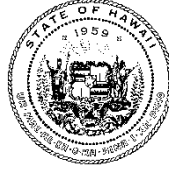


DAVID Y. IGE
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RODERICK K. BECKER
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Deputy Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

P.O. BOX 119, HONOLULU, HAWAII 96810-0119

TESTIMONY OF
RODERICK K. BECKER, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
HOUSE COMMITTEE ON
PUBLIC SAFETY
ON
THURSDAY, MARCH 23, 2017
10:00 A.M.
CONFERENCE ROOM 312

H.C.R. 126 and H.R. 77

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.

Chair Takayama, Vice Chair LoPresti, and members of the Committee, thank you for the opportunity to testify on H.C.R. 126 and H.R. 77. The Department of Accounting and General Services (DAGS) opposes the measures.

The Comptroller, through the Risk Management Officer, is authorized by chapter 41D, Hawaii Revised Statutes (HRS), to purchase property, and liability insurance to protect the State's property, personnel, and operations. As a result, the staffing of the Risk Management Office (RMO) is comprised of the Risk Management Officer and three claims adjusters. The Risk Management Officer's primary functions are to work with the State's insurance broker to secure property and liability insurance policies protecting the State's property and employees,

provide guidance to State agencies on insurance matters such as insurance coverage limits on State contracts and interpretation of Certificates of Insurance to ensure contract compliance, and conduct training for departmental risk management coordinators. The three claims adjusters review, evaluate, and approve or deny approximately 1,000 claim requests annually for property, auto, liability, and crime related insurance claims.

Accordingly, the feasibility study outlined in the measures is out of the statutory scope of the RMO since it involves insuring non-State property and the RMO does not have the requisite staffing, technical knowledge, or capacity to undertake such a study. Additionally, funds cannot be expended from the Risk Management Revolving Fund to engage a consultant to complete the feasibility study since it is outside of the statutory authority of the RMO as it involves insuring non-State properties. Even if funds were transferred to the RMO from the Hawaii Hurricane Relief Fund (the Fund), the RMO is not exempt from the Hawaii Procurement Code, chapter 103D, HRS and the Risk Management Officer would need to procure the services of consultant to perform the study. To accomplish this, the Risk Management Officer would need to issue a Request for Proposal solicitation, evaluate proposals and award the bid, and enter into a contract, which would take at least six (6) months to complete. In conclusion, the feasibility study outlined in the measures is outside of the statutory scope of the RMO and could not be undertaken and completed by the RMO.

Thank you for the opportunity to testify on these measures.

I support the bill, wholeheartedly.

An earlier version of the bill had the HHRF conducting the feasibility study. Unfortunately, HHRF has no staff.

I am familiar parametric insurance and the Ala Wai Watershed Partnership, which I chair supports it. But, HHRF Board and I are not equipped to do the study. Moreover, the Risk Management Office handles insurance for the State and the proposed insurance is intended to cover state losses and they have the expertise needed for this study.

As Chair of the Ala Wai Watershed Partnership and as Chair of the Statewide Hazard Mitigation Forum (Hawaii Emergency Management Agency), I would be happy to assist the Risk Management Office in the conduct of the study.

Let me know if I can provide further information.

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Testimony Submitted to the House Committee
on Public Safety
HCR 126
March 23, 2017, 10:00am, Room 312
Submitted by
Michael Hamnett
Chair, Ala Wai Watershed Partnership

Chair Takayama, Vice Chair LoPresti, and members of the Committee, my name is Michael Hamnett. I am a researcher in the Social Science Research Institute at the University of Hawai'i and Chair of the Ala Wai Watershed Partnership.

I **strongly support** HCR 126 as do members of the Ala Wai Watershed Partnership.

The Ala Wai Watershed Partnership was established following a conference of community leaders from the public and private sectors convened in January 2015 to reframe natural disaster risk in the Ala Wai Watershed, and identify opportunities to reduce Hawai'i's vulnerability to catastrophic natural disasters and mitigate the long-term impacts of climate change.

As a measure of strong local support for the developing collective vision, both chambers of the 2016 Hawai'i Legislature expressed their appreciation and comprehension of the opportunities and needs in the Ala Wai Watershed by adopting House Concurrent Resolution 61, House Draft 1 (HCR 61 HD 1), in its final form on April 22, 2016 – "Endorsing and Supporting the Ala Wai Watershed Partnership."

An element of the action agenda endorsed by HCR 61 HD 1 included, "Investigating insurance, reinsurance, and risk transfer solutions, including parametric insurance, to help mitigate current and future climate risks that place substantial financial and political burdens on the state economy and state and county governments."

During that same session, the Partnership supported HB 2576, which proposed the establishment of a 3-year parametric disaster insurance program within the Department of Accounting and General Services (DAGS) to be funded by the interest from the hurricane reserve trust fund. This bill crossed over to the Senate and was referred to GVO/CPH, WAM. The Partnership also supported HB 791 and SB 799 this session, which both proposed the same as HB 2576 (2016).

The Partnership continues to investigate solutions to protect Hawai'i from financial risk associated with natural disasters (i.e., impacts in the Watershed and Waikīkī and statewide consequences thereof from damages, employment and business disruption, and lost tax

revenues). As discussed in MC2 (2017; the requested progress report, pursuant to HCR 61 HD 1 (2016)), the Partnership capitalized on the Hawai'i-hosted IUCN World Conservation Congress and scheduled briefings with national and international risk and resiliency experts and local leaders, including with state legislators, the City and County of Honolulu Mayor's Office, and relevant state offices (e.g., Insurance Commissioner-Department of Commerce and Consumer Affairs).

Additionally, it is noteworthy that the Federal Emergency Management Agency National Flood Insurance Program (NFIP) has itself purchased a reinsurance policy and looks to expand this coverage through the *NFIP 2016 Reinsurance Initiative*, which is intended "to more actively manage its financial risk... and diversify the tools it uses to manage the financial consequences of its catastrophic flood risk."

The Risk Management Office handles insurance for the State and the proposed insurance is intended to cover state losses – that office has the expertise needed for this study.

Moreover, as Chair of the Ala Wai Watershed Partnership, and as Chair of the Statewide Hazard Mitigation Forum (within the Hawai'i Emergency Management Agency), I would be happy to assist the Risk Management Office in conducting the study.

Thank you for your consideration of this resolution.

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Hawaii HCR 126
HR 77
Request for Amendment
Parametric Risk Transfer

The Reinsurance Association of America (“RAA”) submits the following comments in support of our request for an amendment of HCR 126 and HR 77. The Reinsurance Association of America is the leading trade association of property and casualty reinsurers doing business in the United States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross border basis. The RAA represents its members before state, federal and international bodies.

The RAA applauds Hawaii’s policymakers for recognizing the threats that natural disasters present to Hawaii’s economy, its infrastructure, its tax base and revenues, and its projected expenditures. HCR 126 and HR 77, and related bills, are notable for their desire to proactively address these risks to Hawaii prior to a land-falling hurricane and the inevitable damage that will result.

While parametric disaster products are one possible tool that Hawaii should consider, we believe there are other options that Hawaii should also assess. In suggesting these changes, the RAA is not trying to sell reinsurance to the Hawaii government. Instead, because we are mindful that the language that authorizes studies can also limit their analysis and conclusions, we urge that the state study parametric risk transfer or other risk transfer solutions.

The reinsurance and capital markets have evolved significantly in recent years and the options that are available should be explored by Hawaii through the assistance of a reinsurance and capital markets professional, such as one of the major reinsurance brokers. These brokers represent ceding insurers or others seeking risk transfer solutions, such as the State of Hawaii.

Because these brokers do not represent reinsurers, they will be able to provide advice regarding the benefits and disadvantages of each possible risk transfer solution and help Hawaii choose the option that is in its best interest.

By way of example, parametric products for hurricane risk will have a trigger wind speed. If that trigger is exceeded, the State will be able to collect on the parametric contract without having to prove its damages. A disadvantage is that parametric products do not provide any recovery if the

trigger is not reached. If a parametric contract has a trigger of sustained winds of 120 miles per hour, there would be no recovery for a large, slow moving hurricane that had sustained winds of 118 miles per hour that devastated Hawaii's homes, businesses and infrastructure.

Other options may also provide for rapid payment and have different advantages and disadvantages. Brokers or other risk transfer professionals can help analyze and model the State's risk and propose one or more solution that best meet the Hawaii's needs.

Accordingly, the RAA suggests that the resolution wording be amended to include "other risk transfer product" or products. In particular, the resolution requesting the Risk Management Office to assess the feasibility of creating a risk transfer fund should be amended to read:

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

- (1) Establishing a parametric disaster insurance or other risk transfer product special fund into which may be deposited:
 - (A) Interest earned from the principal in the hurricane reserve trust fund as provided under section 431P-IG, Hawaii Revised Statutes;
 - (B) Monies received from the payout of a parametric disaster insurance policy or other risk transfer products; and
 - (C) Appropriations made by the Legislature to the fund; and
- (2) Using the monies in the parametric disaster insurance or other risk transfer product special fund to purchase parametric disaster insurance or other risk transfer products for the State;

Summary

The RAA supports Hawaii's prudent, proactive risk management objectives and urges that the resolutions be amended to require the study to evaluate all risk transfer solution options to provide the State with the option that best suits its needs, after considering the advantages and disadvantages of each option.

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