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Committee on Natural Resources
Subcommittee on Energy and Mineral Resources
Oversight Hearing on “Volcano Hazards: Exploring the National Preparation and Response Strategy.”

Good afternoon, Chairman Doug Lamborn and members of the committee. My name is Gordon I. Ito, Insurance Commissioner from the State of Hawaii. Thank you for the opportunity to testify. This hearing is timely in light of the lava flow that is entering Pahoehoe town, on the Island of Hawaii.

Although my testimony may be only tangentially related to the focus of the hearing, I do hope it will provide insight as to what is happening with respect to insurance coverage, its availability, and the long-term impact. Assistance by the federal government will help to mitigate the impact and potential long-term effects of this lava flow.

In 1983, Kilauea’s Southeast Rift zone started to erupt again. Between 1983 to 1990, lava flows covered much of the southeast coastline in the Puna District of the Island of Hawaii, also known as the Big Island. In 1986, a lava flow briefly entered the town and community called Kalapana, a historic fishing village. Another lava flow in 1990, originating from the Kupaianaha vent, entered the Kalapana area. This flow eventually covered the Kalapana Gardens and Royal Gardens subdivisions and the town of Kalapana. Hawaii’s famous Kaimu black sand beach was also overrun. When homes in Kalapana were destroyed by the lava flow, insurers provided coverage under a homeowner’s policy or fire policy. Eventually, most of the homes in the Kalapana were destroyed, and ultimately, many insurers stopped writing homeowner’s insurance in Lava Zones 1 & 2, zones designated by the United States Geological Survey. On the Big Island, there are nine zones with one being the highest risk. In part, to address the unavailability of insurance in this area, the Hawaii Property Insurance Association (HPIA) was created.

With this current eruption entitled the “June 27 eruption”, all of the properties impacted are located in Lava Zones 1, 2, and 3. Until August, homeowners living in Lava Zones 1, 2, & 3 could purchase a homeowner’s policy. As the lava flow approached Pahoehoe in August and September of this year, moratoriums on the sale of new policies or the increase in coverage of existing policies started to be placed in areas where the lava flow might impact. The Kaohe subdivision, I believe, was the first subdivision in which a moratorium was put into effect since it was the furthest upslope. The moratorium area was enlarged as the flow continued towards Pahoehoe. As of today, most insurers, if not all of those that were writing in the Puna - Pahoehoe area, have placed moratoriums south of the Hawaiian Paradise Park and Ainaloa subdivisions. However, HPIA continues to write policies in certain areas of Lava Zone 2, areas in Kapoho and Kalapana.

As the flow approached Pahoehoe and a moratorium was placed on the Kaohe subdivision, rumors and questions arose. A typical question was: will I have insurance coverage if my home was destroyed by the lava? People also heard that others were receiving notices of cancellations.

Like Kalapana, there is insurance coverage under a fire or homeowner's policy. If a home catches fire as a result of the heat from the lava flow, the loss will be covered under the fire portion of the policy. Cancellations of in-force insurance policies are illegal except for non-payment and a few other situations. However, non-renewal of a policy at the end of its term is permitted. This has been the Insurance Division's greatest concern. There have been a few non-renewal notices sent out, but to date, the insurers have rescinded the non-renewal due to the unavailability of insurance. Since the lava flow has taken several months to reach populated areas and due to its slow movement, this provides insurers a potential opportunity to non-renew policies in the lava's projected path. Non-renewals may become an issue if the probability for loss increases.

Other coverage questions like "loss of use/alternative living expense" coverages and "abandonment of property" exclusions have been raised. The Insurance Division has encouraged homeowners to contact their agents or companies regarding their questions because of the differences in policies. However, in the questionnaires we have sent out relating to the lava flow, insurance companies' responses have been positive. For loss of use, it appears most companies have two weeks of available loss of use coverage. If the government authorities order an evacuation of the areas, the "abandonment of property" would not be triggered and the home will still be covered.

It is in these two areas, "loss of use/alternative" coverages and the "abandonment of property" exclusions, where a volcano hazard response could have a tremendous impact. If the lava flow continues and ultimately flows to the ocean, all access would be presently cut off. With the eventual reopening of the Chain of Craters Road, residents south of the lava flow would have to drive hours through the road to get to other side of Pahoia or to rest of the Big Island. If a bridge over a portion of the active flow could be built, it will alleviate the loss of use issue. Property owners will be less likely to abandon their property. That being said, we still recognize that homes subject to fumes from the flow might still result in homes being made uninhabitable.

On a longer term basis, as mentioned, the concern is if the flow continues through Pahoia and results in widespread devastation like Kalapana, insurers may start to non-renew. Homeowners in the area with mortgages will be unable to obtain insurance from the authorized market. In the worst case, their insurance would be forced placed at much higher rates. If insurance becomes unaffordable, properties might be truly abandoned and mortgages foreclosed on. The real estate market will be severely impacted.

Finally, Hawaii's situation with respect to the "slow moving" disaster is likely to be unique due to the nature of Hawaii's volcano. Our volcanos are mainly shield volcanoes, the lava consist of basalt, its viscosity is very fluid. Most importantly, Hawaii's volcanos are likely not to be explosive. In fact, when an eruption occurs in Hawaii, we run to see the eruption instead of running away from it. Due to the non-explosive nature, very little ash, if any, is created. This is in contract to the volcanos in the Cascades on the West Coast. Like Mt. St. Helens, explosions there will likely be of a short episode, not like the southeast zone of Kilauea, which has been continuously erupting since the 1970's. The federal volcano response will be varied depending on location.

Thank you for the opportunity to testify. I would be glad to answer any questions.



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