

Honolulu, Hawaii

MAR 30 2017

RE: H.B. No. 917
H.D. 1
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Twenty-Ninth State Legislature
Regular Session of 2017
State of Hawaii

Sir:

Your Committee on Commerce, Consumer Protection, and Health,
to which was referred H.B. No. 917, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO INSURANCE,"

begs leave to report as follows:

The purpose and intent of this measure is to:

- (1) Clarify that a mutual benefit society shall maintain a minimum net worth calculated based on annual net premium revenues and net annual health care expenditures and operating expenses; and
- (2) Require approval of a reinsurer in order for net annual health care expenditures to be reduced by the amount ceded to the reinsurer.

Your Committee received testimony in support of this measure from the Hawaii Medical Assurance Association. Your Committee received testimony in opposition to this measure from the Department of Commerce and Consumer Affairs. Your Committee received comments on this measure from the Property Casualty Insurers Association of America.

Your Committee finds that this measure requires calculation of a mutual benefit society's annual premium revenues, annual



health care expenditures, and annual operating expenses on a net basis when determining the mutual benefit society's minimum net worth for purposes of protecting against insolvency. However, according to testimony from the Department of Commerce and Consumer Affairs, the statutory requirements for calculating a mutual benefit society's minimum net worth intend a gross, rather than net, calculation, as a mutual benefit society is ultimately responsible for all liabilities should its reinsurer fail. Furthermore, the minimum net worth is easier to manipulate if reinsurance recoveries are included in the calculation.

Your Committee further finds that this measure also requires the approval of all reinsurers by the Insurance Commissioner. The Department of Commerce and Consumer Affairs testified that all reinsurers must already be authorized or accredited for the ceding insurer to recognize recoverable losses. Thus, the language in this measure is unlikely to have the intended effect of adding an extra level of assurance regarding recognition of recoverable losses. Furthermore, the recoverable amount from reinsurers remains a solvency concern until this amount is actually received and related transactions are settled, which may present regulatory challenges.

Your Committee notes that the companion to this measure, S.B. No. 1077, S.D. 1 (Regular Session of 2017), which was previously passed by the Senate, is a substantially similar measure that also clarifies the minimum net worth requirements for mutual benefit societies. Your Committee concludes that the language in S.B. No. 1077, S.D. 1, is preferable because it specifies that a mutual benefit society's minimum net worth is calculated on a gross, rather than net, basis. Calculating minimum net worth on a gross basis has long been an effective way to regulate solvency and has consistently been used in the health insurance industry for mutual benefit societies, health maintenance organizations, and other health insurers.

Accordingly, your Committee has amended this measure by deleting its contents and inserting the contents of S.B. No. 1077, S.D. 1, a substantially similar measure, which:

- (1) Clarifies that a mutual benefit society's minimum net worth shall be based on gross, rather than net, annual



premium revenues and gross, rather than net, annual health care expenditures and operating expenses; and

(2) Inserts an effective date of July 1, 2050.

As affirmed by the record of votes of the members of your Committee on Commerce, Consumer Protection, and Health that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 917, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 917, H.D. 1, S.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on
behalf of the members of the
Committee on Commerce, Consumer
Protection, and Health,



ROSALYN H. BAKER, Chair



