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# 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 Further, the payment will not be subject to the limitations  
4 faced by federal disaster relief and can be used for any  
5 purpose, such as emergency response costs, replacing lost tax  
6 revenue, and funding of increased insurance costs. In 2014, a  
7 category five cyclone swept across Tonga, but because it had a  
8 parametric insurance program, the nation received an immediate  
9 payout of \$1,270,000 towards disaster recovery.

10 The purpose of this Act is to:

- 11 (1) Require the social science research institute at the  
12 University of Hawaii at Manoa to conduct a study to  
13 determine whether the use of parametric disaster  
14 insurance policies for the State is feasible,  
15 practical, affordable, and in the public interest; and  
16 (2) Appropriate funds for the feasibility study.

17 SECTION 2. The social science research institute at the  
18 University of Hawaii at Manoa shall conduct a study to determine  
19 whether the use of parametric disaster insurance policies for  
20 the State is feasible, practical, affordable, and in the public  
21 interest. The study shall include:



- 1 (1) Types of parametric disaster insurance policies
- 2 available to the State;
- 3 (2) The costs for these policies; and
- 4 (3) Any other information the social science research
- 5 institute deems necessary.

6 SECTION 3. The social science research institute at the  
 7 University of Hawaii at Manoa shall submit its feasibility  
 8 study, as required by this Act, together with its findings and  
 9 recommendations, including proposed legislation, to the  
 10 legislature no later than twenty days prior to the convening of  
 11 the regular session of 2021.

12 SECTION 4. There is appropriated out of the general  
 13 revenues of the State of Hawaii the sum of \$ or so much  
 14 thereof as may be necessary for fiscal year 2019-2020 and the  
 15 same sum or so much thereof as may be necessary for fiscal year  
 16 2020-2021 for the social science research institute at the  
 17 University of Hawaii to conduct a feasibility study as required  
 18 by this Act.

19 The sums appropriated shall be expended by the University  
 20 of Hawaii for the purposes of this Act.

21 SECTION 5. This Act shall take effect on January 1, 2050.



**Report Title:**

Parametric Disaster Insurance; UH; Feasibility Study;  
Appropriation

**Description:**

Requires the Social Science Research Institute of the University of Hawaii to conduct a study to determine whether the use of parametric disaster insurance policies for the State is feasible, practical, affordable, and in the public interest. Appropriates funds. (HB714 HD1)

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