

**CALIFORNIA EARTHQUAKE AUTHORITY  
GOVERNING BOARD MEETING  
MINUTES**

**Thursday, May 15, 2014  
1:00 p.m.**

Location: CALSTRS Headquarters Building  
Board Room – Lobby, E-124  
100 Waterfront Place  
West Sacramento, California

Members of the Governing Board in attendance:

Mark Ghilarducci, designee of Governor Jerry Brown, Board Chair  
Grant Boyken, designee of State Treasurer Bill Lockyer  
Chris Shultz, designee of Insurance Commissioner Dave Jones  
Dietrich Stroeh, designee of Chair of the Senate Rules Committee Darrell Steinberg  
George Wiley, designee of Speaker of the Assembly Toni G. Atkins

Members of the CEA Staff in attendance:

Glenn Pomeroy, Chief Executive Officer  
Shawna Ackerman, Chief Actuary  
Todd Coombes, Chief Information Officer  
Janiele Maffei, Chief Mitigation Officer  
Chris Nance, Chief Communications Officer  
Tim Richison, Chief Financial Officer  
Bob Stewart, Chief Operations Officer  
Marc Keller, Governing Board Liaison  
Danny Marshall, General Counsel

Also present:

Brian Deephouse, CEA Advisory Panel Representative

- 1. The meeting was called to order at 1:04 p.m. A quorum was achieved.**
- 2. Consideration and approval of the minutes of the February 27, 2014, and March 25, 2014, Governing Board meetings.**

Mr. Pomeroy noted that Chief Operations Officer Bob Stewart's name should be added to the February 27, 2014, Governing Board meeting list of attendees.

**MOTION:** Mr. Boyken moved approval of the February 27, 2014, and March 25, 2014, Governing Board meeting minutes, with the correction noted above. Motion passed unanimously.

**3. Executive Report by Chief Executive Officer Glenn Pomeroy; assisted by CEA executive staff, Mr. Pomeroy's report will include an update for the Board on federal and state legislative activities of interest to the CEA.**

- On Friday, March 28, 2014, a magnitude 5.1 earthquake occurred in La Habra. On March 29 the CEA issued an informational release to benefit policyholders. The following Tuesday the CEA released the first of several radio messages.

Hits to the CEA website soared in the hours after the earthquake, to 7,000, and in the ensuing days that heightened interest continued.

(Chair Ghilarducci arrived at this point.)

The CEA has received a total of 430 claims as a result of the event, of which 80% have been closed. The CEA has paid out just under \$100,000, mostly for emergency-repairs coverage.

- The mandatory-offer-law update concept was approved by the Assembly Insurance committee two weeks ago. CEA staff believes that it will move through the Assembly shortly and then go on to the Senate.

The bill is a work in progress, but there is broad agreement on its main principles – the need to use better language to invite people to have a dialogue when they are asked to consider earthquake insurance.

- Recently there has been tremendous growth the availability of capital through the capital markets, which insurance entities like the CEA can deploy as insuring capacity. The increased competition to provide capacity benefits the CEA, which relies heavily on reinsurance as risk-transfer.
- Mr. Pomeroy displayed graphs illustrating the evolution of the CEA's financial structure: Capital has grown significantly since the CEA's inception, from \$600 million to \$4.5 billion. The total of the Industry Assessment Layers has been reduced dramatically, however, from \$3.6 billion originally to under \$2 billion today, while the risk of attachment for participating insurers is far less than it was for the first 10 years of the CEA.
- It is important to continue to access ever more efficient means of risk-transfer for the CEA to hold the line on the cost of policyholder premiums.

**4. Chief Financial Officer Tim Richison will present a financial report.**

- At the end of the first quarter:
  - The CEA had used approximately 22% of its budget.

- The CEA had cash and investments of approximately \$5 billion.
- The Earthquake Loss Mitigation Fund had approximately \$24 million available.
- Total claim-paying capacity was approximately \$10.4 billion.
- Staff has been working diligently over the last several years to diversify the risk-transfer program, not only the sources of capital but also the dates the contract terms begin. Although the CEA presently buys more than \$3.5 billion in risk-transfer, at any one point only \$760 million will expire and have to be replaced. The CEA is in a better position now to purchase reinsurance efficiently.
- Until recently, reinsurance contracts were typically written for one-year terms. But now CEA's contracts include two-year terms (25%) and three-year terms (22%).
- Collateralized (but traditional) reinsurance is approximately 12% of the CEA's total, while non-traditional (for example, transformer transactions) represents 17%. All told, 29% of risk-transfer is collateralized, meaning that it is like "money in the bank" to which the CEA has reliable, immediate access to after a major earthquake. Adding the reinsurance contract that has as financial security a letter of credit (3.5% of the total program), roughly a third of the CEA's claim-paying capacity is supported by enhancements.
- The results of the efforts of the last several years are:
  - Reinsurance purchases are diversified.
  - Financial security for the risk-transfer program is improved.
  - Capacity and contract terms are diversified into one, two, and three years.

**5. Mr. Richison will seek Board approval to contract with three investment managers, selected in a competitive procurement, and to execute the resulting negotiated contracts with Cutwater Asset Management, Schroder Investment Management North America Inc., and Goldman Sachs Asset Management.**

- In December staff issued an RFP for management services for the CEA's primary fund. Four proposals were received, the top three of which were Schroders, Goldman Sachs, and Cutwater. The fourth was American Beacon, which is a current CEA investment manager.
- Mr. Richison described the system of multiple investment managers the CEA uses to handle assets in its various funds. If the Board were to approve the three new proposed investment managers, a total of 14 firms would share the duties of managing the four different CEA funds.

**MOTION:** Mr. Boyken moved approval of the staff recommendation to negotiate for investment management services with Goldman Sachs, Cutwater Asset Management, and Schroder Investment Management and to authorize Chief Executive Officer Glenn Pomeroy to execute the contracts; seconded by Mr. Shultz. Motion passed unanimously.

**6. CEA Advisory Panel Member Brian Deephouse will provide a summary of the proceedings of the April 24, 2014 Panel meeting.**

- Mr. Pomeroy provided an overview of the final version of the CEA's Strategic Plan for 2014 through 2016 and an update on pending legislation.
- Mr. Richison explained in detail the financial report and the risk-transfer program.
- Mr. Nance provided an update on the marketing programs.
- Ms. Maffei provided updates on the Pre-Standard Project and the Earthquake Brace+Bolt Program.
- The Panel discussed the CEA's Business Implementation Plan.

Mr. Shultz inquired whether Mr. Deephouse could recommend particular skill sets or backgrounds to look for in considering appointments to the Advisory Panel. Mr. Deephouse responded that current Panel is well diversified. Mr. Pomeroy noted that smaller committees composed of Panel members will be providing guidance and feedback in the areas of product development, mandatory-offer legislation, and mitigation.

**7. Chief Communications Officer Chris Nance will present, and seek Board approval of, the 2015 CEA advertising budget.**

- Mr. Nance told the Board that the CEA staff is proposing its fifth year of annualized marketing budgets. This type of budget provides benefits:
  - It enables staff to secure advertising buys more efficiently.
  - It enables staff to work more closely with participating insurance companies on their annual planning calendars, rather than on a project-by-project basis.
- Staff would like to move from concentrated advertising during set periods of time to a plan that instead provides dispersed, year-round, online presence.
- Mr. Nance provided a background summary of CEA advertising efforts since 2008. This included social-science-research-based preparedness presentations in four cities. Mr. Nance noted that independent research showed that CEA's TV advertising had outperformed 85% of all brand TV advertising in Los Angeles markets.

- Advertising in 2014 has included:
  - The *California Rocks!* program, which promotes the message that California is a cool place to live but it also rocks with earthquakes.
  - Extra steps in the marketing program address research showing that consumers don't have a sense of their actual level of risk for earthquake damage.
  - The CEA's Cooperative Marketing Venture (CMV) with participating insurers addresses research showing that 80% of consumers go online to find information they need. Five of 19 PIs have committed to participate in the CMV.

Mr. Nance showed the online ads for the Board.

- CEA advertising expenditures are averaging 1.2% of premium; the P&C industry standard is 3.4 percent of premium.
- Consumers say they want more information about earthquake risk and insurance.
- Misinformation about earthquake insurance is still pronounced.
- Mr. Nance explained social science barriers about perception of risk.
- There are sales channel barriers ranging from the mandatory-offer letter to the fact that CEA earthquake insurance is not on most PI websites.
- Mr. Nance demonstrated how consumers begin with listening to the radio ad, are prompted to visit the [www.californiarocks.com](http://www.californiarocks.com) website and premium calculator, and are then directed to enter PI websites to purchase a CEA policy where (in many cases) CEA earthquake insurance information is simply not available.
- Mr. Nance demonstrated CEA information screens that staff is working with PIs to set up on their own company websites.
- The CEA is moving to the websites [www.californiarocks.com](http://www.californiarocks.com) to sell policies and [www.earthquakeauthority.com](http://www.earthquakeauthority.com) to look for information about filing claims, again through the PIs.
- As Mr. Nance moved to the recommendation, he presented two key points:
  - Staff will continue to work around the annual auction and the ShakeOut each fall. The Shake-Out has offered two months of broadcast advertising, two rounds of direct mail, and extended online advertising.
  - Staff would like to extend the online and direct mail to year-round advertising.
- Mr. Nance proposed budget measured at 1.65% of premium, breaking out the amounts to be dedicated to television, radio, online, and direct mail,

respectively. The proposed total expenditure was \$9,403,675 to create and implement CEA's 2015 marketing and advertising program.

In answer to a question from Chair Ghilarducci, Mr. Nance explained the difference between the 2014 and 2015 budgets: TV advertising rates are rising, online space is up 24%, and direct mail is still an effective marketing tool.

Chair Ghilarducci asked for details and data on the level of Participating Insurer participation and engagement with the CEA during the next year—he asked that Mr. Nance provide the Board a report for the December Governing Board meeting.

Mr. Shultz asked about the mandatory-offer legislation: If the bill passes, would the change happen in 2015 or in a later year? Mr. Nance responded that CEA staff did not know exactly how the legislation would play out. Moreover, companies differ in how they distribute the mandatory offer to their policyholders.

Mr. Shultz commented regarding the La Habra earthquake: It would be useful to know whether people already knew about the CEA or whether a Google search led them to it. Mr. Nance noted that awareness for CEA is increasing.

Mr. Shultz commented that the Automobile Club of Southern California offers a 5% discount on homeowners insurance if the customer also purchases the CEA earthquake insurance policy. He requested data on the effectiveness of the discount.

Chair Ghilarducci inquired as to whether the CEA had felt itself prepared to handle the influx of information requests following the La Habra earthquake. Mr. Nance replied that from a CEA perspective, the systems were working as designed. The only thing that surprised staff was the number of people who still misunderstood whether their homeowners policies covered earthquake damage. He added that the CEA contracts with an outside call center, to cover those times when call volume threatens to overwhelm CEA's inside resources.

Mr. Boyken referred to a bar graph and asked how overall reaction is measured against net brand gain. Mr. Nance explained that it is the receptivity of the advertising message to consumers – that is, focus groups used in research.

Mr. Stroeh asked about the information regarding risk that people are looking for. Mr. Nance responded that social-science research shows that the higher the risk, the more likely people are to undervalue the potential for damage.

**MOTION:** Mr. Boyken moved approval of the proposed budget up to \$9,403,675 to implement the 2015 advertising program; seconded by Mr. Shultz. Motion passed unanimously.

**8. Chief Mitigation Officer Janiele Maffei will update the board on the CEA mitigation program's "Pre-Standards project" and other earthquake-loss-mitigation-related research.**

- The term "Pre-Standard" means that the intent is for it to become a code and be adopted into the existing California Building Code.

- The document is currently called ATC 110 (ATC stands for the Applied Technology Council). The ATC is composed of engineers, researchers, scientists, contractors, and building officials.
- The project is on schedule. A detailed outline of the document should be ready at the end of summer 2014.
- The research program is intended to determine the loss-reduction achieved by mitigation.
- Staff is currently evaluating the output from available models to determine whether a larger mitigation discount for homeowners can be advanced and supported in the next CEA rate filing – that discount would probably be much more than the current statutory minimum of 5%.
- The evaluation will also inform the work staff is doing on the guidelines and the incentive program.

In answer to a question from Mr. Stroeh, Ms. Maffei stated that the guidelines will have the same level of enforcement as the other outstanding codes that are part of the California Building Code. The entire first part of the document is prescriptive, to be used by homeowners and contractors without an engineer.

Chair Ghilarducci asked when staff would engage with organizations like the Department of Housing and Community Development (HCD) and the International Code Council. Ms. Maffei responded that staff is now engaging with the California Office of Emergency Management (Cal OES) and other agencies such as HCD.

**9. Ms. Maffei will update the Board on the California Residential Mitigation Program incentive program, operated by a joint powers authority whose members are the California Office of Emergency Services and the CEA.**

- The Earthquake Brace+Bolt program is managed by the joint powers authority whose two members are the CEA and Cal OES.
- Ms. Maffei explained the progression of the pilot program. In the Los Angeles area, six homes completed the pilot program and in the Oakland area, two. One of the reasons for the low Oakland number may have been that the bids came in that were not within the homeowners' budgets. A formal evaluation of the pilot program is currently underway.
- For the expansion of the program, homeowners will have much more time because there will not be such a detailed evaluation period.
- The purpose of the mitigation in the program is to anchor a house over its foundation. Anchor bolts are installed between the wood frame of the house and the concrete foundation or foundation plates.

Mr. Stroeh and Chair Ghilarducci expressed enthusiasm for the program. Mr. Stroeh mentioned that he had suggested a mitigation program when he first was appointed

to the Board in 1997. Chair Ghilarducci commented that he encounters much interest in the program when he speaks around the state.

**10. Chief Information Officer Todd Coombes will give a progress report to the Board on the 2014 CEA IT Project Portfolio.**

- The progress report addresses four areas:
  1. Progress of the projects in the portfolio.
  2. Changes to the portfolio.
  3. Expenditures as part of the portfolio work.
  4. Assessment of risk around portfolio projects.
- Mr. Coombes gave a percentage breakdown of the progress of the projects in the portfolio.
- Staff is continuing to focus on the projects that they can execute without any external resources.
- Staff has contracted external resources that will start in the near future.
- Staff will meet with stakeholders and project sponsors to discuss any changes, additions, or cancellations in the portfolio for the remainder of 2014.

**11. Mr. Coombes will present to the Board a new approach to upgrading the CEA IT infrastructure.**

- The proposal to do an infrastructure-managed-service project means a bundled approach to upgrading the CEA infrastructure for technology.
- But efforts were unsuccessful to finalize an agreement with one firm for data-center colocation, hardware procurement, data-communications management, and technical-support management.
- Staff now proposes a different approach: to address each of those four components separately.
  1. For data-center colocation, staff is looking for the ability to use enterprise-class data centers – a primary data center in Sacramento and a secondary data center somewhere outside the flood and earthquake higher-risk zones. The CEA IT staff would have access to their own specific area within the data center.
  2. For hardware procurement, staff will be looking for an RFP for three-year leases on equipment which would be put into the two data centers.
  3. For data-center-communications management, the CEA IT staff can perform it internally, working with the colocation data-center provider

and the telecommunications provider. The same will be true of technical-support management.

- Mr. Coombes felt that the CEA needs to back up every single system to ensure a fully functional recovery post-disaster. The CEA engaged the consulting firm Protiviti to analyze the CEA's plan for an interim solution while awaiting the colocation facilities to be established. Protiviti reported that the CEA's short-term (interim) implementation was satisfactory.
- Mr. Coombes outlined the RFP, bid selection, Board approval, and implementation schedule.

**MOTION:** Mr. Boyken moved approval of the staff recommendation, including the approach to upgrade the CEA IT infrastructure and the next steps and timeframes as laid out in the memo; seconded by Mr. Shultz. Motion passed unanimously.

## **12. Mr. Pomeroy will lead a discussion with the board on planning for the development of organizational performance metrics.**

Mr. Pomeroy explained that the CEA lacks an outcome-metric for staff to respond to the Board's expression of its goals. He said it is time to develop a method that can guide staff activity and gauge staff performance on goals and objectives.

Mr. Pomeroy asked Board members if they wished for staff to go outside the organization, to gain the assistance of outside resources, or to make the initial effort internally. He pointed to the expertise of CIO Todd Coombes, who has helped develop internal CEA-staff thinking about performance metrics and objectives.

Mr. Boyken stated that he was comfortable with an internal approach, noting that it would be beneficial for objectives to be tied to the CEA strategic plan and the Board's business goals.

Chair Ghilarducci noted that his own organization had just undergone a complete restructure with a set of performance metrics. CalOES did it successfully using a combination of guidance from outside resources and leveraged internal capacity.

Mr. Shultz felt that Mr. Ghilarducci's comment constituted a good proposal – he said there are many resources to leverage internally, while at the same time a set of eyes from the outside, with expertise in strategic performance metrics, would also be helpful.

Chair Ghilarducci suggested that staff develop a plan that would supply different options to discuss. Mr. Pomeroy responded that staff would finalize its thinking between for the next Board meeting.

## **13. The Board will meet in closed session to discuss personnel matters and litigation matters, as permitted by California Government Code section 11126, subdivisions (a) and (e), respectively.**

Mr. Marshall stated that there was no closed session.

**14. Public comment on items that do not appear on this agenda and public requests that those matters be placed on a future agenda.**

There was no public comment.

**15. Adjournment.**

**MOTION:** Chair Ghilarducci moved to adjourn the meeting; seconded by Mr. Boyken.

Chair Ghilarducci adjourned the meeting at 2:54 p.m.