



NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR

STATE OF HAWAII
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
335 MERCHANT STREET, ROOM 310
P.O. Box 541
HONOLULU, HAWAII 96809
Phone Number: 586-2850
Fax Number: 586-2856
www.hawaii.gov/dcca

KEALI'I S. LOPEZ
INTERIM DIRECTOR

EVERETT KANESHIGE
DEPUTY DIRECTOR

TO THE HOUSE COMMITTEE ON
CONSUMER PROTECTION & COMMERCE

TWENTY-SIXTH LEGISLATURE
Regular Session of 2011

Wednesday, February 2, 2011
2:05 p.m.

**TESTIMONY ON HOUSE BILL NO. 1043 - RELATING TO THE HAWAII HURRICANE
RELIEF FUND**

TO THE HONORABLE ROBERT N. HERKES 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 HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

Wednesday, February 2, 2011

Conference Room 325, 2:05 p.m.

To the Honorable Chair Robert N. Herkes 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 H.B. No. 1043, 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.

WRITTEN ONLY

TESTIMONY BY KALBERT K. YOUNG
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE
ON
HOUSE BILL NO. 1043

February 2, 2011

RELATING TO THE HAWAII HURRICANE RELIEF FUND

House Bill No. 1043 is an administration proposal to appropriate an unspecified amount of funds from the Hawaii Hurricane Relief fund into the general fund for a yet to be determined fiscal year as a means to balance the State's budget.

This bill serves as a contingency bill should making such an appropriation be deemed necessary.

We support this bill and ask that it be passed out of committee for continued discussion as a contingency.

February 1, 2011

The Honorable Robert N. Herkes, Chair
House Committee on Consumer Protection & Commerce
State Capitol, Room 325
Honolulu, Hawaii 96813

RE: H.B. 1043 Relating to the Hawai'i Hurricane Relief Fund

HEARING: Wednesday, February 2, 2011 at 2:05 p.m.

Aloha Chair Herkes, Vice-Chair Yamane 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 H.B. 1043, 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 believes that while government services are of great value to the State, the most practical and responsible use of the HHRF is to protect and provide for the public in the event of a future hurricane and to meet reinsurance needs—the purpose for which the HHRF was collected.

Mahalo for the opportunity to testify.