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.

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

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

WHEREAS, the NFIP has itself purchased a risk transfer policy and is looking 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"; and

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

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

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

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

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

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

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

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

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

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

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

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

(1) Establishing a parametric disaster insurance special fund into which may be deposited:

(A) Interest earned from the principal in the hurricane reserve trust fund as provided under section 431P-16, Hawaii Revised Statutes;

(B) Monies received from the payout of a parametric disaster insurance policy; and

(C) Appropriations made by the Legislature to the fund; and

(2) Using the monies in the parametric disaster insurance special fund to purchase parametric disaster insurance for the State; and

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

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

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

OFFERED BY:

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