

BENJAMIN J. CAYETANO
GOVERNOR



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DEPARTMENT OF THE ATTORNEY GENERAL
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April 27, 2000

Hamilton I. McCubbin, CEO
Robert K.U. Kihune, Chair
David P. Coon
Francis A. Keala
Constance H. Lau
Ronald D. Libkuman, Esq.
Kamehameha Schools Bernice
Pauahi Bishop Estate
567 South King St., Suite 200
Honolulu, Hawaii 96813

Dear CEO McCubbin, and Trustees Kihune, Coon, Keala, Lau, and Libkuman:

I am writing about the excess lines reinsurance agreement between P&C Insurance Company and X.L. Insurance Co., Ltd. (the Agreement).

The Agreement encompasses association liability, has an inception date of September 1, 1997, and, as to association liability, has limits of \$50 million excess of \$25 million. The policy premium was approximately \$1.3 million annually and has always been timely paid.

X.L. contends that there is no coverage for the claims asserted in the AG Surcharge Petition, primarily because of alleged misstatements in representations and warranties by trust employees Christine Lee and Louanne Kam.

It is beyond argument that the Interim Trustees have a fiduciary duty to redress the breaches of trust of the former trustees. It may be that any dispute with X.L. will create embarrassment for trust employees. It may also be that, because the arbitration provision of the X.L. Agreement combines New York law and the United Kingdom Arbitration Act 1996, the claim against X.L. will be more difficult to pursue than if it were

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EXHIBIT 7

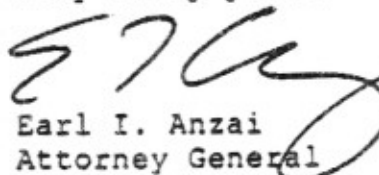
Chair Kihune and Interim Trustees
April 25, 2000
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strictly a Hawaii matter. Nonetheless, what is at stake here is \$50 million for the education of Hawaiian children. There is no reason for the Interim Trustees to walk away from \$50 million.

On behalf of the trust beneficiaries, I request that the Interim Trustees discharge their duty to redress the breaches of trust by the former trustees by initiating action against X.L. to enforce the Agreement. I also request that you put J&H Marsh & McLennan (MM) on notice and ensure their participation in the mediation. MM set up the P&C integrated risk program and installed American Re as the reinsurer for the first two years. Yet at the critical juncture in late summer 1997, MM assisted the trust in applying to X.L. for reinsurance rather than simply renewing with American Re. WE understand that MM was instrumental in preparing the application for reinsurance, that the trust relied on the professional expertise of MM, and that MM may have an ownership or other interest in X.L.

Time is of the essence here and a failure to act by the Interim Trustees will only exacerbate existing problems.

Very truly yours,


Earl I. Anzai
Attorney General

cc: Colleen Wong, Esq.