

MAR 10 2017

SENATE RESOLUTION

REQUESTING THAT THE RISK MANAGEMENT OFFICE OF THE DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES ASSESS AND REPORT TO THE LEGISLATURE REGARDING THE FEASIBILITY OF A THREE-YEAR PARAMETRIC DISASTER INSURANCE PILOT PROGRAM FOR THE STATE OF HAWAII.

1 WHEREAS, the Legislature finds that Hawaii is highly
2 exposed to natural disasters, and there is a gap between the
3 State's exposure to disasters and its investment in post-
4 disaster financing; and

5
6 WHEREAS, Hawaii currently relies on federal funding from
7 the Federal Emergency Management Agency and the National Flood
8 Insurance Program (NFIP) to support disaster recovery and this
9 limited federal disaster assistance creates a liquidity gap that
10 deepens the potential economic disruption for Hawaii's economy;
11 and

12
13 WHEREAS, the NFIP has itself purchased a risk transfer
14 policy and is looking to expand this coverage through the NFIP
15 2016 Reinsurance Initiative, which is intended "to more actively
16 manage its financial risk... and diversify the tools it uses to
17 manage the financial consequences of its catastrophic flood
18 risk"; and

19
20 WHEREAS, the total losses from a storm making landfall near
21 Waikiki with the same strength as Hurricane Iniki, which hit the
22 State on September 11, 1992, could cost twenty to forty billion
23 dollars in direct economic losses, which represents almost fifty
24 percent of the State's gross domestic product and over three
25 years of total government spending; and

26
27 WHEREAS, if a catastrophic event occurs, the federal
28 government does not have the authority to go beyond providing
29 financial assistance to rebuild public facilities, small
30 temporary housing allowances to families left homeless, and
31 Small Business Administration loans to rebuild homes and
32 businesses; and

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1 WHEREAS, although some property losses will be covered by
2 personal insurance, the vast majority of losses will fall on the
3 State and county governments, and therefore the taxpayers; and
4

5 WHEREAS, the State is not prepared to absorb tens of
6 billions of dollars in damages and lost tax revenues; and
7

8 WHEREAS, a parametric insurance transfer could move
9 residual risk off the State's budget and onto the private
10 sector; and
11

12 WHEREAS, parametric, or index-based, insurance solutions
13 settle claims on the characteristics of a disaster, as opposed
14 to the loss sustained from the disaster; unlike traditional
15 insurance, parametric solutions do not require lengthy loss
16 adjustment processes, and enable rapid disbursements of payouts
17 to maximize liquidity and allow for flexibility in the use of
18 the proceeds; and
19

20 WHEREAS, the trigger for parametric insurance coverage in
21 Hawaii for a natural disaster could be based on the maximum wind
22 speed of the hurricane as it passes through a specific covered
23 area such as the Ala Wai Watershed; and
24

25 WHEREAS, the establishment of a parametric disaster
26 insurance pilot program could reduce Hawaii's financial exposure
27 and compensate the State based on the physical characteristics
28 of a catastrophic natural disaster; and
29

30 WHEREAS, the payment would not be subject to the
31 limitations faced by federal disaster relief and can be used for
32 any purpose, such as emergency response costs, replacing lost
33 tax revenues, and funding of increased insurance costs; now,
34 therefore,
35

36 BE IT RESOLVED by the Senate of the Twenty-ninth
37 Legislature of the State of Hawaii, Regular Session of 2017,
38 that the Risk Management Office of the Department of Accounting
39 and General Services is requested to assess the feasibility of a
40 three-year parametric disaster insurance pilot program for the
41 State of Hawaii financed with the investment income from the
42 Hawaii hurricane relief fund; and



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2 BE IT FURTHER RESOLVED that in assessing the feasibility of
3 such a pilot project, the Risk Management Office is requested to
4 consult with the Ala Wai Watershed Partnership on the
5 opportunities provided by the Ala Wai Watershed as a site for
6 the pilot project, as well as with the Hawaii Emergency
7 Management Agency on how this might function in the event of a
8 catastrophic disaster; and
9

10 BE IT FURTHER RESOLVED that the Risk Management Office is
11 requested to assess the feasibility of:

- 12
13 (1) Establishing a parametric disaster insurance special
14 fund into which may be deposited:
15
16 (A) Interest earned from the principal in the
17 hurricane reserve trust fund as provided under
18 section 431P-16, Hawaii Revised Statutes;
19
20 (B) Monies received from the payout of a parametric
21 disaster insurance policy; and
22
23 (C) Appropriations made by the Legislature to the
24 fund; and
25
26 (2) Using the monies in the parametric disaster insurance
27 special fund to purchase parametric disaster insurance
28 for the State; and
29

30 BE IT FURTHER RESOLVED that the assessment include research
31 into which insurance companies have the most experience with
32 parametrics, work extensively with governments directly, and
33 have long expertise in designing tailored structures using a
34 variety of data sources; and
35

36 BE IT FURTHER RESOLVED that the Risk Management Office is
37 requested to submit a report of its findings and
38 recommendations, including any proposed legislation, to the
39 Legislature no later than twenty days prior to the convening of
40 the Regular Session of 2018; and
41



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1 BE IT FURTHER RESOLVED that certified copies of this
2 Resolution be transmitted to the Governor, Comptroller, Major
3 General and Director of the Hawaii Emergency Management Agency,
4 and Chair of the Ala Wai Watershed Partnership.
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