

SB1270

Measure Title: RELATING TO THE HAWAII HURRICANE RELIEF FUND.

Report Title: Balancing the State budget; Hawaii Hurricane Relief Fund; Appropriation

Description: Appropriates funds from the Hawaii Hurricane Relief Fund into the State general fund to balance the State budget.

Companion: HB1043

Package: Gov

Current Referral: CPN, WAM



NEIL ABERCROMBIE
GOVERNOR

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LT. GOVERNOR

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TO THE SENATE COMMITTEE ON
COMMERCE AND CONSUMER PROTECTION

TWENTY-SIXTH LEGISLATURE
Regular Session of 2011

Friday, February 11, 2011
8:30 a.m.

**TESTIMONY ON SENATE BILL NO. 1270 - RELATING TO THE HAWAII HURRICANE
RELIEF FUND**

TO THE HONORABLE ROSALYN H. BAKER AND MEMBERS OF THE COMMITTEE:

My name is Gordon I. Ito, State Insurance Commissioner ("Commissioner"), testifying on behalf of the Department of Commerce and Consumer Affairs ("Department"). The Department takes no position on this bill, which removes an unspecified sum of money from the Hawaii Hurricane Relief Fund ("HHRF"). However, we wish to make the following observations.

If there is a severe hurricane in Hawaii, there is a substantial likelihood that HHRF must restart to provide hurricane insurance to Hawaii's homeowners. That role is important not just because it will protect homeowner's from being forced placed at high rates, but also because it will facilitate the mortgage lending and real estate businesses in Hawaii. HHRF can help to prevent a severe economic downturn.

HHRF will need moneys to restart operationally. In addition, HHRF will need moneys to buy reinsurance. If HHRF does not have money to buy reinsurance, then HHRF could be substantially delayed when it tries to re-enter the market. We would suggest that HHRF keep at least \$70 million for this purpose.

We thank this Committee for the opportunity to present testimony on this matter.

Hawaii Hurricane Relief Fund

335 Merchant Street #213

Honolulu, HI 96813

Twenty-Sixth Legislature

Regular Session of 2011

TESTIMONY BEFORE THE SENATE COMMITTEE ON COMMERCE AND CONSUMER PROTECTION

Friday, February 11, 2011

Conference Room 229, 8:30 a.m.

To the Honorable Chair Rosalyn H. Baker and the members of the Committee:

My name is Lloyd Lim and I am the acting executive director of the Hawaii Hurricane Relief Fund Board ("HHRF") of Directors ("Board). I am testifying on behalf of the Board on S.B. No. 1270, which takes removes an unspecified amount of money from HHRF. The Board opposes any taking of moneys from HHRF.

The HHRF has been dormant since the end of 2002. For the eight years prior to that it provided hurricane insurance in Hawaii when private insurers were unwilling to do so. This not only protected homeowners from being forced placed in the unregulated surplus lines market, but also enabled the mortgage lending and real estate industries to continue doing business, thus helping the overall economy. The HHRF stands ready to return to the market if another hurricane insurance scarcity arises due to a large hurricane in Hawaii or other catastrophic event worldwide that affects the reinsurance market.

Although we cannot say when the next hurricane will occur, we do know that one will occur. It is a not a question of "if", but "when" because Hawaii faces a perennial risk of hurricanes.

When the HHRF was active, it insured about two thirds of the residential homeowner's market. This represents a very large exposure. A direct hit on Oahu presents a particular problem because of density of the construction. It is for this reason that the HHRF Board has in the past opposed any taking of principal.

In addition, there are costs associated with maintaining the HHRF because we do an annual audit, perform accounting on licensed software, hire an investment manager, and maintain records.

There are costs associated with restarting HHRF that should also be considered. A substantial amount of amount should be set aside for this purpose which includes the purchase of reinsurance. Without money to purchase reinsurance in the first year, HHRF

cannot restart quickly.

Also, one should consider whether HHRF should have some reserve so that it does not have to insure the public with de minimis assets.

In general, because we do not know when the HHRF will restart, there is substantial uncertainty with respect to the risk that HHRF will face and the cost of reinsurance in the then existing market. This uncertainty and the long term inflation in home values should be factored into any amount set aside for restart. The more flexibility that we can give the HHRF Board of the future, the better able they will be to make good business decisions in the best interests of the people of the State of Hawaii.

We thank this Committee for the opportunity to submit testimony and ask that this bill be held.



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February 11, 2011

The Honorable Rosalyn H. Baker, Chair
Senate Committee on Commerce and Consumer Protection
State Capitol, Room 229
Honolulu, Hawaii 96813

RE: S.B. 1270 Relating to the Hawaii Hurricane Relief Fund

HEARING: Friday, February 11, 2011 at 8:30 a.m.

Aloha Chair Baker, Vice-Chair Taniguchi, and Members of the Committee:

I am Myoung Oh, Government Affairs Director of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, testifying on behalf of its 8,500 members. HAR **opposes** S.B. 1270, which appropriates funds from the Hawai'i Hurricane Relief Fund into the State general fund.

On September 11, 1992, Hurricane Iniki struck Kaua'i, causing \$1.6 billion in damage. The devastation caused by Iniki left many insurance companies unable to obtain reinsurance, which rendered them incapable of providing insurance to the people of Kaua'i. Numerous real estate transactions were stalled or fell through as a direct result, leaving prospective homeowners and renters of investor-owned properties in limbo. Many parties, including HAR, worked on the formation of the Hawai'i Hurricane Relief Fund ("HHRF") during the 1993 legislative session.

Three revenue sources built the HHRF: (1) premiums from hurricane property insurance policies; (2) assessments from insurance companies; and (3) special mortgage recording fees paid by mortgagees/homeowners who did not pay cash for their property. In July 2001, the State stopped collecting the special mortgage recording fee.

With the HHRF in place, insurance companies could offer hurricane insurance with the knowledge that they had the backing of the Fund. In the intervening years, more insurance companies returned to Hawai'i and offered hurricane coverage. The cost of reinsurance started dropping, and the insurance industry stabilized enough so that some companies began to exit the HHRF to sell hurricane insurance independently.

HAR believe that in the unforeseeable future should a severe hurricane strike Hawai'i the HHRF should have appropriate funds in order to restart the HHRF. These funds will allow the HHRF to provide hurricane insurance, in a timely fashion, to Hawai'i's homeowners for reinsurance. As such, HAR would note that according to the State Insurance Commissioner, the HHRF would need at least \$70 million to restart.

Mahalo for the opportunity to testify.

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HIIA

Hawaii Independent Insurance Agents Association

February 10, 2011

To: Senator Rosalyn H. Baker, Chair
Senator Brian T. Taniguchi, Vice-Chair
Committee on Commerce & Consumer Protection

From: Sonia M. Leong, Executive Director
Hawaii Independent Insurance Agents Association

Re: SB1270 – Relating to The Hawaii Hurricane Relief Fund
Hearing: Friday, February 11, 2011 8:30 am Conference Room 229

The Hawaii Independent Insurance Agents Association (HIIA), a property & casualty insurance agents trade association **objects to** the proposal to appropriate funds from the Hawaii Hurricane Relief Fund into the State general fund to balance the State budget.

While we empathize with the state budget dilemma, we believe that the HHRF funds should remain for the purpose for which it was established. The purpose of establishing the "Fund" was to provide protection and relief from the catastrophic hurricane exposure. The "Funds" were collected from policyholders, from property & casualty insurers, and from mortgage recording fees. Therefore, the "Funds" were collected from these sources for a specific purpose.

The forecasters tell us it is a "when" a hurricane hits and not an "if" hurricane hits. Perhaps consideration might be given once again to loss mitigation incentives.

Thank you for this opportunity to present testimony.

Sirs/Madams

I do not believe using the Hurricane Fund to meet State Expenses is appropriate, and am especially opposed to outright transfer of funds without a plan to refurbish the account it was taken from. If there is interest being drawn on the the Hurricane Fund, I would not be opposed to using those funds (again with a plan to refund it later) to supplement to State Budget.

Cecily Capelouto

SB 1270

Testimony

Status

RELATING TO THE HAWAII HURRICANE
RELIEF FUND.

CPN

Appropriates funds from the Hawaii Hurricane Relief
Fund into the State general fund to balance the State
budget.

I am totally against this bill unless the wording of the bill is changed to show the state will repay these funds in the future when times are good. The wording should be changed from appropriate funds to borrow funds.

The Hurricane Relief Fund is funded by homeowners and businesses. If we allow the state to rob this fund, without any responsibility of repaying these funds back – we are putting the burden on homeowners and businesses to balance the state budget. This is totally unfair to homeowners who are already struggling to pay their bills; some are losing homes; some are losing businesses. It's tough times for everyone. I think the state is looking for an easy fix – let's take the funds from the Hurricane Relief Fund. It would be nice if all of us had access to those funds to help us make ends meet. Instead, we are borrowing from our home equity line of credit or credit cards to make ends meet. If Hawaii people have to borrow and repay, the state government should have to borrow and repay.

The other issue is... if a hurricane hits, will the funds be available for Hawaii homeowners and businesses. What will the state government do in providing the funds to individuals who paid into this mandatory relief fund to rebuild their homes and businesses?

Debra Bringman