A BILL FOR AN ACT

RELATING TO NATURAL DISASTER PROTECTION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. The legislature finds that Hawaii is highly exposed to natural disasters, yet there is a gap between the State's exposure to disasters and its investment in post-disaster financing. Currently, Hawaii relies on federal funding from the Federal Emergency Management Agency and the National Flood Insurance Program to support disaster recovery. Limited federal disaster assistance creates a liquidity gap that deepens the economic disruption for Hawaii's economy.

The legislature also finds that total losses from a storm making landfall near Waikiki with the same strength as Hurricane Iniki could cost twenty to forty billion dollars in direct economic losses, which represents almost fifty per cent of the state gross domestic product and over three years of total government spending. 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. Although some property losses will be covered by personal insurance, the vast majority of losses will fall on the State and counties, and thus, the taxpayers. The State is not prepared to absorb tens of billions of dollars in damages and lost tax revenue. However, a parametric insurance transfer could move residual risk off the State's budget and onto the private sector.

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 they enable rapid disbursements of payouts to maximize liquidity and allow for flexibility in the use of the proceeds. Payouts can occur quickly, in as few as ten to twenty-one days. 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. An example of a specific trigger would be that any hurricane with one-minute
maximum winds of ninety-six miles per hour or higher as it
passes through a designated area would result in a payout.

The legislature finds that the establishment of a
parametric disaster insurance pilot program will reduce Hawaii's
financial exposure and compensate the State based on the
physical characteristics of a catastrophic natural disaster.
The payment will 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 revenue, and
funding of increased insurance costs. In 2014, a category five
cyclone swept across Tonga, but because it had a parametric
insurance program, the nation received an immediate payout of
$1,270,000 towards disaster recovery.

The purpose of this Act is to establish a three-year
parametric disaster insurance pilot program.

SECTION 2. Chapter 41D, Hawaii Revised Statutes, is
amended by adding a new part to be appropriately designated and
to read as follows:

"PART . PARAMETRIC DISASTER INSURANCE

§41D-A Definitions. When used in this part, unless the
context otherwise requires:
"Disaster" has the same meaning as in section 127A-2.

"Parametric disaster insurance" means insurance coverage for disasters that does not indemnify pure loss and is triggered by the occurrence of a disaster.

§ 41D-B Parametric disaster insurance pilot program. (a)

There is established the parametric disaster insurance pilot program within the department for administrative purposes. The pilot program shall be administered by the risk management office within the department.

(b) As part of the pilot program, the risk management office, in collaboration with the social science research institute at the University of Hawaii at Manoa, shall:

(1) Explore parametric disaster insurance policies for the State;

(2) Purchase parametric disaster insurance for the State;

and

(3) Receive and distribute moneys in the parametric disaster insurance special fund.

§ 41D-C Parametric disaster insurance special fund. (a)

There is established in the state treasury the parametric disaster insurance special fund, into which shall be deposited:
(1) Interest earned from the principal in the hurricane reserve trust fund as provided under section 431P-16;
(2) Moneys received from the payout of a parametric disaster insurance policy; and
(3) Appropriations made by the legislature to the fund.
(b) Moneys in the parametric disaster insurance special fund shall be used to purchase parametric disaster insurance for the State.

§41D-D Rules. The department shall adopt rules, pursuant to chapter 91, necessary for the purposes of this part."
SECTION 3. Section 431P-16, Hawaii Revised Statutes, is amended by amending subsection (i) to read as follows:
"(i) Moneys in the hurricane reserve trust fund may be disbursed upon dissolution of the Hawaii hurricane relief fund; provided that:
(1) The net moneys in the hurricane reserve trust fund shall revert to the state general fund after payments by the fund on behalf of licensed property and casualty insurers or the State that are required to be made pursuant to any federal disaster insurance
program enacted to provide insurance or reinsurance for hurricane risks are completed; and
(2) If [such] moneys are paid on behalf of licensed property and casualty insurers, payment shall be made in proportion to the premiums from policies of hurricane property insurance serviced by the insurers in the twelve months prior to dissolution of the fund; provided further that all interest earned from the principal in the hurricane reserve trust fund shall be transferred and deposited into the [general fund] parametric disaster insurance special fund established under section 41D-C each year that the hurricane reserve trust fund remains in existence."

SECTION 4. No later than December 1, 2021, the department of accounting and general services, in collaboration with the social science research institute at the University of Hawaii at Manoa, shall submit a report to the legislature describing any actions and effects of the parametric disaster insurance pilot program, including any findings, recommendations, and proposed legislation.

SECTION 5. In codifying the new sections added by section 2 and referenced in section 3 of this Act, the revisor of
H.B. NO. 714

1 statutes shall substitute appropriate section numbers for the
letters used in designating the new sections in this Act.

SECTION 6. Statutory material to be repealed is bracketed
and stricken. New statutory material is underscored.

SECTION 7. This Act shall take effect upon its approval
and shall be repealed on June 30, 2022; provided that section
431P-16, Hawaii Revised Statutes, shall be reenacted in the form
in which it read on the day prior to the effective date of this
Act.

INTRODUCED BY:
Report Title:
Parametric Disaster Insurance; Pilot Program; Hurricane Reserve Trust Fund; Department of Accounting and General Services

Description:
Establishes a 3-year parametric disaster insurance pilot program within DAGS to be funded by the interest from the hurricane reserve trust fund.

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