



DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
Insurance Division

DCCA News Release

LINDA LINGLE
GOVERNOR

LAWRENCE M. REIFURTH
DIRECTOR
Phone: (808) 586-2850
Fax: (808) 586-2856

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STATE INSURANCE COMMISSIONER PRAISES NEW LAW THAT ALLOWS EFFICIENT INSURANCE SECURITIZATIONS IN HAWAI'I

HONOLULU – Hawai'i State Insurance Commissioner J. P. Schmidt applauds a new law that helps streamline Hawai'i's Captive Insurance Industry. Governor Linda Lingle signed SB3023 SD2 HD2 CD1 (Act 190) into law, which was initiated by the Hawai'i Insurance Division. The new law amends the Captive Insurance Industry statutes to provide a clear and efficient process for securitization of insurance products.

"Once again, Hawai'i's Captive Insurance Branch is on the forefront of complex, cutting edge business strategies that secure Hawai'i's place as the premier captive insurance domicile in the Pacific Rim," said Schmidt.

Securitization is a process where certain insurance risks are packaged, and then shares are sold as investments. Large investors are interested in this type of investment because it is completely uncorrelated to other financial market investments, which provides a much desired diversification of the investment portfolio.

Hundreds of millions of dollars in excess reserves or embedded value of an insurance company may be securitized and sold as investments. In addition, catastrophic risk, such as Japan or California earthquakes and Pacific or Atlantic Coast hurricane risks, may be placed in a multi-billion dollar package and transferred to the financial markets. Local banks, professionals and consultants benefit by providing support to these multi-billion dollar transactions.

"Our Captive Branch has handled these complex deals in the past and our staff and professionals in the community have the expertise to ensure that securitizations are closed expeditiously and efficiently," explained Schmidt.

Schmidt recently returned from New York City where he met with investment banks and law firms involved in securitizations. While there, he was asked to speak to the insurance section of the International Committee of the New York Bar about current issues in insurance. Schmidt and Deputy Commissioner Craig Watanabe have been asked to speak about captive insurance issues at the Asia-Pacific Rendezvous in Singapore next month.

Hawai'i maintains its position as the premier location in the Pacific for captive insurance business, and is the second largest in the United States, and the fifth largest domicile in the world – based on the combined capital assets of the captive companies.

Captive insurance is a formalized approach to self-insurance, where a company sets up a new company in Hawai'i and obtains a special license from the Insurance Commissioner to insure the risks of its owner and affiliates.

To learn more, contact the Captive Insurance Branch of the Insurance Division at (808)586-0981 or check the website at www.captiveinsurance.hawaii.gov.

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For more information, contact:
Christine Hirasa
Public Information Officer
Phone: 586-2622
Email: chirasa@dcca.hawaii.gov