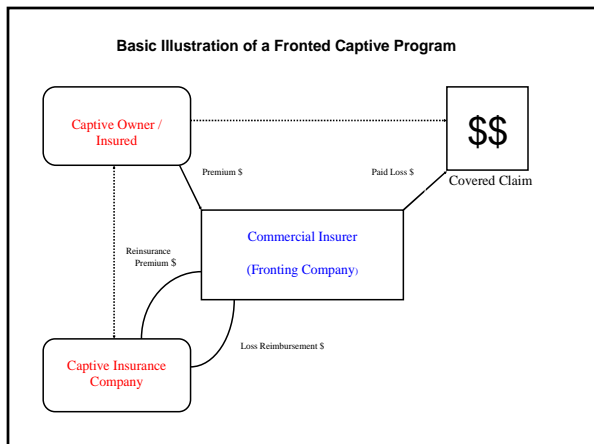
What is a captive?

- A closely held insurance company whose insurance business is primarily supplied by and/or affiliated with or controlled by its owners;
- And the shareholder-owners actively participate in decisions influencing underwriting, operations and investments.









Why are they used?

- Enhanced control and stability of insurance program services & costs
- Enhanced treasury/investment management
- Local and multinational tax considerations
- Complement primary business / operations
- Enhanced access to reinsurance, capital and other markets



Feasibility Studies



Feasibility Studies

- Recommended for prospective captive organizers
- Compares costs and benefits of using a captive *versus* other risk financing alternatives
- Provides a basis for deciding whether or not to pursue captive insurance
- Can be incorporated into Captive Application submission

Feasibility Studies

- Who can do them?
 - Internal Staff
 - External Resources
 - Broker, Consultant, Actuary, CPA, Captive Insurance Manager, Insurer
- Potential implications
 - Strength and weaknesses
 - Bias and potential conflicts



Feasibility Studies

- Basic Data Requirements
 - Current and renewal insurance program details
 - Accurate 5 year loss history
 - Historical and projected exposure data
 - Description of organization's operations and products (short and long term)
 - Organization's expected cost of capital and tax rates

Feasibility Studies

- Reporting of Results
 - Qualitative vs. Quantitative
- Intangible Benefits
 - Internal vs. External
- "Simple" Feasibility Studies





Implementation of a Hawaii Captive

Implementation of a Captive in Hawaii

- Introductory Meeting with Insurance Division representatives
- Submission/Review of Application and Business Plan
- Incorporation and Licensure
- Ongoing Requirements

Introductory Meeting

- Describe your organization and discuss reason for forming a captive
- Discuss preliminary business plan and intended operational structure
- Be prepared to demonstrate the captive's viability:
 - Parent company financial statements
 - Prospective reinsurance arrangements
 - Describe how the captive will be capitalized and volume/source of premiums
- Outline service provider team (captive management, attorney, banker, auditor, actuary)
- Opportunity to work together to identify and resolve questions or concerns before submission of captive application

Select Service Providers

- Captive Manager
- Auditor
- Actuary
- Hawaii legal counsel
- Reinsurers
- Bank and investment advisors
- Other: claims managers, brokers, etc.

The Captive Application

- Application for Admission
- Business Plan
 - Economic Feasibility Study
 - Captive Strategic Plan (Five-Year)
- Supplementary Information
 - Biographical Affidavits of initial directors and officers
 - Application forms for key service providers (auditor/actuary)
 - 5 year pro forma financial statements (adverse/expected scenarios)
 - Draft governing documents (articles of incorporation and bylaws)

Hawaii Licensing Classes

- Class 1 – Pure Captive (Reinsurance Only)
- Class 2 – Pure Captive (Direct & Reinsurance)
- Class 3 – Association or Risk Retention Group Captive
- Class 4 – Sponsored / Cell Captive
- Class 5 – Excess or Reinsurance Captive

Funding and Start-up

- Minimum Statutory Capital and Surplus
 - Class 1: US\$ 100,000
 - Class 2: US\$ 250,000
 - Class 3: US\$ 500,000
 - Class 4: US\$ 500,000
 - Class 5: As Determined by Insurance Commissioner
- Funding Methods – Cash, Letter of Credit or other assets approved by Insurance Commissioner

Ongoing Requirements

- Compliance with Approved Business Plan
- Annual Filings
 - Audited Financial Statements
 - Actuarial Certification of Losses
 - Premium Tax Report and Payment (if required)
- Annual License Fees
 - Class 1 and 2 => US\$ 300
 - Class 3 => US\$ 500
 - Class 4 and 5 => US\$1,000
- Examination by Insurance Commissioner at least every three years; and may apply for 5 year term thereafter

Redomiciliation

- Application for admission same as new formation
- Conform organizational documents to Hawaii laws
- Must satisfy all requirements of prior jurisdiction and Hawaii
- Requires coordinated effort and communication with service providers in Hawaii and prior jurisdictions



Terry Karasaki
Yazaki International Corporation
Manager, Risk Finance
Department – Finance Division



Captive Insurance Branch
Insurance Division - DCCA
Contact Information

- Honorable J. P. Schmidt, Insurance Commissioner
- Craig Watanabe, Deputy Insurance Commissioner & Captive Insurance Administrator
- Mailing Address:
Insurance Division
State of Hawaii
Department of Commerce and Consumer Affairs
P.O. Box 3614
Honolulu, Hawaii, USA 96811
- Telephone: (808)586-0981 Fax: (808)586-0987
- <http://www.captiveinsurance.hawaii.gov>
- e-mail: captiveins@dcca.hawaii.gov



Hawaii Captive Insurance
Briefing and Update

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