

JAN 20 2017

A BILL FOR AN ACT

RELATING TO NATURAL DISASTER PROTECTION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that Hawaii is highly
2 exposed to natural disasters, yet there is a gap between the
3 State's exposure to disasters and its investment in post-
4 disaster financing. Currently, Hawaii relies on federal funding
5 from the Federal Emergency Management Agency and the National
6 Flood Insurance Program to support disaster recovery. Limited
7 federal disaster assistance creates a liquidity gap that deepens
8 the economic disruption for Hawaii's economy.

9 The legislature also finds that total losses from a storm
10 making landfall near Waikiki with the same strength as Hurricane
11 Iniki could cost twenty to forty billion dollars in direct
12 economic losses, which represents almost fifty per cent of the
13 state gross domestic product and over three years of total
14 government spending. If a catastrophic event occurs, the
15 federal government does not have the authority to go beyond
16 providing financial assistance to rebuild public facilities,
17 small temporary housing allowances to families left homeless,



1 and Small Business Administration loans to rebuild homes and
2 businesses. Although some property losses will be covered by
3 personal insurance, the vast majority of losses will fall on the
4 State and counties, and thus, the taxpayers. The State is not
5 prepared to absorb tens of billions of dollars in damages and
6 lost tax revenue. However, a parametric insurance transfer
7 could move residual risk off the State's budget and onto the
8 private sector.

9 Parametric, or index-based, insurance solutions settle
10 claims on the characteristics of a disaster, as opposed to the
11 loss sustained from the disaster. Unlike traditional insurance,
12 parametric solutions do not require lengthy loss adjustment
13 processes, and they enable rapid disbursements of payouts to
14 maximize liquidity and allow for flexibility in the use of the
15 proceeds. Payouts can occur quickly, in as few as ten to
16 twenty-one days. The trigger for parametric insurance coverage
17 in Hawaii for a natural disaster could be based on the maximum
18 wind speed of the hurricane as it passes through a specific
19 covered area such as the Ala Wai watershed. An example of a
20 specific trigger would be that any hurricane with one-minute



1 maximum winds of ninety-six miles per hour or higher as it
2 passes through a designated area would result in a payout.

3 The legislature finds that the establishment of a
4 parametric disaster insurance pilot program could reduce
5 Hawaii's financial exposure and compensate the State based on
6 the physical characteristics of a catastrophic natural disaster.
7 The payment would not be subject to the limitations faced by
8 federal disaster relief and can be used for any purpose, such as
9 emergency response costs, replacing lost tax revenue, and
10 funding of increased insurance costs. In 2014, a category five
11 cyclone swept across Tonga, but because it had a parametric
12 insurance program, the nation received an immediate payout of
13 \$1,270,000 towards disaster recovery.

14 The purpose of this Act is to establish a three-year
15 parametric disaster insurance pilot program.

16 SECTION 2. Chapter 41D, Hawaii Revised Statutes, is
17 amended by adding a new part to be appropriately designated and
18 to read as follows:

19 **"PART . PARAMETRIC DISASTER INSURANCE**

20 **§41D-A Definitions.** When used in this part, unless the
21 context otherwise requires:



1 "Disaster" has the same meaning as in section 127A-2.

2 "Parametric disaster insurance" means insurance coverage
3 for disasters that does not indemnify pure loss and is triggered
4 by the occurrence of a disaster.

5 **§41D-B Parametric disaster insurance pilot program.** (a)

6 There is established the parametric disaster insurance pilot
7 program within the department for administrative purposes. The
8 pilot program shall be administered by the risk management
9 office within the department.

10 (b) As part of the pilot program, the risk management
11 office, in collaboration with the social science research
12 institute at the University of Hawaii at Manoa, shall:

- 13 (1) Explore parametric disaster insurance policies for the
14 State;
- 15 (2) Purchase parametric disaster insurance for the State;
16 and
- 17 (3) Receive and distribute moneys in the parametric
18 disaster insurance special fund.

19 **§41D-C Parametric disaster insurance special fund.** (a)

20 There is established in the state treasury the parametric
21 disaster insurance special fund, into which shall be deposited:



1 (1) Interest earned from the principal in the hurricane
2 reserve trust fund as provided under section 431P-16;

3 (2) Moneys received from the payout of a parametric
4 disaster insurance policy; and

5 (3) Appropriations made by the legislature to the fund.

6 (b) Moneys in the parametric disaster insurance special
7 fund shall be used to purchase parametric disaster insurance for
8 the State.

9 **§41D-D Rules.** The department shall adopt rules, pursuant
10 to chapter 91, necessary for the purposes of this part."

11 SECTION 3. Section 431P-16, Hawaii Revised Statutes, is
12 amended by amending subsection (i) to read as follows:

13 "(i) Moneys in the hurricane reserve trust fund may be
14 disbursed upon dissolution of the Hawaii hurricane relief fund;
15 provided that:

16 (1) The net moneys in the hurricane reserve trust fund
17 shall revert to the state general fund after payments
18 by the fund on behalf of licensed property and
19 casualty insurers or the State that are required to be
20 made pursuant to any federal disaster insurance



1 program enacted to provide insurance or reinsurance
 2 for hurricane risks are completed; and
 3 (2) If [~~such~~] moneys are paid on behalf of licensed
 4 property and casualty insurers, payment shall be made
 5 in proportion to the premiums from policies of
 6 hurricane property insurance serviced by the insurers
 7 in the twelve months prior to dissolution of the fund;
 8 provided further that all interest earned from the principal in
 9 the hurricane reserve trust fund shall be transferred and
 10 deposited into the [~~general fund~~] parametric disaster insurance
 11 special fund established under section 41D-C each year that the
 12 hurricane reserve trust fund remains in existence."

13 SECTION 4. No later than December 1, 2019, the department
 14 of accounting and general services, in collaboration with the
 15 social science research institute at the University of Hawaii at
 16 Manoa, shall submit a report to the legislature describing any
 17 actions and effects of the parametric disaster insurance pilot
 18 program, including any findings, recommendations, and proposed
 19 legislation.

20 SECTION 5. In codifying the new sections added by section
 21 2 and referenced in section 3 of this Act, the revisor of



S.B. NO. 799

1 statutes shall substitute appropriate section numbers for the
2 letters used in designating the new sections in this Act.

3 SECTION 6. Statutory material to be repealed is bracketed
4 and stricken. New statutory material is underscored.

5 SECTION 7. This Act shall take effect upon its approval
6 and be repealed on June 30, 2020; provided that section 431P-16,
7 Hawaii Revised Statutes, shall be reenacted in the form in which
8 it read on the day prior to the effective date of this Act.

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S.B. NO. 799

Report Title:

Parametric Disaster Insurance; Pilot Program; Hurricane Reserve Trust Fund; Department of Accounting and General Services

Description:

Establishes a 3-year parametric disaster insurance pilot program within DAGS to be funded by the interest from the hurricane reserve trust fund.

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