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September 8, 2008

MEMORANDUM 2008-4E

TO: Hawaii Domiciled Insurance Companies

FROM: J.P. Schmidt
Insurance Commissioner 

RE: Act 142, 2008 Session Laws of Hawaii - Insurer Investments

The 2008 Legislature passed Act 142, Session Laws of Hawaii 2008, or Senate Bill No. 3019, S.D. 1, H.D. 2 ("Act 142"), an Administration bill that updates insurer investment statutes in Article 6 of the Insurance Code, Hawaii Revised Statutes ("HRS") Chapter 431.

Effective January 1, 2009, Act 142 clarifies allowable investments and provides increased flexibility for insurers to pursue greater investment return opportunities for the benefit of insurers and policyholders.

Significant changes in Act 142 include the following:

- **HRS § 431:6-101 Definitions:** Includes definitions of "cash" and "cash equivalents" based upon the National Association of Insurance Commissioners' ("NAIC") standard, which are defined as highly-liquid investments or securities in the highest short-term category recognized by the NAIC's Securities Valuation Office ("SVO").
- **HRS § 431:6-104 General qualifications:** Allows for non-dividend paying securities up to certain limitations.
- **HRS § 431:6-201 Required investments for capital and reserves:** Clarifies and adds certain additional assets that are allowed in meeting an insurer's reserve requirements.

- ***HRS § 431:6-302 Corporate obligations***
HRS § 431:6-303 Preferred or guaranteed stocks or shares: These sections are simplified by replacing the “fixed charges” requirements with a general requirement of being considered “filing exempt” by the NAIC’s SVO.
- ***HRS § 431:6-313 Foreign securities:*** With certain limitations, this section is expanded to allow foreign investments (including American Depository Receipts) in jurisdictions other than those currently allowed.
- ***HRS § 431:6-317 Common stocks:*** With certain limitations, common stocks (including non-dividend paying stocks) are allowed for purposes of satisfying requirements of HRS § 431:6-201. In addition, the requirements of a qualifying common stock investment are clarified.
- ***HRS § 431:6-322 Common trust funds, mutual funds:*** With certain limitations, this section is expanded to include exchange traded funds registered with the federal Securities and Exchange Commission. Limitations do not apply to investments on the “Mutual Funds List” approved by the NAIC's SVO.

Act 142 may be viewed in full at http://www.capitol.hawaii.gov/session2008/bills/GM784_.pdf

If there are any questions relating to Act 142, please call the Hawaii Insurance Division's Financial Surveillance and Examination Branch at (808) 586-3870.