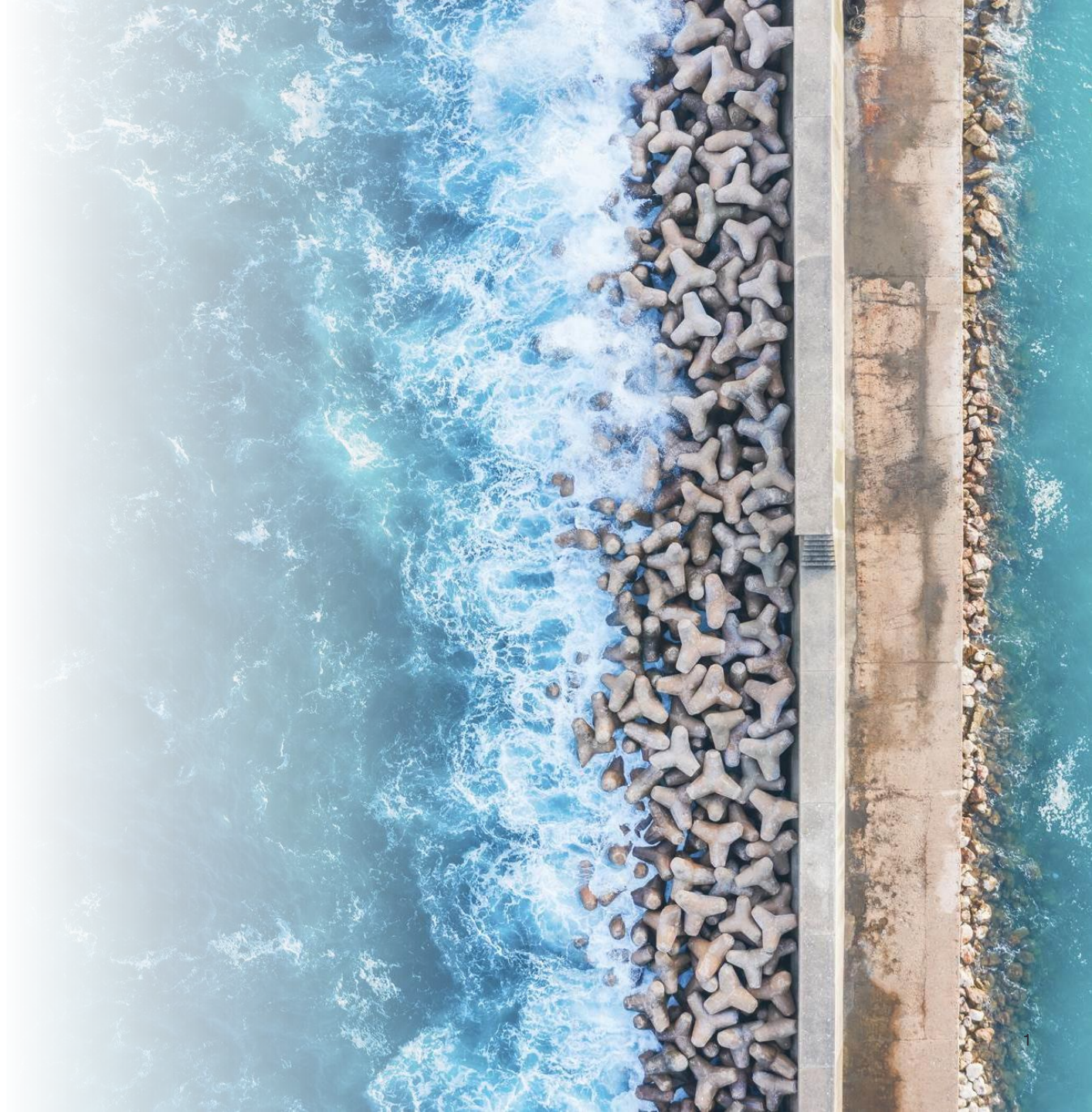




Project Status & Recommendations

**Hawaii Hurricane Relief Fund (HHRF)
Board of Directors Meeting**

February 18, 2025



Agenda Topics

1 Status Update

2 Recommendations

Underwriting Criteria

Options for Providing Hurricane Coverage

Options for Funding Capacity

Options for HHRF Operations

Wind Limits

Mitigation & Loan Programs

Homeowner Policy Considerations

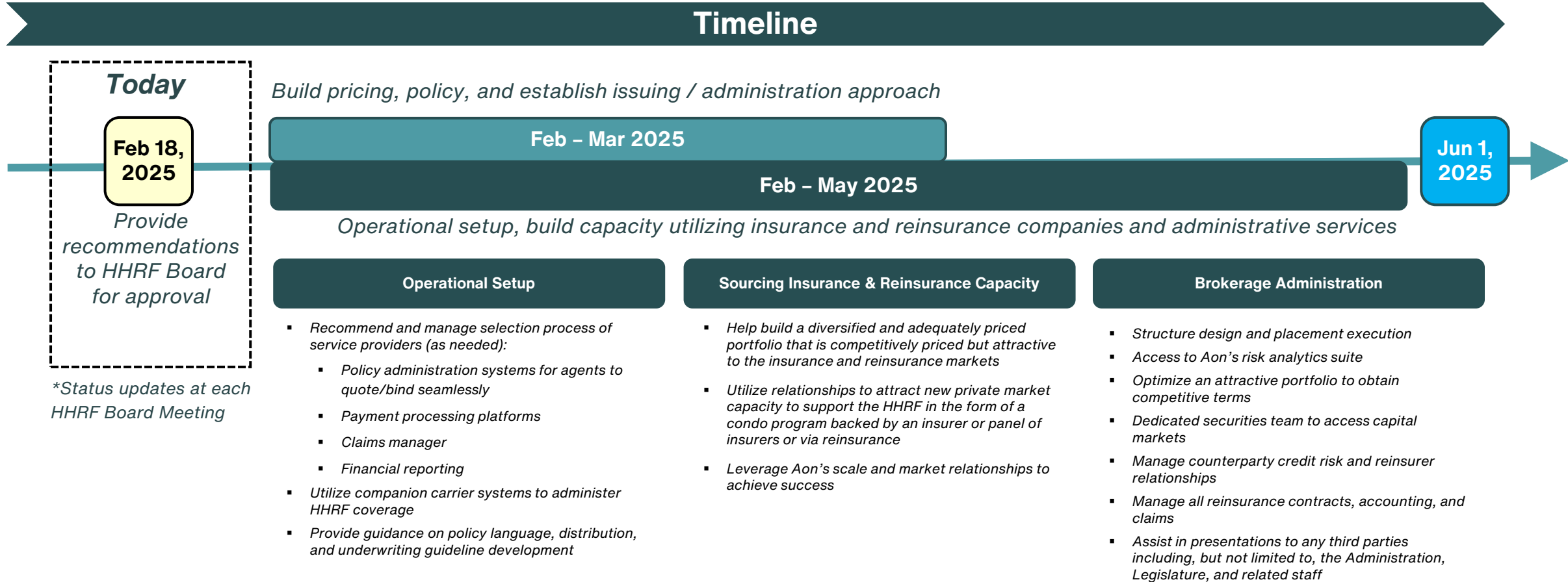
Target Date for Writing Policies

3 Next Board Meeting Date: Tuesday, March 4th

Project Status

Aon is targeting June 1, 2025 for the HHRF to issue its first policy and will focus on the implementation of HHRF solutions going forward.

Timeline



Agenda Topics

1 Status Update

2 Recommendations

Underwriting Criteria

Options for Providing Hurricane Coverage

Options for Funding Capacity

Options for HHRF Operations

Wind Limits








Mitigation & Loan Programs

Homeowner Policy Considerations

Target Date for Writing Policies

3 Next Board Meeting Date: Tuesday, March 4th

Underwriting Criteria | Proposed Guidelines


Eligibility		
1		<p>The condominium association must have separate companion policies covering:</p> <ol style="list-style-type: none"> 1. Non-wind perils through another insurer 2. Wind coverage above and below the amounts covered by this policy with a minimum 2% deductible
Unacceptable Risks		
1		Associations with greater than 50% of the buildings or overall condominium association square footage is within buildings classified as having Frame construction
2		Porches, decks, balconies, awnings and their attachments in poor condition or not to state and/or local code
3		Poor condition of roof, siding, and or foundation including i.) spalling to exterior surfaces, ii.) loose, missing or damaged roofing or siding materials, iii.) flat roofs that susceptible to excess pooling of water
4		Condemned buildings and buildings with low occupancy (less than 75% occupancy or less than 50% owner occupancy)
5		Major renovations ongoing or completed without required permits or a licensed contractor
6		Physical deficiencies in construction and / or materials that have not been corrected



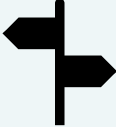
Aon Recommendation: Underwriting rules to focus HHRF on larger fire-resistive condominium associations with appropriate maintenance to support insurability.

Impact of Proposed Underwriting Criteria

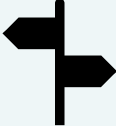
AOAO Count – Percent of Total				
AOAO Total Insurable Value	Wood Frame	Fire Resistive		Total
		Deferred Maintenance	Eligible	
More than \$100M	2%	3%	5%	10%
Between \$50M and \$100M	2%	4%	7%	13%
Between \$10M and \$50M	11%	11%	22%	44%
Less than \$10M	11%	7%	15%	33%
Total	26%	25%	49%	100%

 **Aon Recommendation:** The HHRF should prioritize providing insurance to fire resistive high rises to address the limited availability of insurance limits above \$10M.

Options for Providing Hurricane Coverage

Option:	HHRF Writes Wind Policies	Private Wind Market Facility	Hybrid HHRF & Private Market Solution
 <p>Pros & Cons</p>	<p>Pros:</p> <ul style="list-style-type: none"> ▪ Full control over rates, forms and underwriting rules ▪ Ease of access for agents and policy holders ▪ Speed to market 	<p>Pros:</p> <ul style="list-style-type: none"> ▪ Least capital intensive for the HHRF ▪ Effective long-term solutions ▪ Potential to attract new insurers to provide coverage in Hawaii ▪ Multiple market facility automatically brings price competition 	<p>Pros:</p> <ul style="list-style-type: none"> ▪ HHRF could build both short and long-term solutions concurrently ▪ Flexibility in the structure of the relationship ▪ Potential to address the largest amount of the market
	<p>Cons:</p> <ul style="list-style-type: none"> ▪ Most capital intensive ▪ Could drive private insurers out of the state ▪ Possibility of a large assessment to the marketplace if HHRF gains substantial market share 	<p>Cons:</p> <ul style="list-style-type: none"> ▪ Less direct control on coverage and price ▪ Private market may not be willing to write full limits for larger associations ▪ Likely to have the narrowest underwriting box 	<p>Cons:</p> <ul style="list-style-type: none"> ▪ Complexity: will need to determine how options interact and play against each other ▪ Highest overall level of effort

Options to Provide Funding Capacity Beyond the HHRF’s Current \$170M Balance

Option:	Parametric	Treaty Excess of Loss (XOL)	Facultative (per occurrence)
 <p>Pros & Cons</p>	<p>Pros:</p> <ul style="list-style-type: none"> Any structure is eligible Provides the lowest cost option for capacity Rapid implementation First-dollar coverage Can be paired with other reinsurance coverage Ability to assess and issue a bond would alleviate concerns on basis risk <hr/> <p>Cons:</p> <ul style="list-style-type: none"> Complexity of trigger and payout calibration introduces basis risk <ul style="list-style-type: none"> Post-event explanations of reinsurance coverage may be required if it does not pay as expected The Board may need to address concerns in this case May be less familiar to stakeholders 	<p>Pros:</p> <ul style="list-style-type: none"> Provides substantial coverage before the HHRF would need to pay a claim (e.g., 15x10) Stability (recycling of capacity as needed through time) Viable market appetite Allows for a broader range of associations, potentially including some wood-frame structures <hr/> <p>Cons:</p> <ul style="list-style-type: none"> Higher minimum deposits compared to facultative insurance Limited scalability, requiring advance specification of coverage needs <ul style="list-style-type: none"> In the first year, uncertainty about the number of policies may complicate pricing High execution risk to meet late Q2 2025 timeline 	<p>Pros:</p> <ul style="list-style-type: none"> Pay only for accounts/associations in the portfolio More affordable than treaty insurance Provides optimal coverage if multiple hurricanes hit in the same year (event-level coverage) Most cost-efficient during the initial launch phase <hr/> <p>Cons:</p> <ul style="list-style-type: none"> Limited capacity Unlikely to grow effectively Coverage may be insufficient as the HHRF’s book of business grows (to include potentially hundreds of AOAOs) Markets providing this coverage are already supporting E&S insurers in Hawaii, posing execution risk if they prefer E&S insurers Significant savings may require the HHRF to take on substantial risk Narrow underwriting box

Estimates for an Insurance Facility Providing Wind Coverage over 3 year Projection

	Year 1	Year 2	Year 3
Association Count	Up to 200	Up to 400	Up to 600 ¹
HHRF Written Premium (\$M)	Up to 10	Up to 20	Up to 30
HHRF Net Premium after Expense ² (\$M)	Up to 1	Up to 2	Up to 3
Reinsurance Limit Purchased ³ (\$M)	100	200	300
Total Hurricane Claims Paying Capacity (\$M)	170 (capital) + 100 (rein) = 270	170 (capital) + 200 (rein) = 370	170 (capital) + 300 (rein) = 470
Target Covered Event	Average Cat 3 (Total Industry Loss of \$12-15bn)		

Risk Scenario 1 - Funding a Total Industry Loss of \$15-19bn (~200 Year Return Period)

HHRF Estimated Loss (\$M) ⁴		120-200	250-400	400-600
Funding Options for HHRF (either/or)	1 - Additional Reinsurance Coverage Premium Cost (\$M)	0	2	5
	2 - (If no RI coverage) Industry Assessment Level Post Event	0%	1%	3.5%







Risk Scenario 2 - Funding a Total Industry Loss of \$19-23bn (~250 Year Return Period)


HHRF Estimated Loss (\$M) ⁴		150-300	350-550	550-850
Funding Options for HHRF (either/or)	1 - Additional Reinsurance Coverage Premium Cost (\$M)	1	10	20
	2 - (If no RI coverage) Industry Assessment Level Post Event	1%	5%	10%

Note(s): 1. Assumes ~80% market share of all HI condo associations.. 2. Net of estimated reinsurance premium and expenses. 3. Note Years 2 and 3 are subject to a retention of \$10m and \$20m respectively. 4. Wind losses included from storms that achieve SS Category 1 or greater during their lifespan

Source(s): Aon Proprietary Data, Industry Exposure Data, Moody's RMS RiskLink v23, Aon STG Analysis

Underwriting Criteria | Proposed Guidelines Including Selective Wood Frame

Eligibility		
1		<p>The condominium association must have separate companion policies covering:</p> <ol style="list-style-type: none"> 1. Non-wind perils through another insurer 2. Wind coverage above and below the amounts covered by this policy with a minimum 2% deductible
Unacceptable Risks		
1		Porches, decks, balconies, awnings and their attachments in poor condition or not to state and/or local code
2		Poor condition of roof, siding, and or foundation including i.) spalling to exterior surfaces, ii.) loose, missing or damaged roofing or siding materials, iii.) flat roofs that are susceptible to excess pooling of water, iv.) dry or wet wood rot, v.) insect damage to wood
3		Condemned buildings and buildings with low occupancy (less than 75% occupancy or less than 50% owner occupancy)
4		Major renovations ongoing or completed without required permits or a licensed contractor
5		Physical deficiencies in construction and / or materials that have not been corrected

 **Aon Recommendation:** High vulnerability construction like wood frame should be carefully considered for HHRF's portfolio to avoid over-extending the financial resources of the HHRF.

Estimates for an Insurance Facility Providing Wind Coverage over 3 year Projection Incl. Wood Frame

	Year 1	Year 2	Year 3
Association Count	Up to 250	Up to 500	Up to 750 ¹
HHRF Written Premium (\$M)	Up to 12	Up to 24	Up to 36
HHRF Net Premium after Expense ² (\$M)	Up to 2	Up to 4	Up to 6
Reinsurance Limit Purchased ³ (\$M)	100	200	300
Total Hurricane Claims Paying Capacity (\$M)	170 (capital) + 100 (rein) = 270	170 (capital) + 200 (rein) = 370	170 (capital) + 300 (rein) = 470
Target Covered Event	Average Cat 3 (Total Industry Loss of \$12-15bn)		

Risk Scenario 1 – Funding a Total Industry Loss of \$15-19bn (~200 Year Return Period)

HHRF Estimated Loss (\$M) ⁴		150-300	350-550	500-800
Funding Options for HHRF (either/or)	1 – Additional Reinsurance Coverage Premium Cost (\$M)	2	10	20
	2 – (If no RI coverage) Industry Assessment Level Post Event	1%	5%	10%






Risk Scenario 2 – Funding a Total Industry Loss of \$19-23bn (~250 Year Return Period)

HHRF Estimated Loss (\$M) ⁴		250-400	450-750	650-1,100
Funding Options for HHRF (either/or)	1 – Additional Reinsurance Coverage Premium Cost (\$M)	5	20	30
	2 – (If no RI coverage) Industry Assessment Level Post Event	3.5%	10%	20%

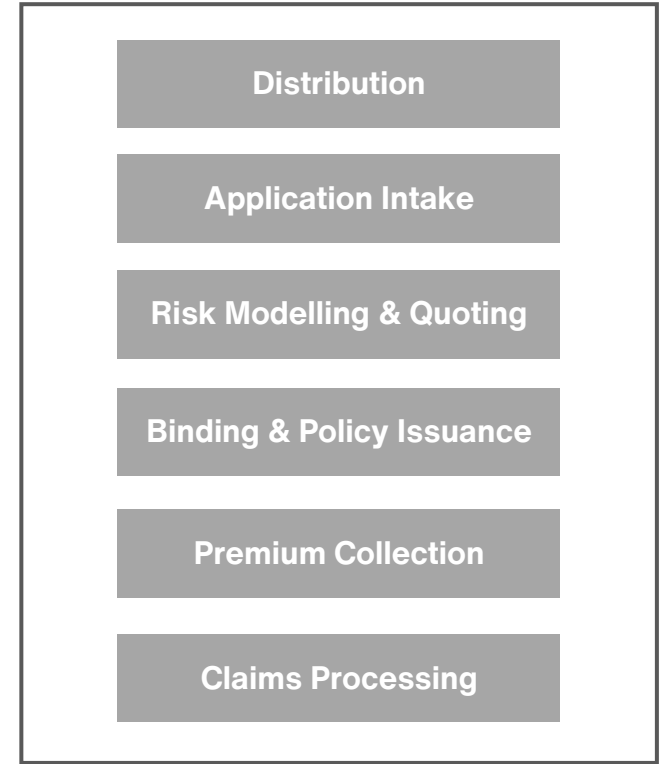
Note(s): 1. Assumes ~80% market share of all HI condo associations. 2. Net of estimated reinsurance premium and expenses. 3. Note Years 2 and 3 are subject to a retention of \$10m and \$20m respectively. 4. Wind losses included from storms that achieve SS Category 1 or greater during their lifespan

Source(s): Aon Proprietary Data, Industry Exposure Data, Moody's RMS RiskLink v23, Aon STG Analysis

Options for HHRF Operations

Option:	Current Admitted AOA Insurers	Third Party Processing (Insurer or MGA)	HHRF-Staffed
 Timeline to Operationalize			
 Pros & Cons	Pros: <ul style="list-style-type: none"> Existing model licenses are already in place Policies are currently being issued and premiums collected, providing a turnkey solution Maintains involvement of the admitted market Single fee/commission structure 	Pros: <ul style="list-style-type: none"> Potential partners need to be identified and a Request for Proposal (RFP) issued Existing staff and systems are in place for distribution, quoting, binding, and claims processing Likely requires fewer new tools Single fee/commission structure 	Pros: <ul style="list-style-type: none"> Provides flexibility over systems and Third-Party Administrators (TPAs) Dedicated resources Enhances brand recognition Offers agility and control to implement changes as needed
	Cons: <ul style="list-style-type: none"> Requires agreement from all admitted AOA insurers May require additional system capabilities or tooling 	Cons: <ul style="list-style-type: none"> May require discussion with several candidates Potential for higher fees/commissions than operation via current admitted AOA insurers 	Cons: <ul style="list-style-type: none"> Involves staffing expenses and efforts Requires acquisition or licensing of system capabilities Requires licensing for modeling, policy administration, etc.

Core Capabilities



Aon Recommendation: Utilize infrastructure of admitted carriers writing AOA’s to issue companion policies.

HHRF Wind Limits

➤ Condominiums must secure full hurricane coverage to remain eligible for mortgages, but the current condo insurance crisis has made this difficult for many AOAOs, presenting an opportunity for the HHRF to offer relief.



Hawaii's Laws on Condo Insurance

The Hawaii Revised Statutes Chapter 514B requires condominium associations to obtain full coverage.

§514B-143 Insurance. (a) Unless otherwise provided in the declaration or bylaws, the association shall purchase and at all times maintain the following:

(1) Property insurance:

- (A) On the common elements;
- (B) Providing coverage for special form causes of loss; and
- (C) In a total amount of not less than the full insurable replacement cost of the insured property, less deductibles, but including coverage for the increased costs of construction due to building code requirements, at the time the insurance is purchased and at each renewal date;



Fannie Mae Mortgage Guidelines

Mortgage associations such as Fannie Mae typically require AOAOs to be insured at full replacement cost.

Master property insurance policies are required for the common elements and residential structures for each loan that Fannie Mae purchases in a condo project...

The lender or servicer must verify that the property insurance coverage amount is at least equal to 100% of the replacement cost value of the project improvements, including common elements and residential structures...

The source that the lender or servicer uses to verify the coverage amount may be the property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination



Impact

It is estimated by practitioners that **c.400 AOAOs do not have full hurricane limits** through insurance either to reduce premium costs or due to an inability to procure the full limit coverage.



Aon Recommendation: HHRF should provide **full wind limits of no less than \$100mn** (with maximum limit determined by the Board and approved by the Commissioner), which will cover most AOAOs. In addition, as the HHRF is financially backed by legislative authority, **mortgage requirements should be satisfied**.

Alignment on Current Objectives of the HHRF

➤ As per the HHRF Statute, HHRF may be required to provide coverage for single family residence homeowners policies.



HHRF's Original Insureds

The HHRF primarily aimed to provide relief to homeowners and businessowners.

"Eligible property" means:

- (1) **Real property of one to four units used for residential purposes** and which is in insurable condition, and which may include tangible personal property located therein or thereon and other structures at the insured location, as provided in the plan of operation or any manual of rules and rates adopted under the plan of operation;
- (2) **Real property used for business, commercial, or industrial purposes** which is in insurable condition, and which may include tangible personal property located therein or thereon, as provided in the plan of operation or any manual of rules and rates adopted under the plan of operation;



HHRF's Original Policies

Insurance policies were provided to protect the insureds against further hurricane losses.

"Policy of hurricane property insurance" means a policy or endorsement of insurance issued by the fund insuring only against damage or loss to eligible property caused by a covered event in excess of the deductible and up to:

- (1) **\$750,000 per risk on real property of one to four units used for residential purposes** and the personal property located therein or thereon and other structures at the insured location ... ; and
- (2) **\$500,000 per risk on real and personal property used for business, commercial, or industrial purposes**, ... ; provided that the board may designate an association of property owners or cooperative housing corporation to be a commercial risk;



For Direction: Does the board want to also write homeowner's policies in accordance current Statute or limit the HHRF's scope to only condominium association master policies?

Potential Legislative Dependencies for HHRF Operations


Proposed Bill	Description	Effective Date
HB426 / SB1044	<ul style="list-style-type: none"> Reactivates the Hawaii Hurricane Relief Fund (HHRF) and amends section 431: 21-102 to include condominium to mean real property to help stabilize the property insurance market in the State Allows the HHRF board of directors to establish a plan of operations to issue policies and collect premium, develop eligibility guidelines, introduce loss mitigation incentives, and to raise funds through assessing fees on property documents issued by the bureau of conveyances and through debt offered by the state of Hawaii, and through insurer assessments after an extraordinary loss 	<ul style="list-style-type: none"> July 1, 2025
HB590 / SB804	<ul style="list-style-type: none"> Requires property insurers to offer discounts on a condominium association's annual insurance premium if the association adopts specific risk mitigation upgrades or develops comprehensive disaster response plans. Requires property insurers of condominiums to base premium increases on actuarial justifications that reflect actual risk reduction resulting from upgraded fire safety improvements installed in conjunction with a building fire and life safety evaluation. Requires property insurers of condominiums to justify premium increases above 10%. Requires property insurers of condominiums to publicly report premium increases each year 	<ul style="list-style-type: none"> July 1, 2025
SB1167	<ul style="list-style-type: none"> Requires the plan of operation for the Hawaii hurricane relief fund to include the filing and litigation of subrogation claims against responsible parties for claims paid by the fund for losses attributable to climate change. Requires insurance rates for the fund to account for proceeds paid to the fund from subrogation claims. 	<ul style="list-style-type: none"> Upon approval



For Direction: Please confirm that Aon should analyze and prepare HHRF operations and recommendations in accordance with current Statute and proposed changes in HB426/SB1044 as of 2/18/2025?

Considerations on the Hawaii Condominium Mutual Insurance Company (HCMIC)

The **Hawaii Condominium Mutual Insurance Company** is a proposed mutual P&C insurance company **specifically for high-rise residential condominiums** and their unit owners in Hawaii. Created by Senate Bill 805 in the 2025 Hawaii legislative session, it aims to provide relief for Hawaii’s current condo insurance crisis. It is proposed to be an **independent corporation, not an agency of the State of Hawaii.**¹

 **Purpose**


The HCMIC’s main objectives are:

- To stabilize the insurance market serving Hawaii's high-rise residential condominium properties
- To offer coverage at the highest level of service with the lowest possible cost
- To maintain reasonable and applicable actuarial standards
- To ensure the sound financial integrity of each residential condominium property association


 **Oversight and Governance**


To ensure proper management and accountability, the HCMIC will have:

- An administrator serving as the chief executive officer
- A board of directors to oversee operations
- An oversight council consisting of five members, including representatives from the senate, house of representatives, and the department of commerce and consumer affairs

 **Loss Reduction Plan**


- HCMIC is proposed to work with policyholders to develop, implement, and monitor building safety and management programs, which will include the development of a **loss reduction plan** that promotes safe building conditions
 - The HCMIC can apply a **deviation to the insured’s rate structure** if the insured has policies and practices in place that demonstrate a high regard for safety

 The Hawaii Condominium Mutual Insurance Company (HCMIC) will be **funded partially through appropriations from the Hurricane Reserve Trust Fund**, a portion of which will be used to establish a **Condominium Loan Fund**. The Condominium Loan Fund will **provide loans to condominium associations** facing significant insurance premium increases.

 **Implementation**

The HCMIC will:

- Begin providing insurance, if approved, **on or after January 1, 2027**
- Submit annual reports to the governor and board of directors starting October 15, 2027
- Respond to any identified deficiencies within six months and be subject to corrective action if the governor finds a need after reviewing reports

 **Aon Recommendation:** Proceed standing up the HHRF and consider actions as needed when the HCMIC legislation passes and when HCMIC starts writing policies.



Note(s): 1. HCMIC may be reorganized as a nonprofit corporation under Chapter 414D. HCMIC will comply with all requirements of the insurance code regarding domestic mutual insurance companies, unless specifically excluded
Source(s): Hawaii Senate Bill 805 Relating to Condominium Insurance

Mitigation Incentives & Loan Making

- Chapter 431P and proposed legislation allows the HHRF to provide and create loss mitigation incentives, including but not limited to premium credits, premium rebates or cash payments

Previous Grant Program

Previous loss mitigation grant program was created to encourage the installation of wind resistive devices

- Allowed the commissioner to spend up to \$6M over 3 years
- Outlined eligible recipients (was intended for single or multi-family residences)
- Grants covered 35% of costs or max reimbursement of \$2,100 per dwelling on a first-come, first-served basis
- Legislation outlined types of wind resistive devices covered by the program (e.g. uplift restraints ties, impact and pressure resistant exterior opening protective devices, safe rooms)

Existing & Proposed Mitigation Programs

1

DCCA Loan Program

Division of the Department of Commerce and Consumer Affairs (DCCA) to provide loans for associations that have been subject to increased insurance premium costs as allowed in HB589/SB1376

- Total loan amount for FY 2025-2026 is TBD in HB589/SB805 and will inform loan amount for FY 2026-2027
- Loan program could more appropriately address overall property condition and therefore increase program eligibility

2

DCCA Grant Program

Grant program run by the DCCA to fortify residential structures against wind damage

- Estimated cost of \$260M over five years
- To be modelled after the Strengthen Alabama Homes program



Aon Recommendation: HHRF should focus on rapid progress to writing policies and may consider promulgating wind mitigation discounts or loans for updating condominium structures after policy forms and rates are finalized.

Recommendations/Questions for Approval by HHRF Board

Item	Description	Approval Needed By ¹
Underwriting Guidelines	<ul style="list-style-type: none"> Recommendation: Underwriting rules to focus HHRF on larger fire-resistive condominium associations with appropriate maintenance to support insurability with very careful consideration for wood frame construction 	3/4/2025
Method for Providing Coverage	<ul style="list-style-type: none"> Recommendation: Provide coverage to the market through a hybrid solution of wind policies written by the HHRF and a private market facility 	3/4/2025
Method for Funding Capacity	<ul style="list-style-type: none"> Recommendation: For funding capacity needed in addition to the \$170M balance, utilize treaty reinsurance 	3/4/2025
Method for HHRF Operations	<ul style="list-style-type: none"> Recommendation: Utilize infrastructure of admitted carriers writing AOA's to issue companion policies 	3/4/2025
Wind Limits	<ul style="list-style-type: none"> Recommendation: HHRF should provide full wind limits of no less than \$100mn (with maximum limit determined by the Board and approved by the Commissioner), which will cover most AOA's. In addition, as the HHRF is financially backed by legislative authority, mortgage requirements should be satisfied. 	3/4/2025
Alignment on HHRF Objectives	<ul style="list-style-type: none"> For Direction: Does the board want to also write homeowner's policies in accordance with current Statute or limit the HHRF's scope to only condominium association master policies? 	3/4/2025
Legislative Dependencies to HHRF Operations	<ul style="list-style-type: none"> For Direction: Please confirm that Aon should analyze and prepare HHRF operations and recommendations in accordance with current Statute and proposed changes in HB426/SB1044 as of 2/18/2025? 	3/4/2025
Considerations on HCMIC	<ul style="list-style-type: none"> Recommendation: Proceed standing up the HHRF and consider actions as needed when the HCMIC legislation passes and when HCMIC starts writing policies. 	3/4/2025
Mitigation Incentives & Loan Making	<ul style="list-style-type: none"> Recommendation: HHRF should focus on rapid progress to writing policies and may consider promulgating wind mitigation discounts or loans for updating condominium structures after policy forms and rates are finalized 	3/4/2025

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