



GUAM CHAMBER OF COMMERCE
PARTNERS IN PROGRESS

Rev'd. 09/02/22
Erin Gajek
Dr. Wolf

September 2, 2022

THE HONORABLE CLYNTON E. RIDGELL
Chairman
Committee on Economic Development, Agriculture,
Power and Energy Utilities, and the Arts
I Mina'trentai Sais na Liheslaturan Guåhan
Guam Congress Building
163 Chalan Santo Papa
Hagåtña, Guam 96910

RE: Written Testimony in Support of Bill No. 306

Dear Chairman Ridgell,

Thank you for the opportunity to provide comments on Bill No. 306. A Captive insurance company is a wholly owned subsidiary company that provides risk-mitigation services for its parent company or a group of related companies. It is essentially a form of corporate self-insurance. The Guam Captive industry was introduced to Guam 1996. Twenty-six (26) years later, the Captive Insurance Industry is virtually non-existent. Since its inception, four (4) captives have been established. Meanwhile, our neighbors in the FSM have 23 captive insurance companies and there are 254 in the State of Hawaii. Based on the latest annual public reports, our FSM neighbors received \$642 Million in premium payments and exceeded \$1.27 billion in assets. In Hawaii, premiums were at \$10 billion; and \$27.3 billion in assets. In the US, there are now 35 states that offer Captive Insurance programs. The potential for this industry to generate income is tremendous.

Bill No. 306, addresses administrative burdens that deter off-island companies from considering Guam. Other states and countries provide a streamlined application process; defined benefit for companies that domicile with them; and, a climate that encourages their growth. In order for Guam to be considered, we need to provide an incentive for companies to make it attractive and worthwhile. It is important to note that the current bill poses no threat to the existing insurance industry in Guam and clearly does not insure risk in Guam.

One of the barriers to developing this industry on island is related to the abatement of Gross Receipts Tax. However, it needs to be pointed out that we currently have little to no revenue from this industry. Companies that choose to domicile in other countries and states result in Guam receiving no taxes at all. Therefore, this is not a loss to the Government of Guam. The purpose of the abatement is to encourage their development. When a Captive is created on island, it is the residual benefit from the services that are paid for to support the company that should be focused on. An example of this is auditing services, tax preparation, office rental, captive insurance management services, etc. Further, Captive companies are required to hold board meetings. Generally, the directors are from off-island and will need to travel to Guam. They will secure a hotel room, visit our restaurants, and shop in our retail establishments. These are taxed and support jobs in our economy.

Providing the tax incentive to a Captive Insurance is the government's investment in the industry which in turn creates revenue from the other businesses that are needed to support it. The more Captive Companies developed in Guam, the more revenue is received by the Government for the support services needed by the company. Other industries on island also benefit such as airlines, hotels, and retail establishments.

In the *Hawaii 2021 Report* from the *Insurance Commissioner*, it states: "These captives add millions of dollars in investments held in Hawaii and are managed by local Hawaii banks and financial institutions. As of December 31, 2020, total investments held in Hawaii was \$1.5 billion. Hawaii's captive industry also supports many specialized local professional services including public accounting, legal services, claims administration, and other insurance-related services. The Captive Insurance Branch will continue to work with the public and private sectors by providing educational expertise and resources to support the long-term development and refinement of this niche business in Hawaii.

Page 2
Testimony for Bill 306

As we continue to recover from the devastating effect the pandemic has had on our island, Guam needs to consider every available avenue to diversify our economy and promote the financial health of our island, which in turn improves the quality of life for our people. Establishing our island as an attractive domicile for foreign companies, supports this effort. It is for this reason that we fully support the passage of Bill No. 306 and encourage the members of the 36th Guam Legislature to support this measure. We thank the authors of the bill and the Guam Economic Development Authority for their work in addressing the barriers to developing this industry in Guam.

Thank you for the opportunity to present our views on this bill.

Sincerely,


CATHERINE CASTRO
President