



Date of Amended Notice: Thursday, October 20, 2011

AMENDED* PUBLIC NOTICE

* Note Revised Agenda Item 10 (Page 2)

**A PUBLIC MEETING OF THE GOVERNING BOARD
OF THE CALIFORNIA EARTHQUAKE AUTHORITY**

NOTICE IS HEREBY GIVEN that the Governing Board of the California Earthquake Authority (“CEA”) will meet in Sacramento, California. Pursuant to California Insurance Code §10089.7, subdivision (j), the Bagley-Keene Open Meeting Act applies generally to meetings of the Board, and the meeting is open to the public—public participation, comments, and questions will be welcome for each agenda item. All items are appropriate for action if the Governing Board wishes to take action. Agenda items may be taken out of order.

**LOCATION: CalSTRS Building
Boardroom – Lobby, E-124
100 Waterfront Place
West Sacramento, California**

DATE: Thursday, October 27, 2011

TIME: 1:00 p.m.

AGENDA:

- 1. Call to order and member roll call:
 - Governor
 - Treasurer
 - Insurance Commissioner
 - Speaker of the Assembly
 - Chair of the Senate Rules Committee

Establishment of a quorum

This CEA Governing Board meeting will be broadcast live on the Internet. Please wait until the official start time of the meeting before clicking on either icon:



Audio



Video (with audio)

If you are unable to log into the meeting please call the CEA directly at (916) 325-3800 for further assistance.

- 2. Consideration and approval of the minutes of the August 25, 2011, and October 7, 2011, Governing Board meetings.

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.
4. Chief Financial Officer Tim Richison will present a financial report.
5. John Forney, Managing Director, Public Finance for Raymond James, Inc., the CEA's independent financial advisor, will brief the Board on the current state of the financial markets.
6. Mr. Richison will present for Board approval the CEA's proposed 2012 risk-transfer program.
7. Chief Communications Officer Chris Nance will provide the Board with an update on the CEA's Marketing Value Program (MVP) and the statewide ShakeOut drill.
8. Chief Mitigation Officer Janiele Maffei will provide the Board with an update on the CEA's mitigation programming, including its participation in the California Residential Mitigation Program.
9. Chief Operations Officer Bob Stewart will report on the recruitment and proposed hire of an Insurance Director and will seek Board approval for CEO Glenn Pomeroy to execute an employment contract with the candidate on behalf of the CEA.
10. REVISED: Mr. Pomeroy, assisted by representatives from PricewaterhouseCoopers (PwC), will present PwC's report on the recently completed CEA organization and staffing analysis; and, Mr. Pomeroy will request the Board's authorization to negotiate and execute a contract amendment required for PwC to proceed with continuation of its work on recommendations requiring further study supported by PwC.
11. Staff will present for Board consideration and approval a proposed 2012 Governing Board meeting calendar.
12. 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.
13. Public comment on items that do not appear on this agenda and public requests that those matters be placed on a future agenda.
14. Adjournment.

For further information about this notice or its contents:

General Information:

Susan Pitton
(916) 325-3800
Toll free (877) 797-4300

Media Contact:

Chris Nance
Chief Communications Officer
(916) 325-3827 (Direct)
nancec@calquake.com

California Earthquake Authority 801 K Street, Suite 1000 Sacramento, CA 95814-3518 Toll free (877) 797-4300
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To view this notice on the CEA Web site or to learn more about the CEA, please visit www.EarthquakeAuthority.com

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Persons with disabilities may request special accommodations at this or any future Governing Board meeting or may request the accommodation necessary to receive agendas or materials the CEA prepares for its Board meetings.

Please contact Susan Pitton by telephone, toll free, at (877) 797-4300 or by email at pittons@calquake.com. We would appreciate hearing from you at least five days before the meeting date to best allow us to meet your needs.

* * *



Date of Notice: Monday, October 17, 2011

PUBLIC NOTICE

A PUBLIC MEETING OF THE GOVERNING BOARD OF THE CALIFORNIA EARTHQUAKE AUTHORITY

NOTICE IS HEREBY GIVEN that the Governing Board of the California Earthquake Authority (“CEA”) will meet in Sacramento, California. Pursuant to California Insurance Code §10089.7, subdivision (j), the Bagley-Keene Open Meeting Act applies generally to meetings of the Board, and the meeting is open to the public—public participation, comments, and questions will be welcome for each agenda item. All items are appropriate for action if the Governing Board wishes to take action. Agenda items may be taken out of order.

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Boardroom – Lobby, E-124
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10. Mr. Pomeroy, assisted by representatives from PricewaterhouseCoopers (PwC), will present PwC's report on the recently completed CEA organization and staffing analysis. (A copy of the final PwC report can be accessed from the home page of the CEA Web site at www.EarthquakeAuthority.com)
11. Staff will present for Board consideration and approval a proposed 2012 Governing Board meeting calendar.
12. 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.
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Draft Meeting Minutes are not available.

Please see CEA Governing Board Meeting
[Approved Minutes.](#)

Governing Board Memorandum

October 27, 2011

Agenda Item 3: Executive Report by Chief Executive Officer Glenn Pomeroy

Recommended Action: No action required – information only

Chief Executive Officer Glenn Pomeroy will present his Executive Report to the Board; assisted by CEA executive staff, Mr. Pomeroy will update the Board on federal and state legislative activities of interest to the CEA.



FINANCIAL REPORT

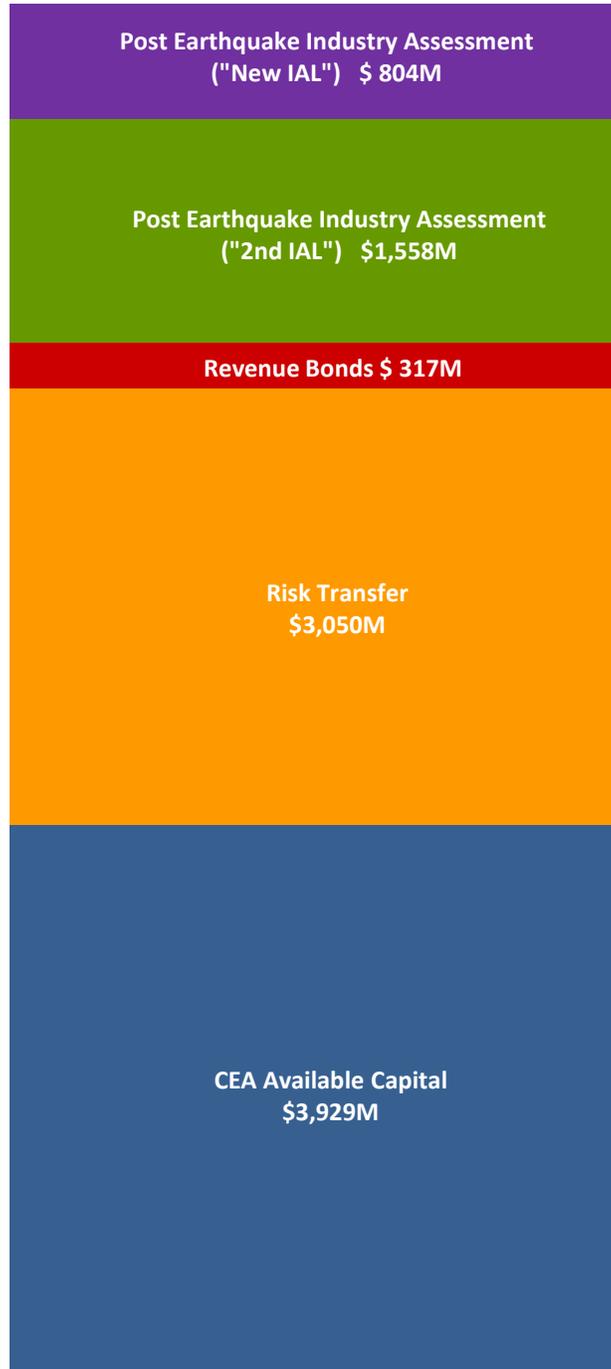
**GOVERNING BOARD MEETING
THURSDAY, OCTOBER 27, 2011
1:00 P.M.**

**California Earthquake Authority
Available Capital Report
as of August 31, 2011**

Cash & Investments (includes capital contributions and premiums)	\$ 4,433,934,039 *
Investments from Revenue Bond Proceeds	(316,958,341)
Debt Service (Interest, Principal & Debt Service (Min. Bal.))	(11,090,837)
Interest Receivable	10,975,186
Securities Receivable	0
Premium Receivable	45,716,240
Risk Capital Surcharge Receivable	0
Capital Contributions Receivable	0
Other Cash-Related Assets	4,763
Unearned Premium Collected	(232,036,407)
Securities Payable	0
Accounts Payable & Accrued Expenses	(1,923,703)
CEA Available Capital	<u><u>\$ 3,928,620,940</u></u>

* Does not include mitigation cash and investments of \$22,262,685

**California Earthquake Authority
Claim-paying Capacity
as of August 31, 2011**



Total Capacity \$ 9,658M
1-in-568 years Recurrence Interval

**California Earthquake Authority
Risk Transfer Capacity
as of August 2, 2011**

Reinsurance Contract #4a - \$50M 4/1/2011 - 3/31/2012	5.50% ROL
Reinsurance Contract #4 - \$ 650M 1/1/2011 - 3/31/2012	5.50% ROL
Reinsurance Contract #3a - \$ 200M 1/1/2011 - 12/31/2011	6.00% ROL
Reinsurance Contract #3 - \$ 500M 1/1/2011 - 3/31/2012	6.20% ROL
Reinsurance Contract #2 - \$ 1,300M 1/1/2011 - 12/31/2011	7.50% ROL
Reinsurance Contract #1 - \$ 200M 1/1/2011 - 12/31/2011	8.15% ROL
Transformer Reinsurance Contract A - \$150M 8/2/2011 - 8/1/2014	7.78% ROL

Total \$3,050 Million

California Earthquake Authority
Balance Sheet
as of August 31, 2011

Assets

Cash and investments:	
Cash and cash equivalents	89,658,000
Restricted cash & equivalents	33,354,674
Restricted investments	316,957,189
Investments	<u>4,016,226,861</u>
Total cash and investments	4,456,196,724
Premiums receivable, net of allowance for doubtful accounts of \$10,566,545	45,716,240
Capital contributions receivable	-
Risk capital surcharge receivable	-
Interest receivable	10,975,186
Securities receivable	-
Prepaid reinsurance premium	16,675,000
Transformer reinsurance premium deposit	5,029,836
Prepaid transformer maintenance premium	4,001,018
Equipment, net	806,852
Deferred policy acquisition costs	42,728,009
Other assets	<u>4,763</u>
Total assets	<u><u>\$ 4,582,133,628</u></u>

Liabilities and Net Assets

Unearned premiums	\$ 318,153,456
Accounts payable and accrued expenses	1,923,703
Claim and claim expense reserves	-
Securities payable	-
Revenue bond payable	157,500,000
Revenue bond interest payable	<u>1,619,363</u>
Total liabilities	<u>479,196,522</u>
Net assets:	
Restricted, expendable	188,760,359
Unrestricted *	<u>3,914,176,747</u>
Total net assets	<u>4,102,937,106</u>
Total liabilities and net assets	<u><u>\$ 4,582,133,628</u></u>

* Includes Cumulative Participating Insurer Contributed Capital of \$756,612,796
and State of California Contributed Capital of \$163,780,551.

California Earthquake Authority
Statement of Revenues, Expenses and Changes in Net Assets
for the Year-to-Date Ended August 31, 2011

Underwriting income:	
Premiums written	\$ 415,710,366
Less premiums ceded - reinsurance	(130,714,535)
Less risk capital surcharge	-
Net premiums written	<u>284,995,831</u>
Change in unearned premiums	<u>(15,291,235)</u>
Net unearned premiums	<u>(15,291,235)</u>
Net premiums earned	<u>269,704,596</u>
Expenses:	
Claim and claims expense	4,288
Participating Insurer commissions	40,071,609
Participating Insurer operating costs	13,743,430
Reinsurance broker commissions	3,200,000
Pro forma premium taxes	9,177,070
Financing expenses, net	5,210,451
Mitigation Fund expenses	172,225
Other underwriting expenses	<u>12,220,324</u>
Total expenses	<u>83,799,397</u>
Underwriting profit	185,905,199
Net investment income	25,657,463
Other income	258,768
Participating Insurer Contributed Capital	-
State of California premium tax contribution	<u>9,177,071</u>
Increase in net assets	220,998,501
Net assets, beginning of year	<u>3,881,938,605</u>
Net assets, end of year	<u><u>\$ 4,102,937,106</u></u>

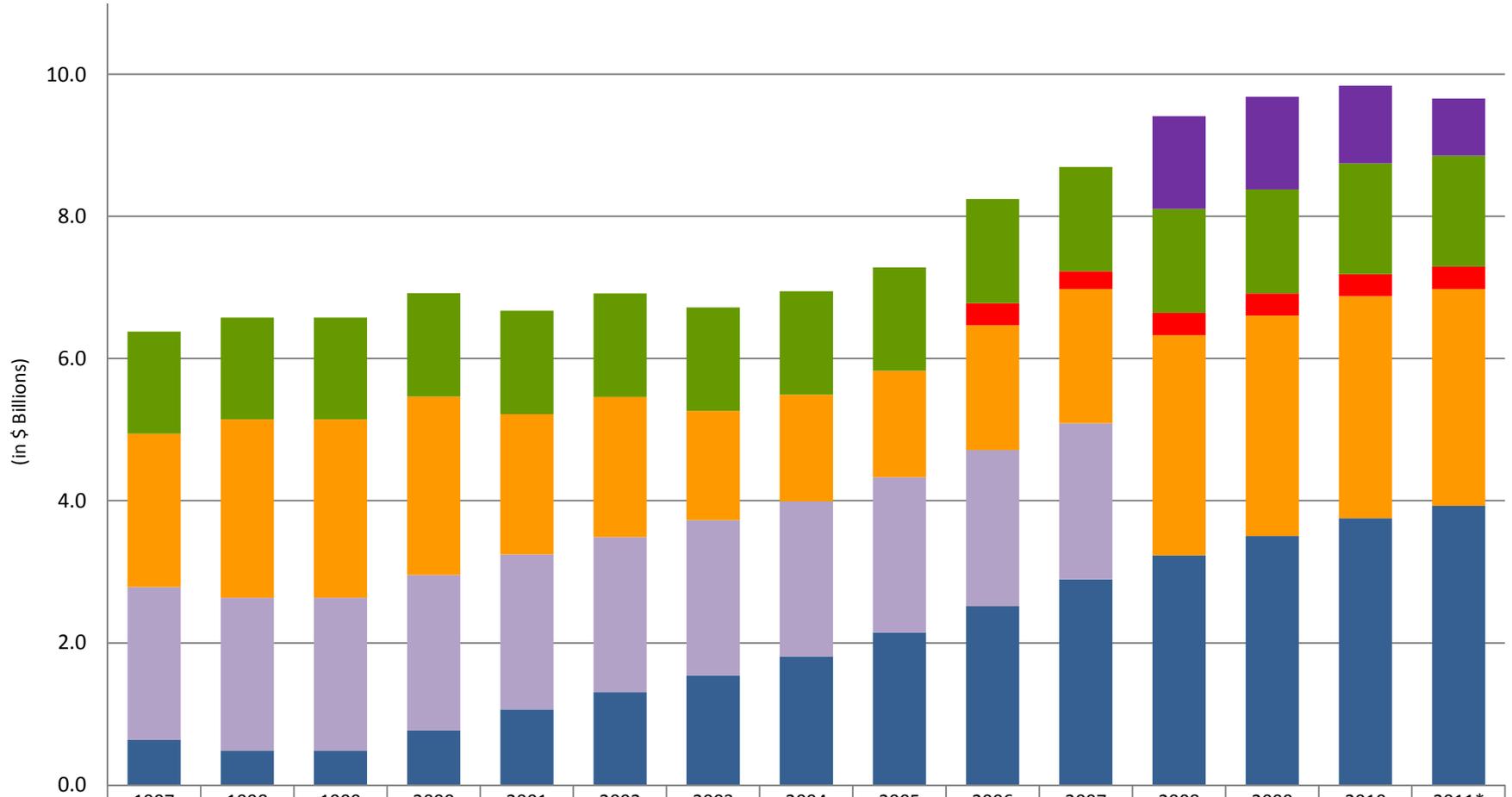
California Earthquake Authority
Insurance Services
Budgeted Expenditures and Actual Expenditures
2011 Budget Year

	(a)	(b)	(c)	(d)	(e)	(f)
	<u>Approved 2011 Budget</u>	<u>Budget Augmentation August 2011</u>	(c=a+b) <u>Augmented Approved 2011 Budget</u>	<u>Actual Expenditures as of 8/31/11</u>	(e=c-d) <u>Remaining Augmented Approved Budget as of 8/31/11</u>	(f=d/c) <u>Percentage of Augmented Approved Budget Used</u>
Salaries & Benefits	\$ 8,383,706	\$ -	\$ 8,383,706	\$ 4,799,068	\$ 3,584,638	57%
Rent	699,880	-	699,880	415,557	284,323	59%
Travel	381,152	-	381,152	203,183	177,969	53%
Non-paid Consultant Travel	7,842	-	7,842	7,566	276	96%
Telecommunications	191,986	-	191,986	137,177	54,809	71%
Training	122,923	10,000	132,923	105,949	26,974	80%
Insurance	126,362	7,000	133,362	133,261	101	100%
Board/Panel Services	19,015	-	19,015	12,725	6,290	67%
Administration & Office (Software Maint & Support, Printing & Stationery, Postage)	918,718	-	918,718	530,527	388,191	58%
Administrative Contracted Services						
Data Mgmt Services	771,096	(17,000)	754,096	181,820	572,276	24%
Other Administrative Contracted	40,208	-	40,208	23,262	16,946	58%
Furniture/Equipment						
Under \$500	8,300	-	8,300	(94,225)	102,525	(1135%)
Over \$500	19,000	-	19,000	11,317	7,683	60%
EDP Hardware/Software						
Under \$500	26,238	-	26,238	22,963	3,275	88%
Over \$500	557,400	-	557,400	(64,083)	621,483	(11%)
Capital Lease Obligations	-	-	-	-	-	
Marketing & Outreach	-	-	-	-	-	
Legal Expenses - Intervenors' Fees	-	-	-	-	-	
Dept of Insurance Examination	55,000	-	55,000	24,128	30,872	44%
Total Operating Expenses	12,328,826	-	12,328,826	6,450,195	5,878,631	52%
Consulting Services						
Actuarial	25,000	-	25,000	-	25,000	0%
Claims	10,000	-	10,000	-	10,000	0%
Information Technology	50,000	-	50,000	-	50,000	0%
Information Tech. Security	-	-	-	-	-	0%
Financial Consulting	175,000	-	175,000	145,681	29,319	83%
Marketing Research	-	-	-	-	-	0%
Other Consulting Services	1,387,000	-	1,387,000	837,197	549,803	60%
Total Consulting Services	1,647,000	-	1,647,000	982,878	664,122	60%

**California Earthquake Authority
Insurance Services
Budgeted Expenditures and Actual Expenditures
2011 Budget Year**

	(a)	(b)	(c)	(d)	(e)	(f)
	<u>Approved 2011 Budget</u>	<u>Budget Augmentation August 2011</u>	(c=a+b) <u>Augmented Approved 2011 Budget</u>	<u>Actual Expenditures as of 8/31/11</u>	(e=c-d) <u>Remaining Approved Budget as of 8/31/11</u>	(f=d/c) <u>Percentage of Augmented Approved Budget Used</u>
Research	1,018,000		1,018,000	559,000	459,000	55%
Contracted Services						
Agent Services	50,000	-	50,000	-	50,000	0%
Audit Service	125,000	-	125,000	-	125,000	0%
Brochure/Information Products	25,000	-	25,000	175	24,825	1%
Business System Development	-	-	-	-	-	0%
Communications	110,000	-	110,000	-	110,000	0%
Consumer Services	50,000	-	50,000	-	50,000	0%
Contracted Marketing & Outreach	390,000	-	390,000	348,065	41,935	89%
Dynamic Financial Analysis	-	-	-	-	-	0%
Investment Compliance	-	-	-	-	-	0%
Legal Services-Claims Counsel	200,000	-	200,000	-	200,000	0%
Legal Service - Non-Claims	2,707,690	-	2,707,690	805,353	1,902,337	30%
Modeling Service	1,451,000	-	1,451,000	417,892	1,033,108	29%
Marketing Services	5,288,360	-	5,288,360	1,647,312	3,641,048	31%
Web Development/Maintenance	30,975	-	30,975	-	30,975	0%
Other Contracted Services	1,199,900	-	1,199,900	258,965	940,935	22%
Total Contracted Services	11,627,925	-	11,627,925	3,477,762	8,150,163	30%
Investment Expenses	2,455,000	-	2,455,000	1,238,483	1,216,517	50%
Financing Expenses	10,999,793	-	10,999,793	7,678,841	3,320,952	70%
Catastrophe Bonds	-	-	-	-	-	0%
Reinsurance	225,555,000	-	225,555,000	133,914,535	91,640,465	59%
Total Expenditures	\$ 265,631,544	\$ -	\$ 265,631,544	\$ 154,301,694	\$ 111,329,850	58%

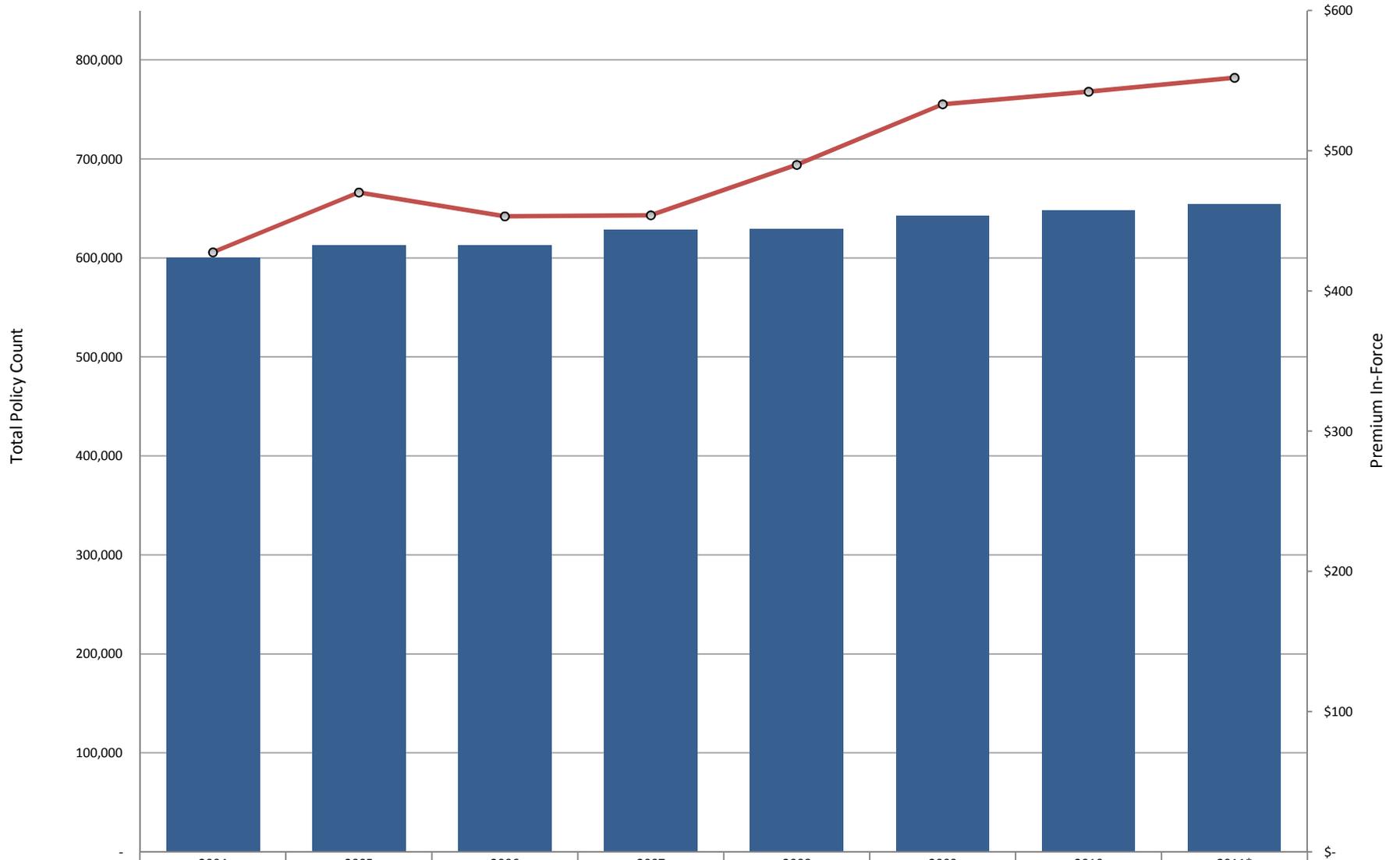
**California Earthquake Authority
Total Claim-paying Capacity (CPC)
*as of August 31, 2011**



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Total CPC	\$7.095	\$7.293	\$7.293	\$7.635	\$7.360	\$7.373	\$7.069	\$6.948	\$7.284	\$8.244	\$8.695	\$9.411	\$9.685	\$9.840	\$9.658
New Industry Assessment	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.304	1.304	1.095	0.804
2nd Industry Assessment	1.434	1.434	1.434	1.456	1.456	1.456	1.456	1.456	1.456	1.465	1.465	1.465	1.465	1.558	1.558
Revenue Bonds	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.311	0.254	0.311	0.311	0.311	0.317
Risk Transfer	2.160	2.509	2.509	2.509	1.971	1.971	1.538	1.500	1.500	1.756	1.885	3.100	3.100	3.123	3.050
1st Industry Assessment	2.150	2.150	2.150	2.183	2.183	2.183	2.183	2.183	2.183	2.197	2.197	0.000	0.000	0.000	0.000
CEA Available Capital	0.635	0.485	0.485	0.772	1.064	1.307	1.544	1.809	2.145	2.515	2.894	3.231	3.505	3.753	3.929

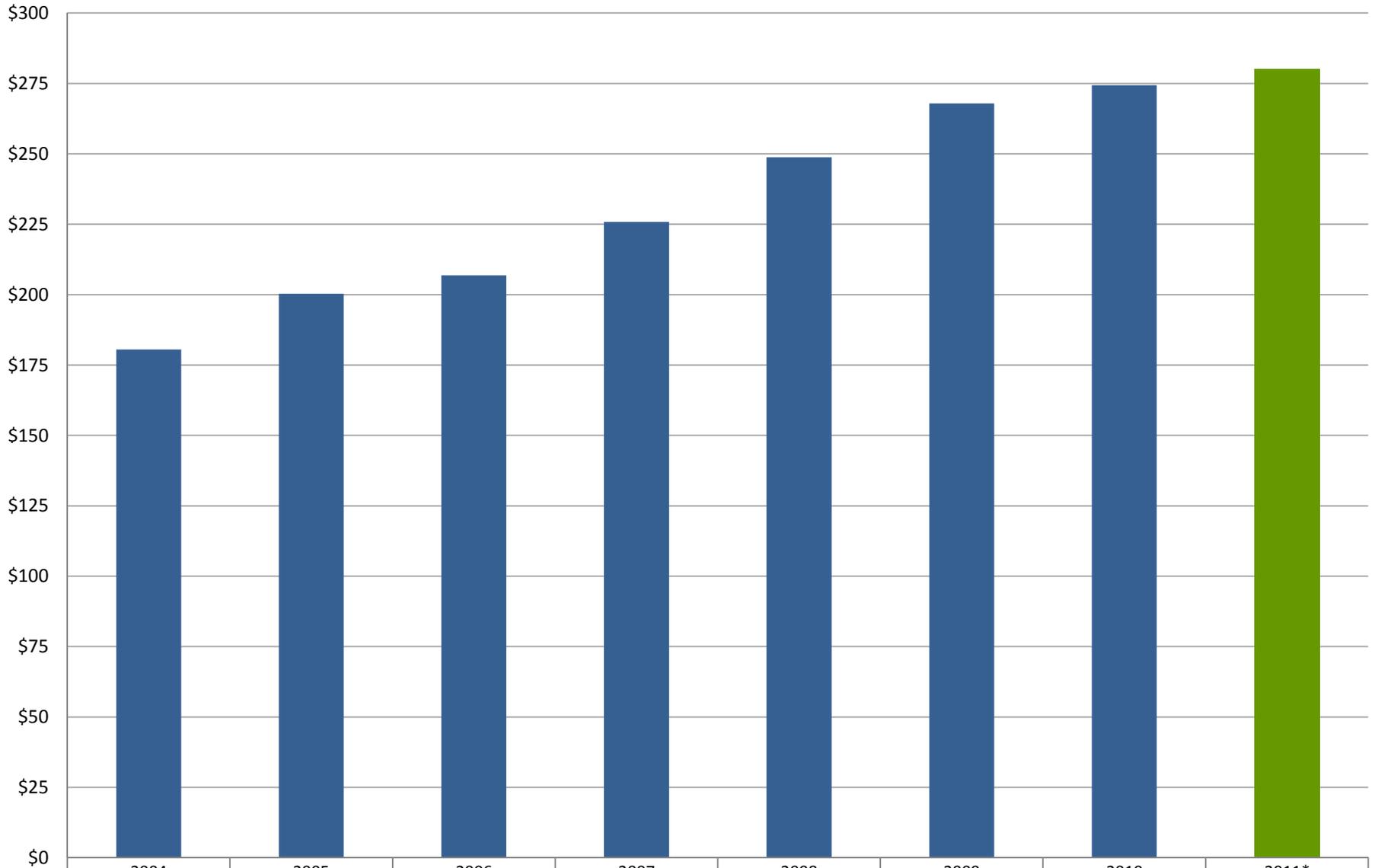
NOTE: In 2007 Revenue Bond proceeds were split between the Base and Supplement programs.

**California Earthquake Authority
Homeowner Policy Count and Premium In-Force
*as of August 31, 2011**



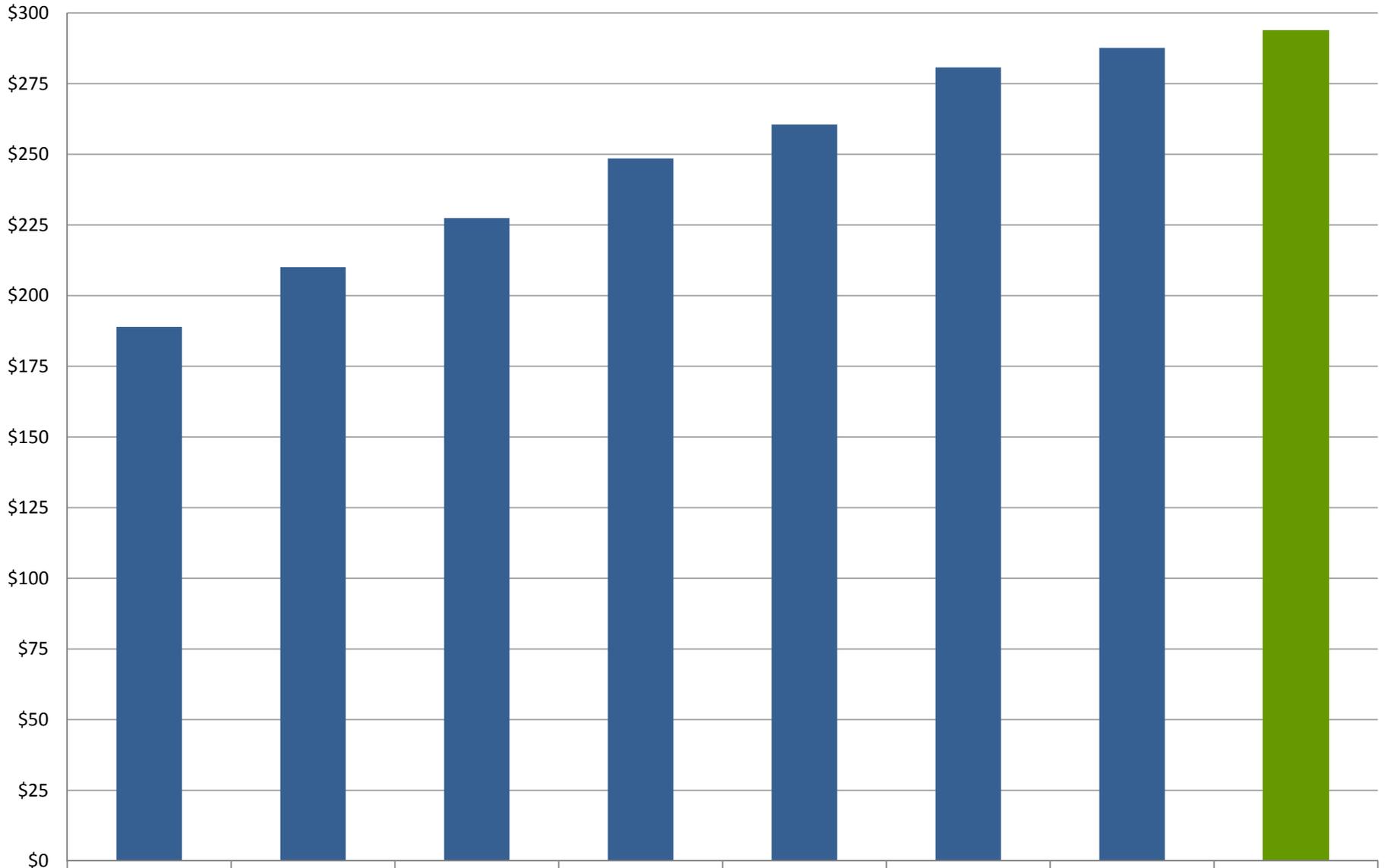
Total Policy Count	600,673	613,266	612,941	628,802	629,138	642,174	647,947	654,093
Total Premium in Force (in \$ Millions)	\$427.5	\$470.2	\$453.2	\$454.0	\$489.9	\$533.1	\$542.1	\$552.0
Annual Change in Policy Count	0.0%	2.1%	-0.1%	2.6%	0.1%	2.1%	0.9%	0.9%
Annual Change in Premium	0.0%	10.0%	-3.6%	0.2%	7.9%	8.8%	1.7%	1.8%

**California Earthquake Authority
Homeowner Policy Total Insured Value (TIV)
*as of August 31, 2011**



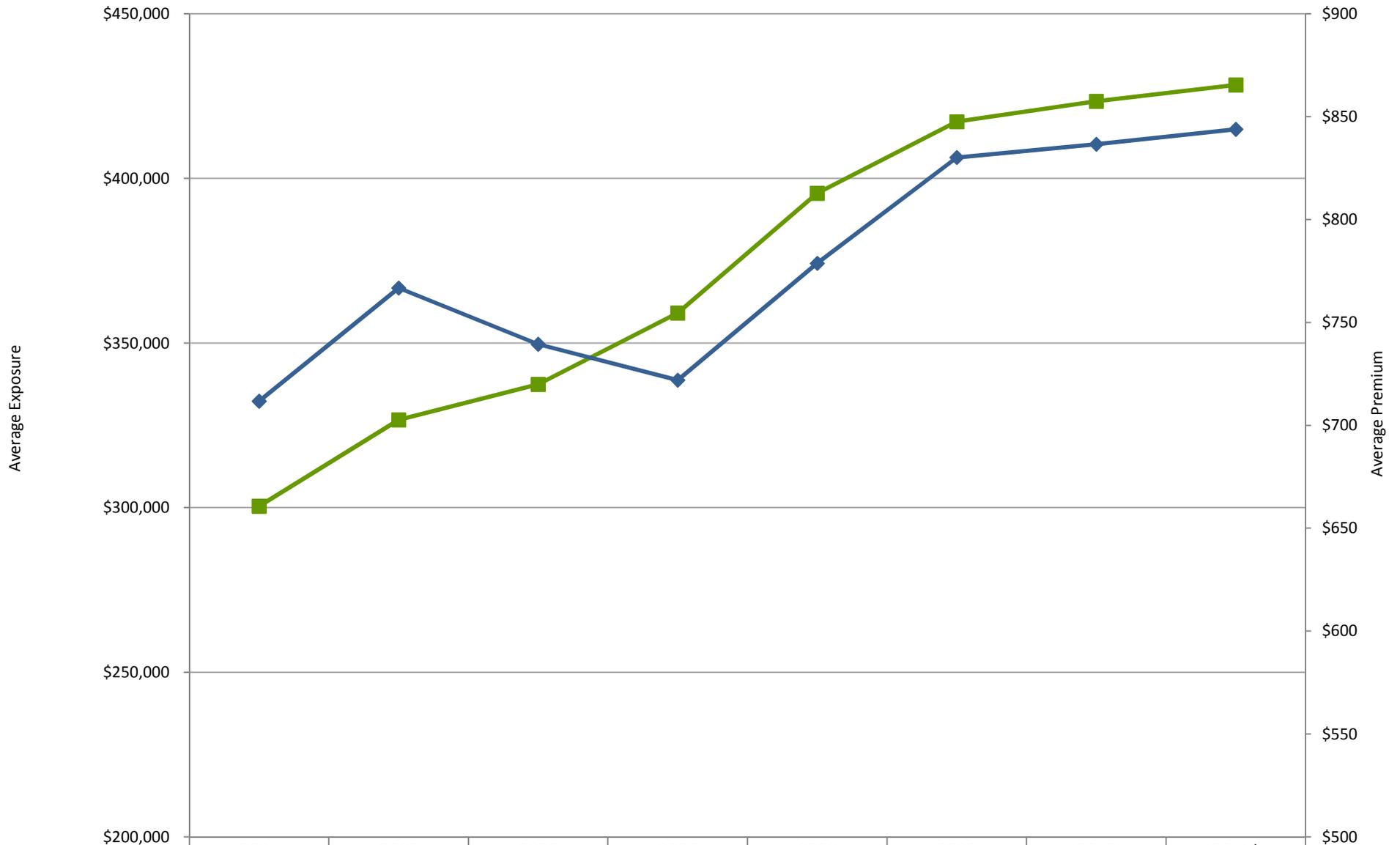
	2004	2005	2006	2007	2008	2009	2010	2011*
TIV (in \$ Billions)	\$180.5	\$200.3	\$206.8	\$225.8	\$248.8	\$267.9	\$274.3	\$280.2
Annual Change in TIV	0.00%	11.00%	3.25%	9.17%	10.19%	7.68%	10.26%	2.12%

**California Earthquake Authority
Total Insured Value (TIV)
*as of August 31, 2011**



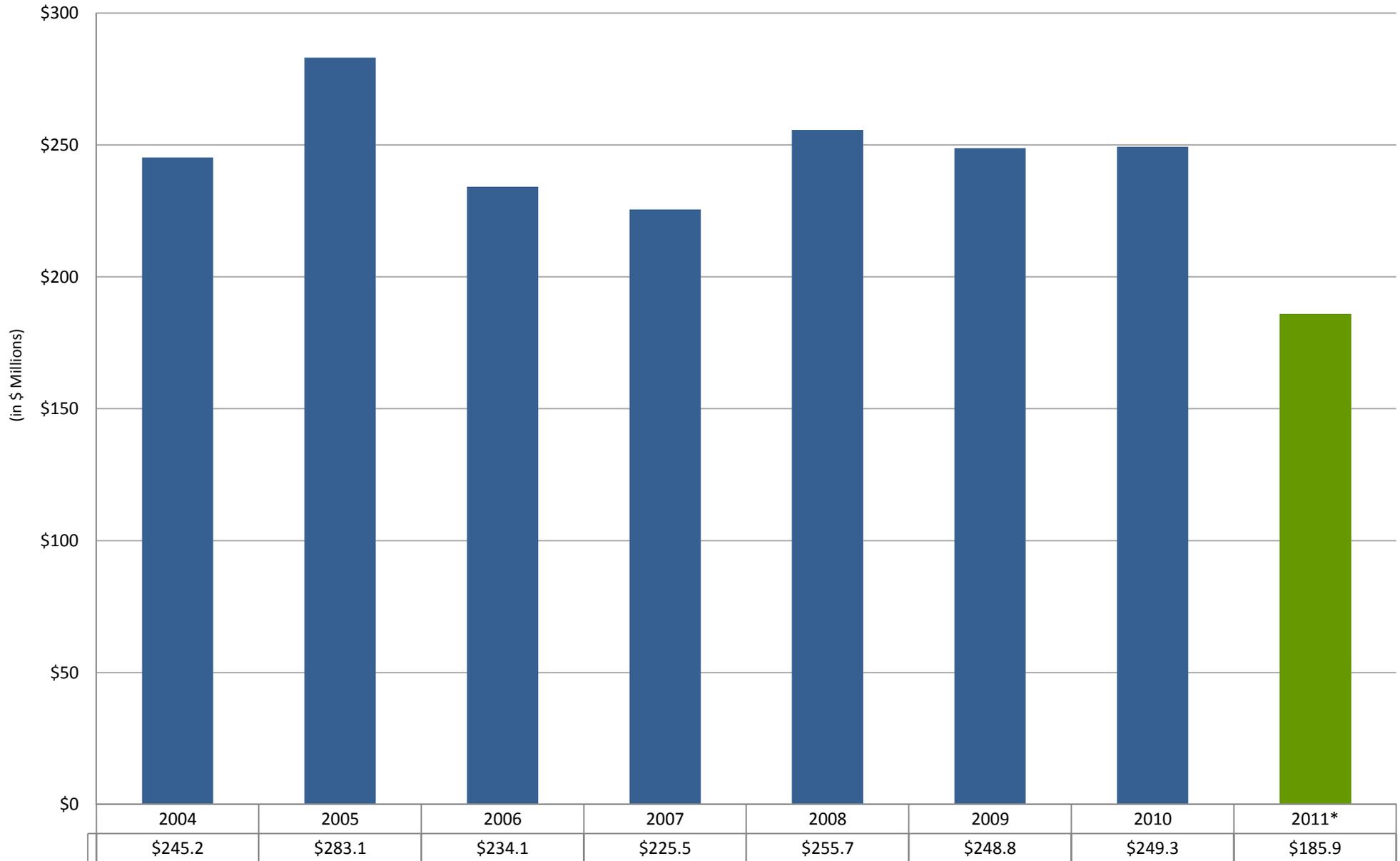
	2004	2005	2006	2007	2008	2009	2010	2011*
TIV (in \$ Billions)	\$188.9	\$210.0	\$227.4	\$248.6	\$260.5	\$280.7	\$287.6	\$293.8
Annual Change in TIV	9.6%	11.2%	8.3%	9.3%	4.8%	7.8%	10.4%	4.7%

California Earthquake Authority
Average Homeowner Policy Premium and Insured Value
***as of August 31, 2011**



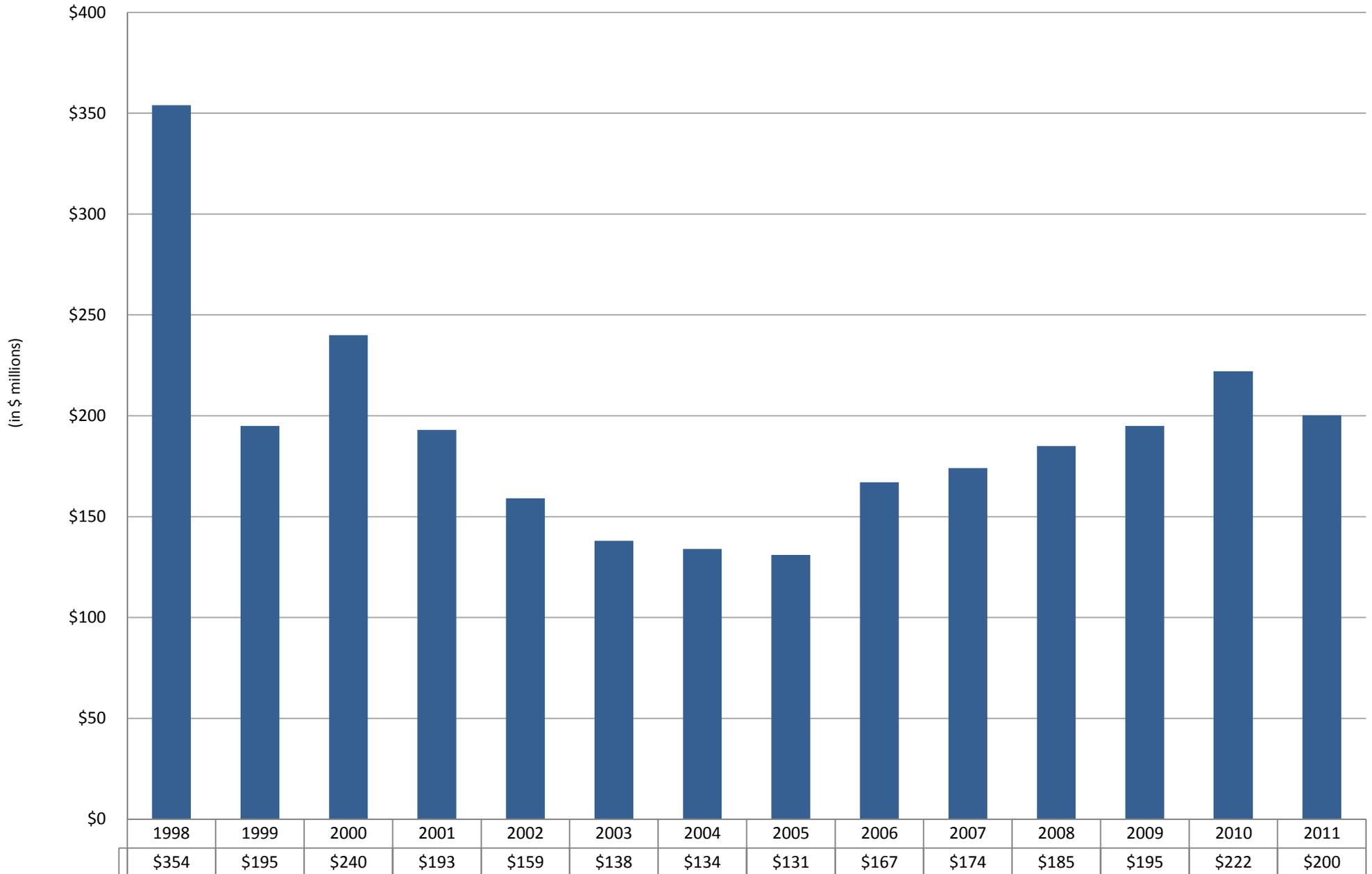
■ Average Insured Value	2004	2005	2006	2007	2008	2009	2010	2011*
	\$300,458	\$326,668	\$337,455	\$359,110	\$395,483	\$417,206	\$423,414	\$428,346
◆ Average Premium	\$712	\$767	\$739	\$722	\$779	\$830	\$837	\$844

**California Earthquake Authority
Annual Capital Accumulated from Premium
*as of August 31, 2011**

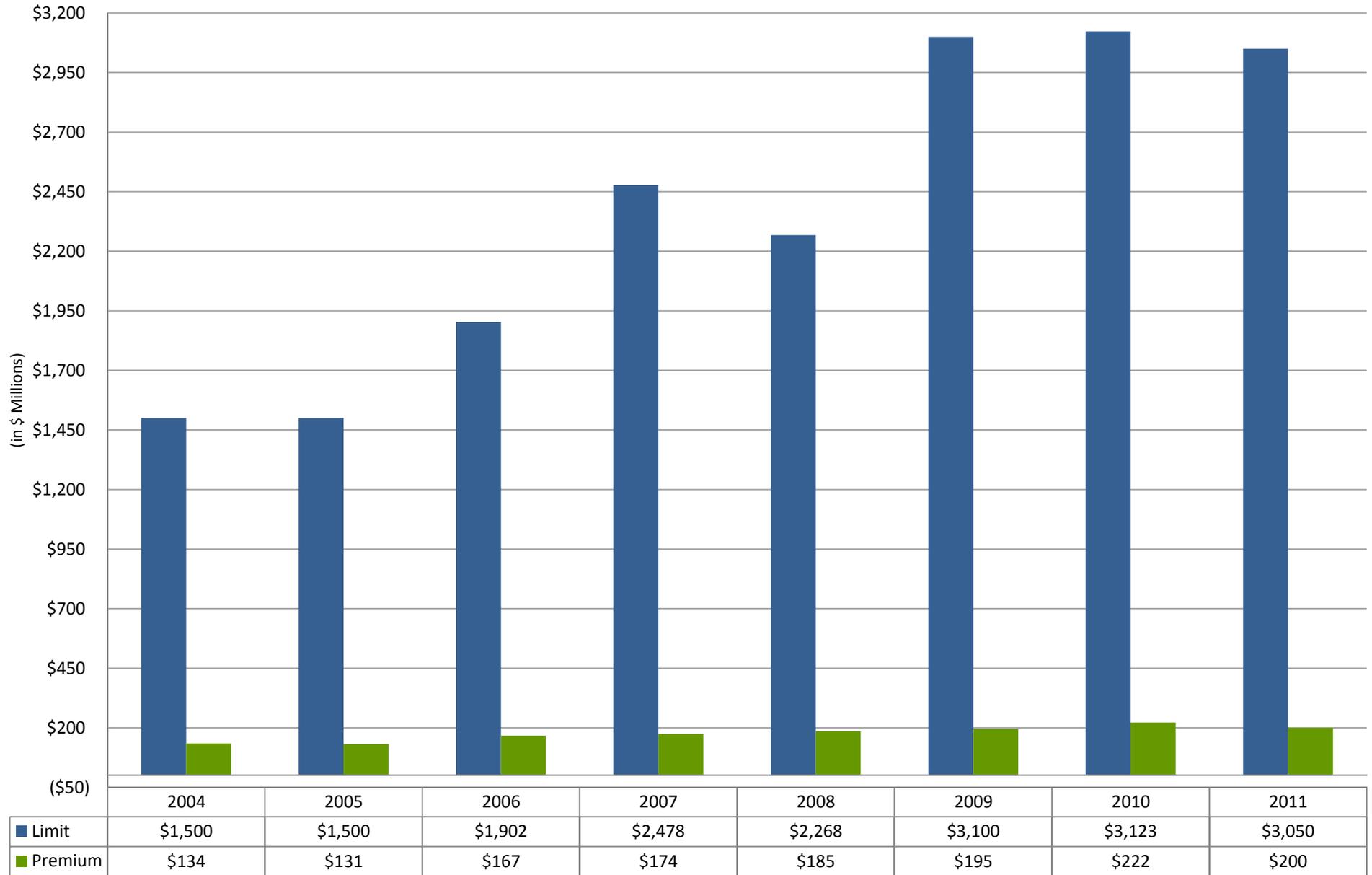


NOTE: From 2010 forward, figure is GASB underwriting profit. Prior to 2010, figure was FASB net premiums written minus total expenses.

**California Earthquake Authority
Annual Risk Transfer Premium Expense**

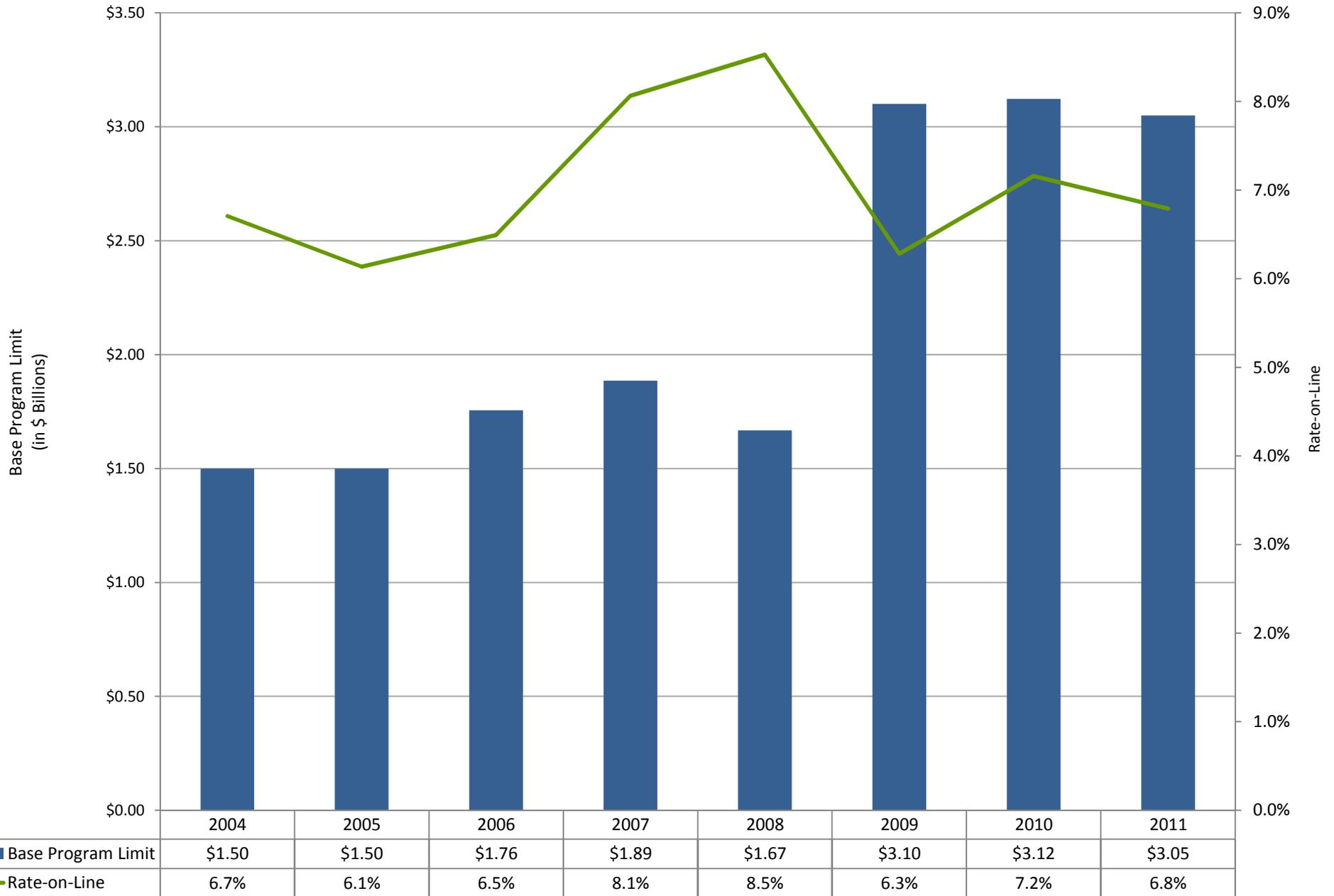


California Earthquake Authority Annual Risk Transfer Premium and Limit



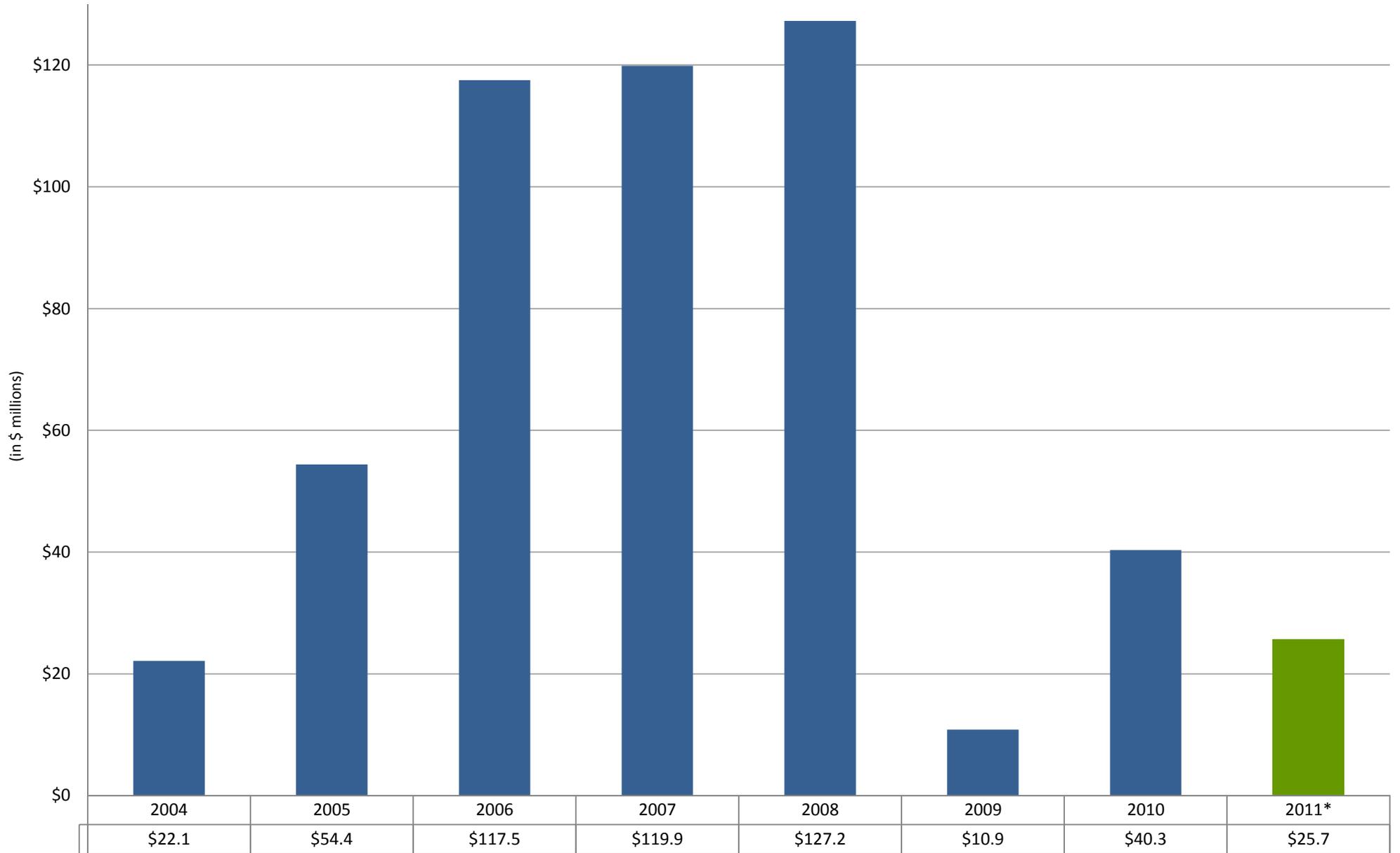
NOTE: Limits through 2005 do not include supplemental coverage while 2006 forward include supplemental coverage.

California Earthquake Authority Risk Transfer Base Program Limits and Rate-on-Line



NOTE: The Rate on Line is a weighted average of the individual layers and their respective rates.

**California Earthquake Authority
Annual Investment Income
*as of August 31, 2011**



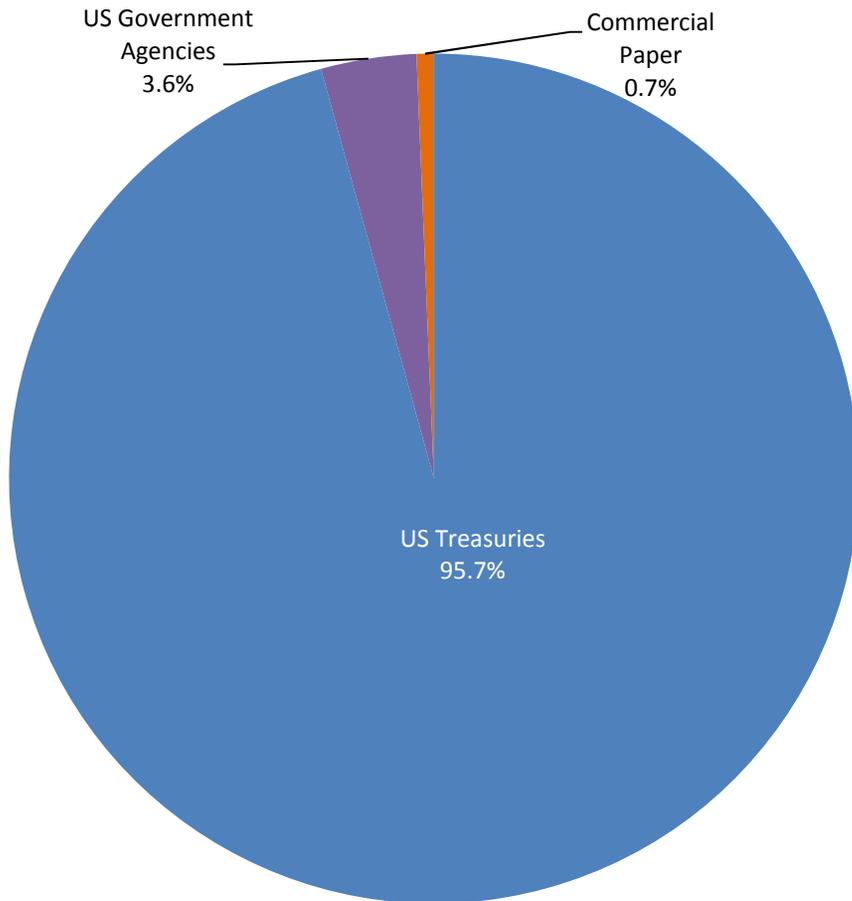
NOTE: Prior to 2011, investment income was reported from FASB financial statements which did not include unrealized gains or losses.

**California Earthquake Authority
Investment Portfolio Distribution
as of August 31, 2011**

The CEA has three different investment funds. The current market values of each pool are:

CEA Operations Fund:	\$4,067,866,278
Claim-paying Fund:	\$316,958,341
Mitigation Fund:	\$22,261,755

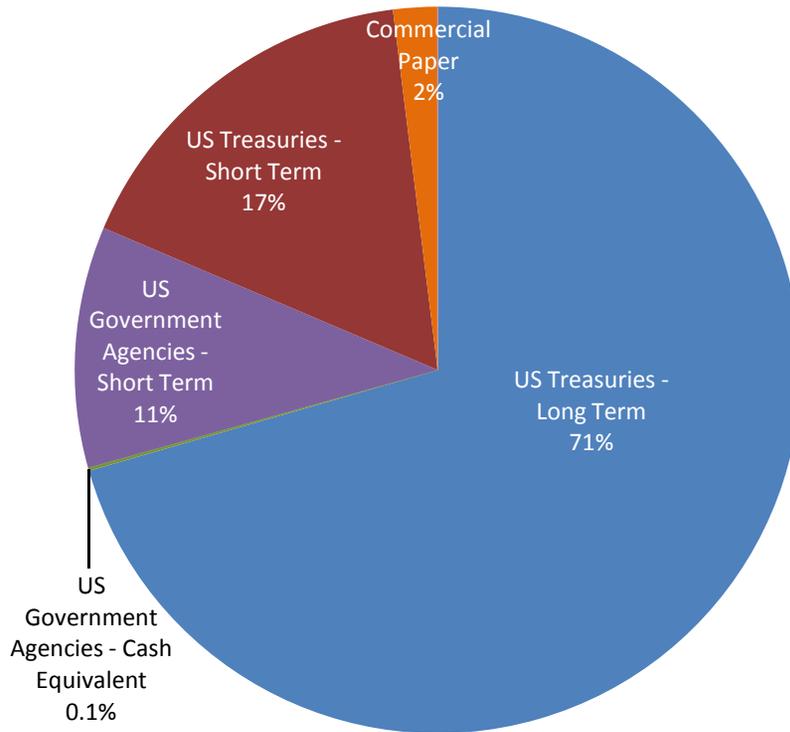
The asset allocation of the three funds are as follows:



	CEA Fund	Claim-paying Fund	Mitigation Fund
US Treasuries - Short Term	17%	16%	0%
US Treasuries - Long Term	71%	84%	0%
US Treasuries - Cash Equivalent	0%	0%	100%
US Government Agencies - Short Term	11%	0%	0%
US Government Agencies - Cash Equivalent	0%	0%	0%
Commercial Paper	2%	0%	0%
Cash	0%	0%	0%
Bankers Acceptance	0%	0%	0%
Totals	100%	100%	100%

**California Earthquake Authority
Investment Portfolio Distribution
as of August 31, 2011**

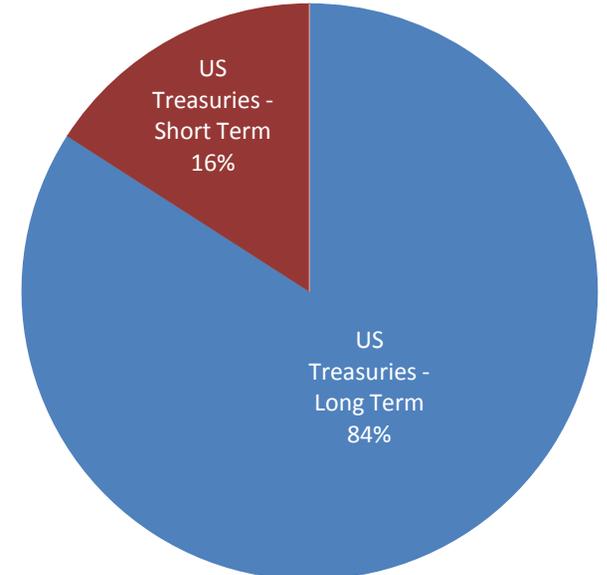
**CEA Fund
\$ 4,067.9 Million**



**Mitigation Fund
\$ 22.3 Million**



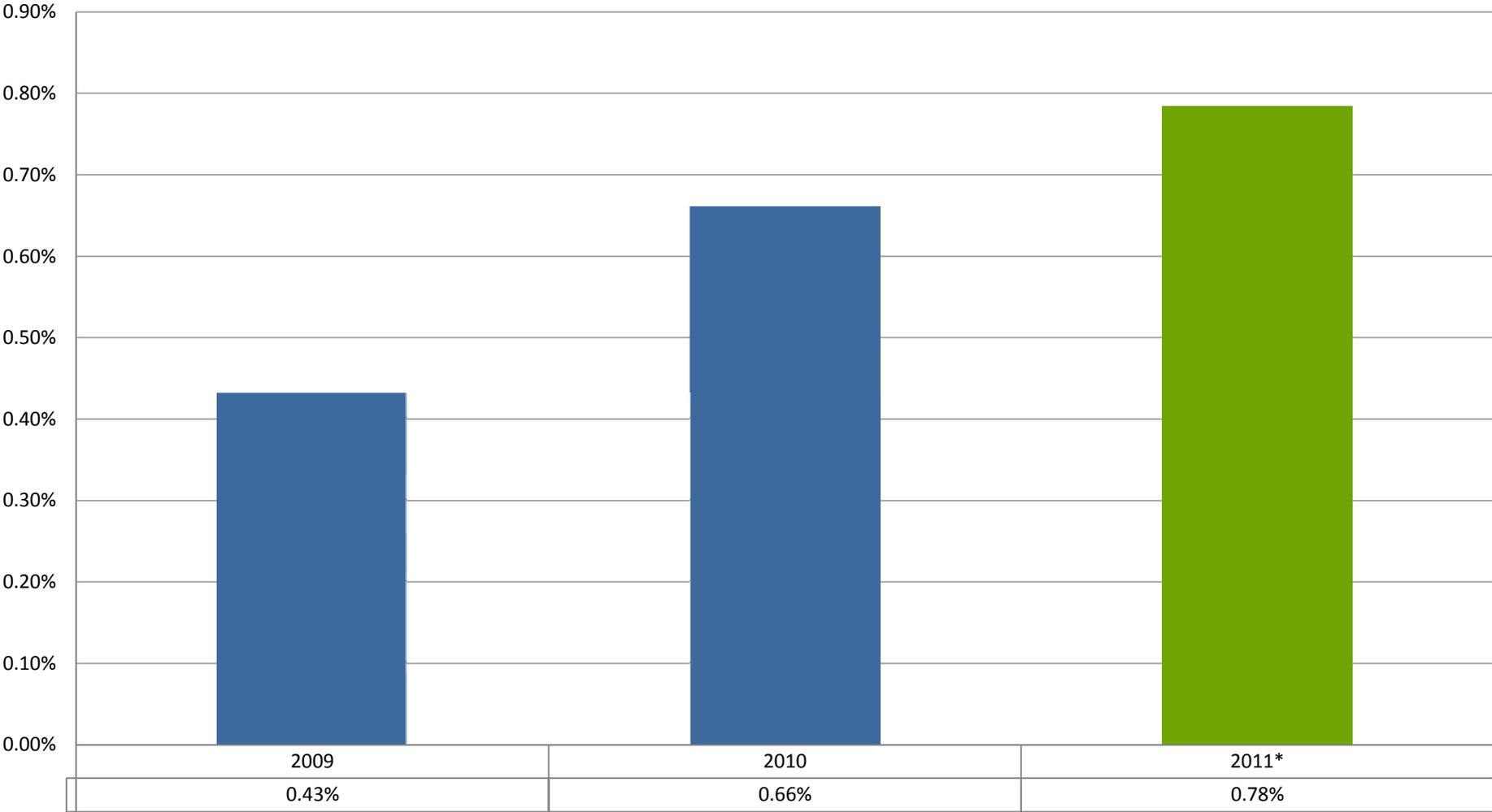
**Claim-Paying Fund
\$ 317.0 Million**



Term to Maturity Definitions

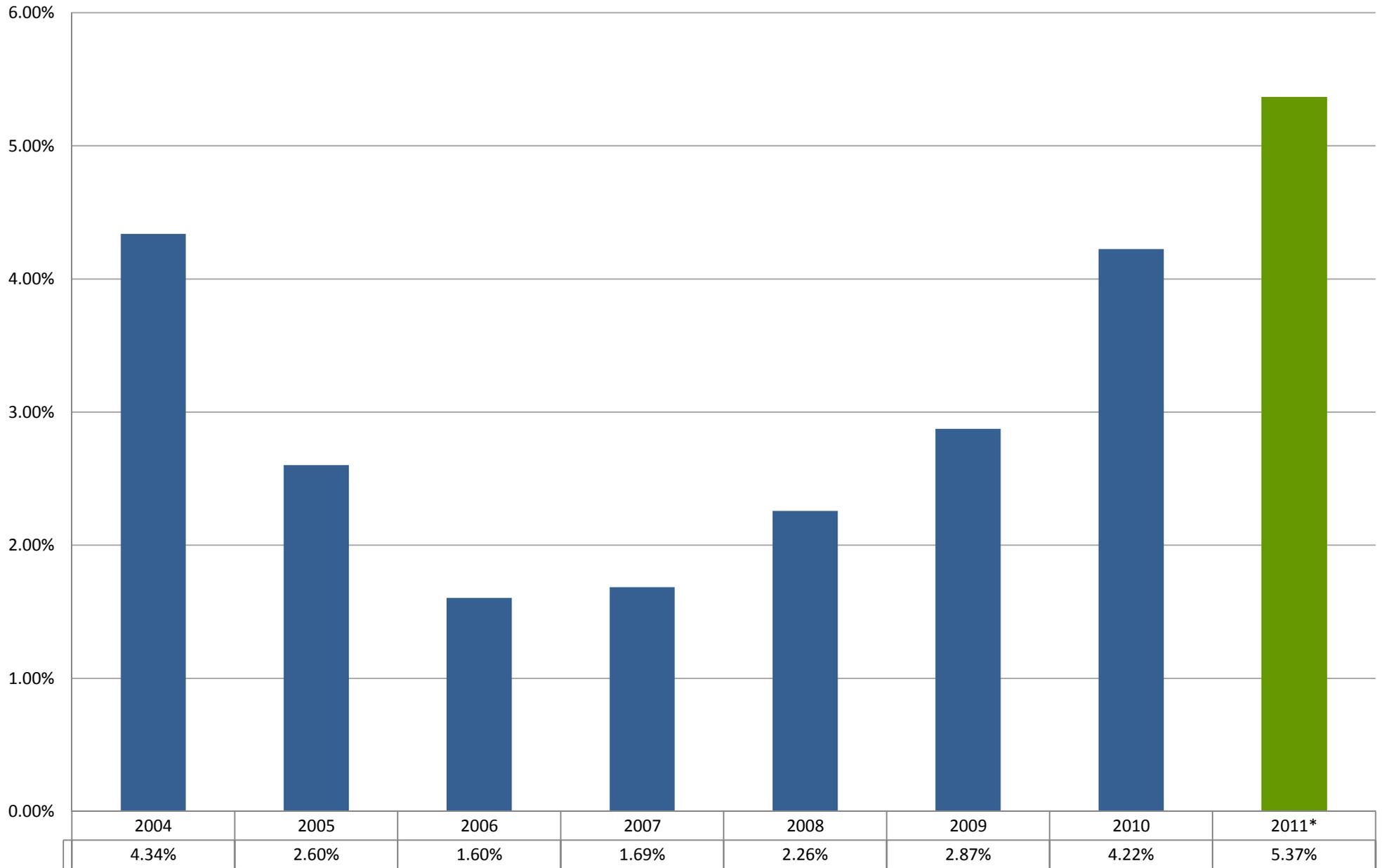
<u>Classification</u>	<u>Trade Date to Maturity</u>
Long Term	≥ 1 year
Short Term	< 1 year and ≥ 90 days
Cash Equivalent	< 90 days

**California Earthquake Authority
 12-Month Rolling Investment Return
 *as of August 31, 2011**



NOTE: Gross of Investment Manager Fees

**California Earthquake Authority
Investment Manager Fees as a Percentage of Investment Income
*as of August 31, 2011**



**California Earthquake Authority
Schedule of Outstanding Debt**

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE
Series 2006 Revenue Bonds	\$ 315,000,000	6.169%	\$ 310,829,067	\$ 157,500,000	31-Aug-2011

DEBT SERVICE SCHEDULE

The table below shows the remaining annual debt service requirements for the Series 2006 Bonds.

Period Ending	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
1-Jan-11	\$189,000,000		\$5,829,705	\$5,829,705	
1-Jul-11	\$157,500,000	\$31,500,000	\$5,829,705	\$37,329,705	
2011					\$43,159,410
1-Jan-12	\$157,500,000		\$4,858,088	\$4,858,088	
1-Jul-12	\$126,000,000	\$31,500,000	\$4,858,088	\$36,358,088	
2012					\$41,216,175
1-Jan-13	\$126,000,000		\$3,886,470	\$3,886,470	
1-Jul-13	\$94,500,000	\$31,500,000	\$3,886,470	\$35,386,470	
2013					\$39,272,940
1-Jan-14	\$94,500,000		\$2,914,853	\$2,914,853	
1-Jul-14	\$63,000,000	\$31,500,000	\$2,914,853	\$34,414,853	
2014					\$37,329,705
1-Jan-15	\$63,000,000		\$1,943,235	\$1,943,235	
1-Jul-15	\$31,500,000	\$31,500,000	\$1,943,235	\$33,443,235	
2015					\$35,386,470
1-Jan-16	\$31,500,000		\$971,618	\$971,618	
1-Jul-16		\$31,500,000	\$971,618	\$32,471,618	
2016					\$33,443,235

Governing Board Memorandum

October 27, 2011

Agenda Item 5: Status of Financial Market – Raymond James, Inc.

Recommended Action: No Action Required – Information Only

John Forney, Managing Director Public Finance Raymond James, Inc., the CEA's independent financial advisor, will brief the Board on the current state of the financial markets.

CEA Governing Board Meeting–October 27, 2011

Agenda Item 6 – CEA's Proposed 2012 Risk-Transfer Program

Staff-prepared materials will be available soon at
www.EarthquakeAuthority.com

Governing Board Memorandum

October 27, 2011

Agenda Item 7: Update on Marketing Value Program (MVP) and the statewide ShakeOut drill

Recommended Action: No action required – information only

Background:

In August 2010 the Governing Board approved investing up to \$5 million (less than 1 percent of the CEA's 2011 premium revenue) to support a first-time, annualized, new-policy-sales Marketing Value Program (MVP), developed to:

- Generate about 150 million (sales) impressions through three flights of paid media in 2011 (a flight is a period when paid media and direct mail run concurrently):
 - Flight 1 (June 13–26) was for all agents appointed by CEA's participating insurers;
 - Flight 2 (August 15–28) was for all CEA-trained agents; and
 - Flight 3 (October 13–30) was for CEA-trained agents selling three new CEA policies.
- Manage paid-media and direct-mail costs:
 - \$1,750,000 for three flights of paid media;
 - \$489,000 for two flights of direct mail to policyholders; and
 - \$2,761,000 for three flights of direct mail to non-policyholders.
- Sell 15,000 new CEA policies.
- Retain more than 800,000 existing policies.
- Produce a return-on-investment for new policies sold that helps build CEA's capital.

In October 2010 the Board approved using funds (up to \$550,000) remaining from CEA's participation in the 2010 Great California ShakeOut for use in late 2010 and early 2011 to:

- Streamline editorial content for the *Putting Down Roots* publication – \$25,000.
- Update the CEA logo according to new brand – \$25,000.
- Produce a CEA-branded television ad – \$110,000.
- Purchase additional TV advertising – \$390,000 (\$130,000 for each flight in 2011).

Analysis:

Marketing Value Program – nearly 4,000 participating-insurer agents

This year marked the first time the CEA has implemented an annualized marketing program. Though CEA's unique structure still offers financial and logistical challenges associated with the sales of its policies through its participating insurers, all the metrics used to evaluate program effectiveness revealed upward trends.

While the number of agents registered in the first year for the MVP did not reach full capacity, the CEA expects the number of registered agents to increase annually as MVP awareness grows. First-year metrics clearly demonstrated a positive relationship between training and sales.

As of August 31, 2011, with two of three MVP flights of direct mail and paid media completed, the total number of CEA policies-in-force increased by about 1 percent compared to the same date in 2010.

Total number of agents registered in MVP increased by 73% (compared to 2010 ShakeOut):

- MVP agent registration capacity (of 5,000) – 79%:
 - Flight 1 – 64% (appointed)
 - Flight 2 – 36% (trained by CEA)
 - Flight 3 – 15% (sold three new CEA policies)
- MVP agent training increased by 128% (compared to 2010):
 - In person and webinars +132%.
 - Online +119%.
 - Average class size +58%.
 - 95.5% of survey respondents want to participate in future MVP efforts:
 - 92.5% will recommend MVP participation to co-workers and colleagues.
 - 43.3% of respondents reported an increase in quotes and sales through MVP.
 - 71% said earthquake-preparedness kits were a good tool, appreciated by clients.
- MVP registered agents sold 9,522 new CEA policies (as of 10/20/11) – 63% of goal:
 - CEA-trained agents represent just 42% of eligible (appointed) agents.
 - MVP-registered agents represent just 18% of eligible (appointed) agents.
 - 5,000 MVP registered agents could increase CEA new-policy sales by about 30%.

2011 Great California ShakeOut – 8.6 million participants

The CEA’s role in promoting the Great California ShakeOut is becoming more significant each year—2011 saw production of earthquake-preparedness PSAs by news talent from two television networks in four California markets, and by celebrities, including Ryan Seacrest (*American Idol*) and Mario Lopez (*Extra!*) to promote both the CEA and the ShakeOut.

CEA’s ShakeOut partnership results from 2008 through 2011 include:

- Delivered 175 million impressions statewide through paid media.
- Distributed news releases, media advisories, and public service announcements.
- Coordinated statewide media spokespersons and media database.
- Hosted five press availabilities for preparedness stakeholders.
- Assisted in facilitation of more than 1,000 news stories.
- Delivered about 6 million impressions through in-store merchandising displays.
- Distributed more than 2.5 million pieces of direct mail.
- Hosted information booths at ethnic-community festivals.
- Sponsored “Preparedness Team” at community events, statewide.
- Distributed about 25,000 preparedness starter kits to consumers.

Recommendation:

No action required – information only.

Governing Board Memorandum

October 27, 2011

Agenda Item 8: Update on the CEA Mitigation Program

Recommended Action: No action required – information only

Background and Analysis:

The California Residential Mitigation Program is operated under the recently executed CEA–CalEMA joint powers agreement (“JPA”). The JPA held its first, organizational board meeting on October 4, 2011. Letters of appointment for Board members were accepted from or on behalf of Glenn Pomeroy (Chief Executive Officer, CEA); Chris Nance (Chief Communications Officer, CEA); Mike Dayton (Acting Secretary, Cal EMA); and Christina Curry (Assistant Secretary, Cal EMA). Mr. Pomeroy was elected chair of the board, and Mike Dayton was elected vice chair.

The agenda for the meeting included matters of business operations, including the appointment of Janiele Maffei (Chief Mitigation Officer, CEA) as JPA executive director and Tim Richison (Chief Financial Officer, CEA) as JPA interim treasurer and auditor.

Ms. Maffei discussed California's new statewide residential -seismic -retrofit code and how the new code serves as a basis for the CRMP retrofit program. Ms. Maffei also presented an activities and projects outline and program schedule for the CRMP, including the location of prospective pilot retrofit projects and programming.

Ms. Maffei received board approval to negotiate a contract with a CRMP administrator (selected through a pre-organization competitive procurement) to manage the initial CRMP retrofit programming. That contract will be presented to the JPA board for approval at its next meeting in January 2012.

Recommendation:

No action – information only.

Governing Board Memorandum

October 27, 2011

Agenda Item 9: Chief Operations Officer Bob Stewart will report on the recruitment and proposed hire of an Insurance Director and will seek Board approval for CEO Glenn Pomeroy to execute an employment contract with the candidate on behalf of the CEA

Recommended Action: Authorize the hiring of Mitchell D. Ziemer as the CEA's Insurance Director, effective November 1, 2011, on the basis and on the terms and conditions noted above, and authorize CEO Glenn Pomeroy to execute an employment contract with the candidate on behalf of the CEA

Background:

At the December 9, 2010, meeting of the CEA Governing Board, the Board approved the CEA's 2011 budget which included the hiring of a qualified Insurance Director. The authority for contracting for the services of an Insurance Director derives from California Insurance Code section 10089.7 (h)(1) as it relates to hiring an insurance claims consultant), Insurance Code section 10089.7(g), and the CEA Governing Board's unanimous approval of the insurance-director position as part of the 2011 CEA Insurance Operations budget. The Insurance Director role, as approved by the Board, directly melds and correlates product development to ultimate product delivery at time of loss.

On April 18, 2011, CEA staff released RFQ #01-11, which invited executive -search firms to prepare and submit qualifications and a proposal for providing executive -search services associated with the Insurance Director recruitment. As a result of that competitive -procurement process, the CEA contracted with IR Group Companies, Sacramento, on July 28, 2011, to conduct the search. The project was launched in August 2011 and included three stages:

- Stage One — Outreach, recruiting, advertising, and evaluation
- Stage Two — Recruiter interviews and behavior -trait analysis
- Stage Three — CEA selection panel interviews with lead candidates

After thoughtful personal interviews with the two leading candidates, the CEA's selection panel chose Mitchell D. Ziemer, a 27-year veteran of the property and casualty insurance industry, as the recommended candidate for the role of the CEA's Insurance Director. It was the selection committee's unanimous decision that Mr. Ziemer's work experience and outstanding credentials match perfectly with the CEA's needs. It is proposed that Mr. Ziemer join the CEA on November 1, 2011.

Mr. Ziemer served most recently as property product manager for Fireman's Fund Insurance Companies, where he was employed for 27 years. During his career at Fireman's Fund, he also held positions as the audit & compliance manager, regional automobile product manager, and automobile pricing specialist. He was also trained in information technology (IT), spending close to two years as a business system specialist, working directly with systems engineers. In addition, he spent three years as project manager for IT business development, where he led efforts to improve processing efficiencies.

During his career, Mitch has led innovation and demonstrated creativity in product development, and he has been recognized for bringing passion to his work. Of note, he managed development and implementation of nationwide strategic and tactical business plans to support regional objectives for growth, profit, and service for Fireman's Fund homeowners and watercraft lines of business, which included introduction of Fireman's Fund's well publicized "Green Upgrade."

In addition, Mitch was a member of the California FAIR Plan governing committee from 2005-2009; he also chaired the Committee.

Mitch is a graduate of the University of Wisconsin at Milwaukee, where received a Bachelor of Arts and Social Sciences degree with a concentration in Economics.

Proposed Employment Contract:

Highlights of the proposed employment contract include:

- The contract term is four years.
- The contract will refer to the employee as a "management employee," because this proposed hiring will be accomplished pursuant to the CEA's statutory authorization to directly hire certain positions as contract employees. The "management employee" term is also used to bring the employee within the CEA's non-civil -service employment - benefit programs, such as retirement and health insurance.
- The salary proposed is \$140,000 per year, plus CEA contract-employee benefits. Cost-of-living adjustments will be done annually, tracking annual increases in the official CPI, and merit increases up to 5% per year are possible, if warranted under the CEA's Performance Management Plan. Four weeks of annual vacation are awarded, and sick leave accrues.
- The contract refers to a "job description," which will be updated as needed to allow the Insurance Director position to evolve with the CEA's operations.
- If the CEA terminates the contract without cause, there is a 90-day (paid) notice period; this provision mirrors those in other CEA employment contracts.

Analysis:

With insurance as the CEA's core business function, it is essential that the CEA continue to build its intellectual capital to support insurance operations, including product development, pricing,

policy service, claims service, and overall insurance operations. Historically the organization has operated with a limited number of insurance professionals because of a statutorily imposed staffing limitation and the need to allocate limited resources across all business functions.

As CEA continues its movement to build a stronger, and more agile and sustainable, organization, it has become apparent that insurance operations must expand to incorporate additional expertise, which can greatly enhance CEA's ability to create and implement progressive change.

Following the addition of a chief actuary in October 2010, staff identified as a next step recruitment of an insurance director with a strong understanding of the property and casualty insurance industry based on work experience and related education. Another necessary and desirable characteristic was previous success in a mid- to senior-level management role in a property and casualty insurer. This candidate meets those descriptions.

Reporting to the Chief Operations Officer, the insurance director will be a member of the CEA's operations -management team. The insurance director will be direct the CEA's core insurance-business functions, including claims, and must possess the creative energy that is necessary to help lead the evolution and continued growth of the organization, its products, its services, and its role in serving California consumers.

Recommendation:

CEA staff recommends the Governing Board authorize the hiring of Mitchell D. Ziemer as the CEA's Insurance Director and authorize CEO Glenn Pomeroy to execute on behalf of the CEA an employment contract in a form approved by the CEA general counsel.

Governing Board Memorandum

October 27, 2011

Agenda Item 10: Mr. Pomeroy, assisted by representatives from PricewaterhouseCoopers (PwC), will present PwC's report on the recently completed CEA organization and staffing analysis; and, Mr. Pomeroy will request the Board's authorization to negotiate and execute a contract amendment required for PwC to proceed with continuation of their work on recommendations requiring further study supported by PwC

Recommended Action: Authorize CEO Glenn Pomeroy to negotiate and execute a contract amendment required for PwC to proceed with continuation of their work on recommendations requiring further study supported by PwC

Background:

CEA staff thanks the PricewaterhouseCoopers ("PwC") team for its fine work completed to date as illustrated in its presentation. A copy of the report is provided as *Attachment A*.

Staff is eager to continue the collaboration with PwC as the CEA continues its efforts to increase the number of homes protected with earthquake insurance through building a better business model that eliminates barriers to earthquake insurance take-up.

After thoughtful evaluation, CEA staff has developed an action plan which categorizes PwC's recommendations into following four categories:

- ✓ Underway
- ✓ Require Further Study – Supported by PwC
- ✓ Require Action by CEA
- ✓ No Further Action

Attachment B illustrates the assignment of the recommendations by category.

Staff will continue its work and further formalize activities relating to recommendations already underway; and, will proceed with steps to address recommendations which require action by the CEA.

It was decided that the recommendation to amend the CEA Act to authorize closed session meetings for defined topics is not in line with the CEA's structure as a publicly managed organization.

The items requiring further study supported by PwC represents the continuation of the original work leading to the development of strategic and tactical plans. This work was contemplated within the scope of the RFQ that resulted in PwC's engagement, and in the existing contract itself, under which PwC agreed to "collaborate with CEA staff to develop a strategy and tactical plan" that could be implemented in five years or less to allow the CEA and its participating insurers to more efficiently provide earthquake insurance to consumers. Now that necessary actions have been identified, additional work is necessary, as a continuation of PwC's work to date, to fulfill the RFQ's requirement of developing the full strategic and tactical plan to implement the necessary actions. Funding for this continuing work would exceed the original budget agreed to under the existing contract with PwC, which would require an amendment to the existing contract to fund PwC's continued efforts in helping the CEA construct the most efficient, cost-effective, and sustainable operation.

With the Board's approval, CEA staff and PwC staff will develop and execute the necessary contract amendment which will allow PwC to continue its work relating to the following recommendations:

1. Create, acquire or contract with a Third Party Administrator
8. Conform the CEA Governance Structure
11. Augment the current Human Resource capabilities

It is anticipated that the following recommendations requiring PwC support will be addressed when a new organizational structure is defined:

2. Allow the CEA to hire additional functional area expertise
19. Hire a Risk Manager reporting directly to the COO

Staff will provide a status report at the Governing Board on Thursday, December 8, 2011.

Recommendation:

CEA staff recommends the Governing Board authorize CEO Glenn Pomeroy to negotiate and execute a contract amendment required for PwC to proceed with continuation of PwC's work requiring further study and development.

CEA Organization & Staffing Analysis Final Report

October 14, 2011



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Section 1

Executive Summary

Executive Summary

Overview

CEA executive staff received Governing Board authority to select an independent third-party consulting firm to conduct an Organization & Staffing Analysis assessment.

Objective

PricewaterhouseCoopers (PwC) was engaged from July 2011 to October 2011 to:

1. Baseline the current-state organization structure to an industry leading organization and identify potential opportunities for improvement
2. Deliver a report providing results of the analysis and recommendations that define a multi-functional insurance organization structure
3. Collaborate with CEA staff to develop a strategy and tactical plan to provide services within the next three to five years

Documentation Review

PwC began by reviewing information provided by the CEA to understand the organization, given its current statutory, regulatory, financial and operational environments. Additionally, the team reviewed CEA-sponsored surveys, publicly available information and applicable PwC insurance research – incorporating the team’s previous organization analysis and insurance industry engagement expertise.

PwC Survey

PwC surveyed 49 individuals over a wide range of constituents to understand their experience with the CEA. These stakeholder groups included:

- CEA Governing Board
- CEA Advisory Panel
- CEA Executive Team
- CEA Staff
- Participating Insurers
- Trade Associations
- Consumer Groups
- Reinsurers/ Brokers
- Policy Committees
- Outside Counsel
- Public Relations
- IT Services

Executive Summary

Key Findings & Observations

PwC developed a body of sixty five (64) findings in the areas of organization, operations and technology . These findings and observations were based on the research performed, insurance industry knowledge and the survey results. The findings were grouped in the following themes:

Organization

- Human Capital – Staffing
- Human Capital – Executive Team
- Knowledge Capital
- Financial
- Statutory / Regulatory

Operations

- Executive Oversight
- Participating Insurer Relationship
- Product

Technology

- IT Services
- Data Management

Recommendations

Based on these finding, PwC developed a list of twenty (20) recommendations, grounded in CEA’s goal to **Protect More Homes** and provide California homeowners **The Strength to Rebuild**. The recommendations were assigned to three categories:

- **Quick Hits:** Recommendations that can be implemented immediately by the CEA Executive Team
- **Governing Board:** Recommendations that are championed by the Governing Board
- **New Business Model:** Transformational recommendations that position the CEA to realize its future-state organizational goals

Executive Summary

Recommendation Quick Hits

- Continue to study, identify and address any disincentive for PIs
- Update the delegation of authority between Governing Board and CEO
- Develop a robust communication plan
- Encourage Californians to mitigate earthquake exposure at their homes
- Perform CAT-modeling in-house
- Update out-of-date documentation in functional areas

Recommendation Governing Board

- Augment the current Human Resource approach
- Allow the CEA to hire additional functional area expertise
- Hire a Chief Information Officer (CIO)
- Hire a Risk Manager to enhance disaster recovery and business continuity plans
- Develop a business-aligned IS strategy and blueprint
- Develop an optimized data architecture and data warehouse

Recommendation New Business Model

- Create, acquire or contract with a Third Party Administrator
- Update the CEA statute to remove arbitrary constraints
- Conform the CEA Governance Structure
- Enhance the CEA marketing campaign and corporate relationships
- Continue to pursue the proposed Earthquake Insurance Affordability Act
- Amend the CEA Act to authorize closed session for defined topics
- Position the CEA as a global center of excellence
- Commit to exploring the feasibility of lender-facing CEA products

Executive Summary

Roadmap

PwC developed a multi-year roadmap and tactical plan to implement the twenty (20) recommendations identified during this engagement. The tactical roadmap identified the key initiatives, phases, and target milestones for deploying the recommendations throughout the organization.

Future-State Organization Structure

PwC developed a future-state organization structure across information services, operations, actuary, mitigation, communications & external affairs, finance, and legal & compliance functional areas to enable the CEA team to carry out the recommendations in this report and position it to achieve its goal.

2012 Rate/Form Filing Case Study

PwC interviewed key stakeholders regarding the 2012 Rate/Form Filing experience and identified pain points and lessons-learned during the process. The case study highlights the seven high level processes that key stakeholders went through in the submission of the 2012 new Homeowners “Choice” product.

Section 2

Project Overview

Project Objective

1.

Baseline the current-state CEA's organization structure to an industry leading organization and identify potential opportunities for improvement.

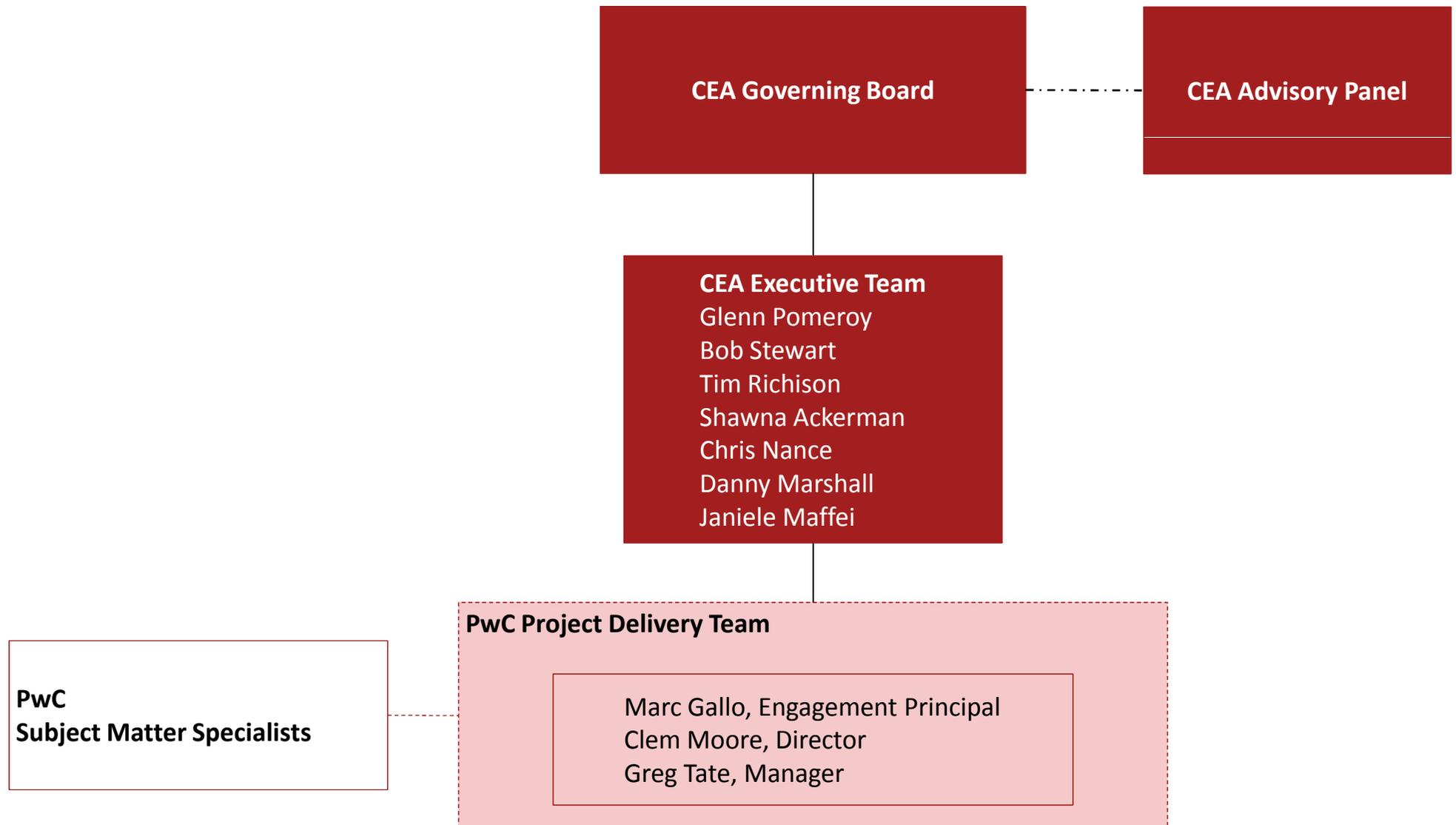
2.

Deliver a report providing results of the analysis and recommendations that define a multi-functional insurance organization structure.

3.

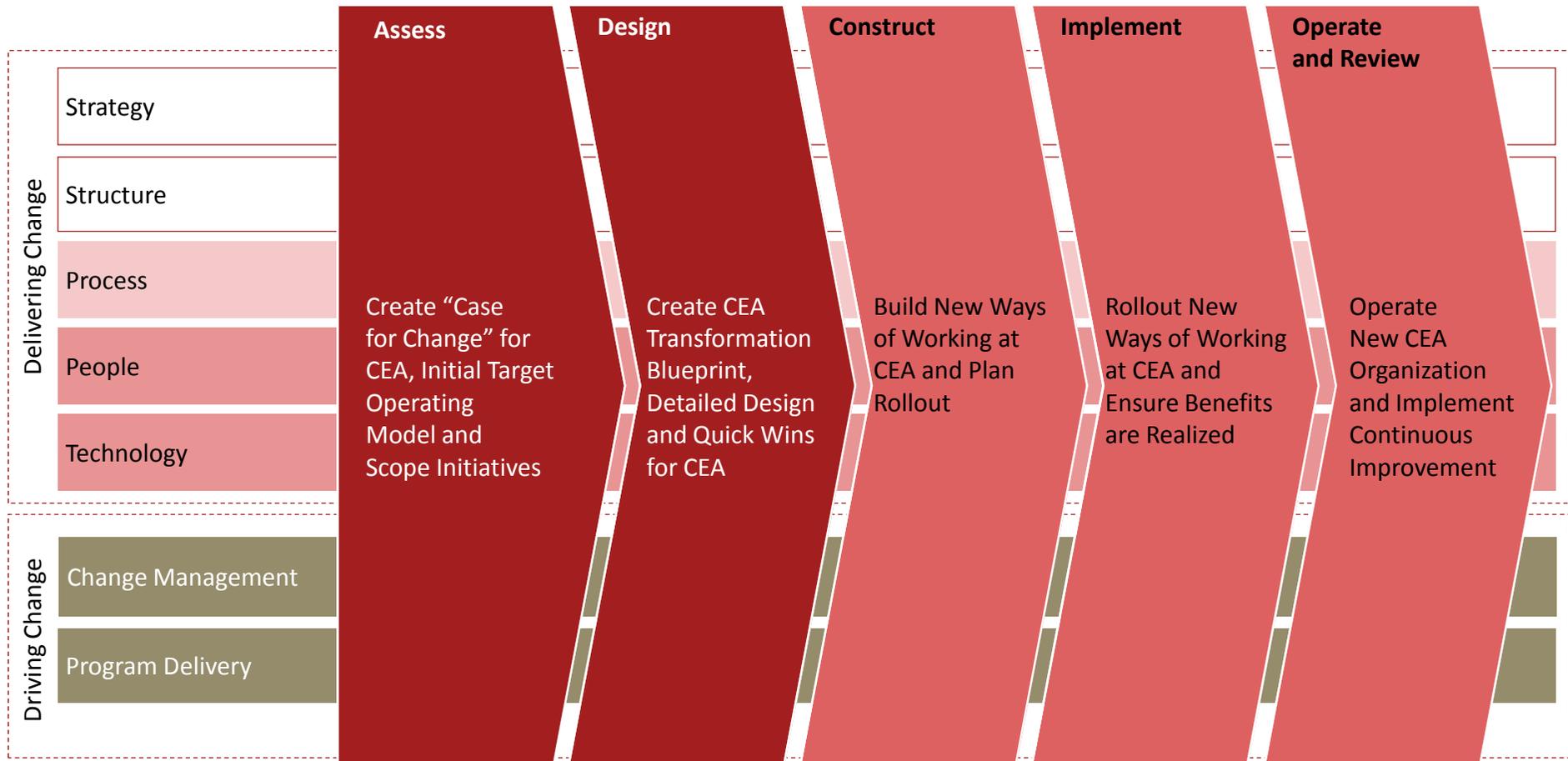
Collaborate with CEA staff to develop a strategy and tactical plan to provide services within the next three to five years.

CEA Project Team Structure



Transform Approach

The CEA and PwC team is using the Transform methodology. Transform helps organizations address all aspects of a transformation program including strategy, structure, process, people and technology.



CEA Project Timeline

			Week	1	2	3	4	5	6	7	8	9	10	11	12	13	
Phase 1	Create a blended team of PwC and CEA subject matter specialists	PwC's team will be introduced to CEA's project team and will begin to formalize the project plan. The collaborative team will also conduct a kick-off meeting to discuss project objectives, approach, milestones, and deliverables to help establish a blended team.															
Phase 2	Understand and document the current organizational structure	PwC's team will gather information to enable them to understand the current organizational environment. PwC will interview key stakeholders in both functional and cross-functional areas to understand current processes and key issues currently faced by CEA. PwC will perform a review of the entire CEA organization.															
Phase 3	Analyze alignment and identify recommendations	PwC will deliver the evidence-based functional assessment of CEA's organizational structure based on key findings from Phase 2, which will include gaps between the current structure and industry leading practices. PwC will work collaboratively with CEA executive management to understand their vision for the organization and help determine the optimized, evolving structure for CEA.															★ Interim Report 9/9/2011
Phase 4	Prioritize recommendations	PwC will work side by side with CEA's project team to prioritize the identified opportunities and finalize the list of recommendations.															
Phase 5	Deliver final report and tactical plan roadmap	PwC will deliver the final report to CEA executive management, including the CEA Governing Board. The final report will provide the results of the analysis and recommendations that define the future-state multi-functional organizational structure. PwC will also facilitate the preparation of the strategy and tactical roadmap that will depict releases around major plateaus for the recommended organizational change initiatives.															★ Final Report 10/14/2011

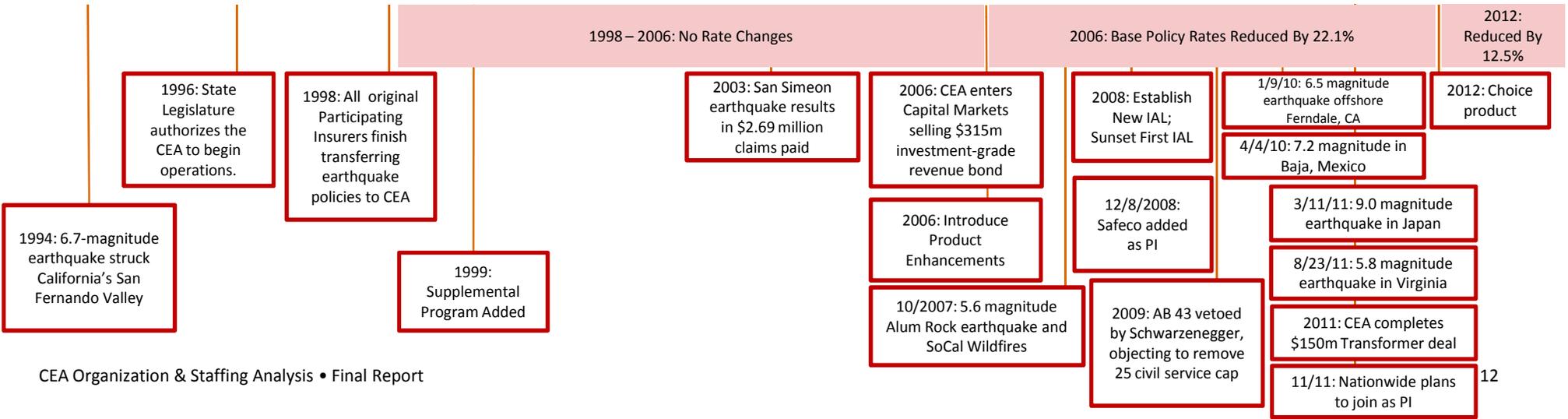
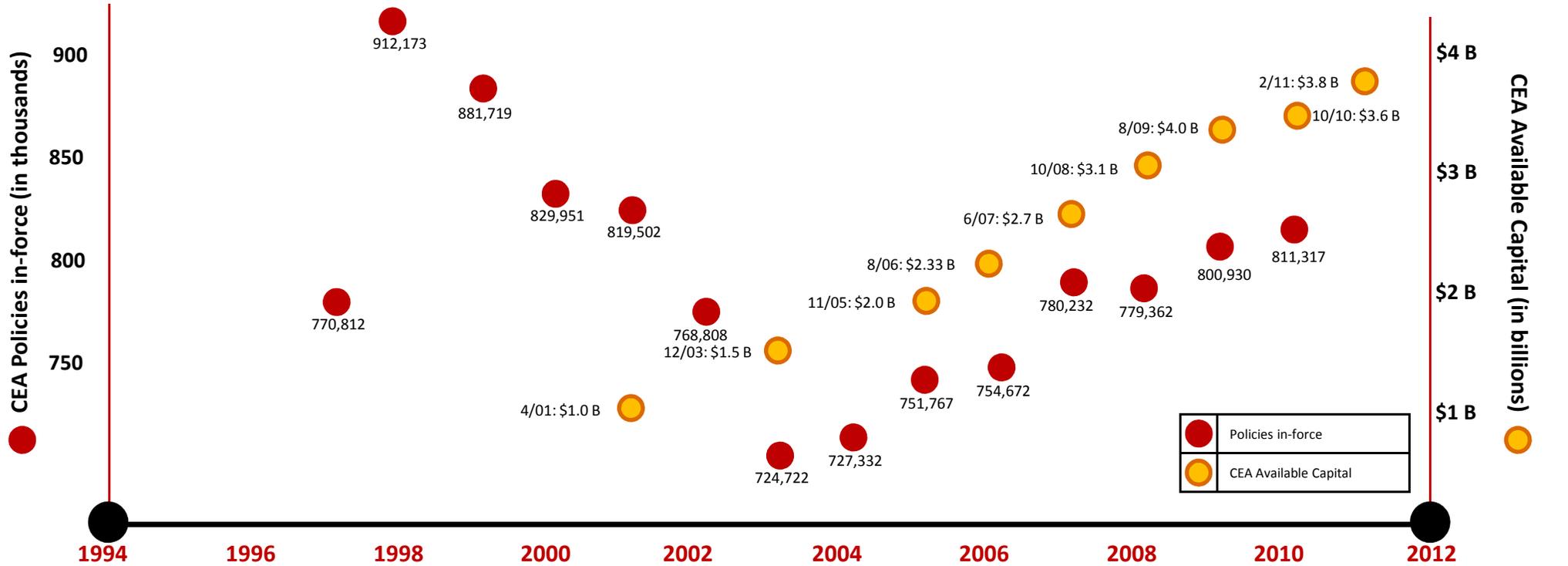
CEA Project Status Activities

Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Create a blended team of PwC and CEA subject matter specialists	Understand and Document the Current Organization Structure	Analyze Alignment and Identify Recommendations	Finalize Recommendations	Identify Key Initiatives from Recommendations
Conduct Project Kick-off Meeting	Identify Key Stakeholders	Conduct Gap Analysis	Prioritize Recommendations	Develop Tactical Roadmap
Develop the Project Schedule	Review CEA Internal Documentation	Develop Interim Report	Define Future-State Organization Design	Develop Final Report
Facilitate CEA Executive Team Meeting	Conduct Key Stakeholder Interviews	★ Deliver Interim Report 9/9/2011	Conduct High-Level Business Impact Analysis	★ Deliver Final Report 10/14/2011
Develop Key Stakeholder Interview Guide	Develop Observations and Key Findings			

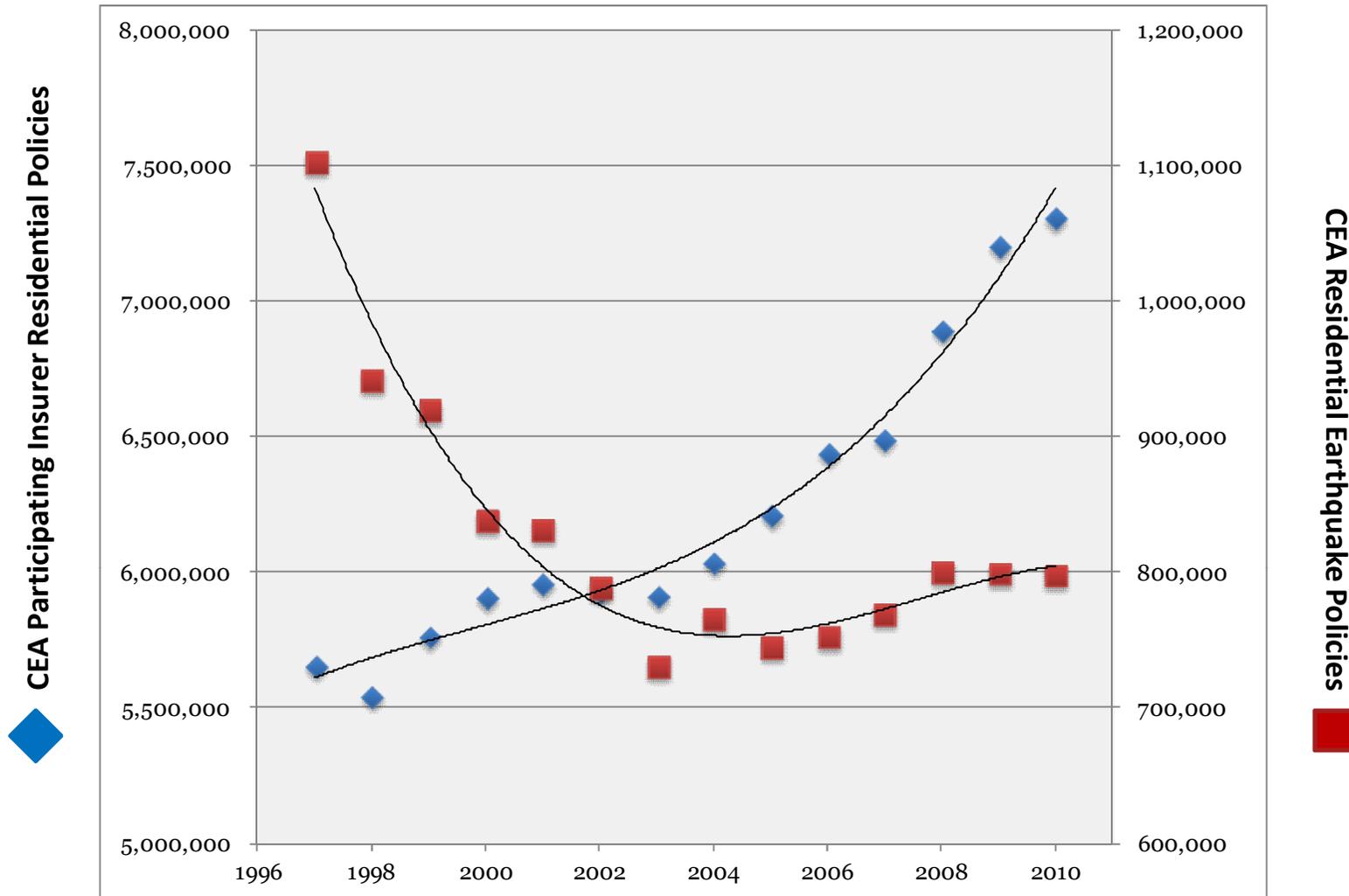
CEA Historical Timeline - At a Glance

Governing Board Voting Members

Governor	Pete Wilson		Gray Davis		Arnold Schwarzenegger			Jerry Brown
Treasurer	Kathleen Brown	Matt Fong		Phil Angelides			Bill Lockyer	
Ins Cmmr	John Garamendi	Chuck Quackenbush		Clark Kelso	Harry Low	John Garamendi		Steve Poizner
								Dave Jones



Since 1996, CEA participating insurer residential policies has increased steadily while the number of CEA residential earthquake policies has dropped and then remained relatively flat with modest gains



Comparing the CEA operating and governance structure of 1996 to today...

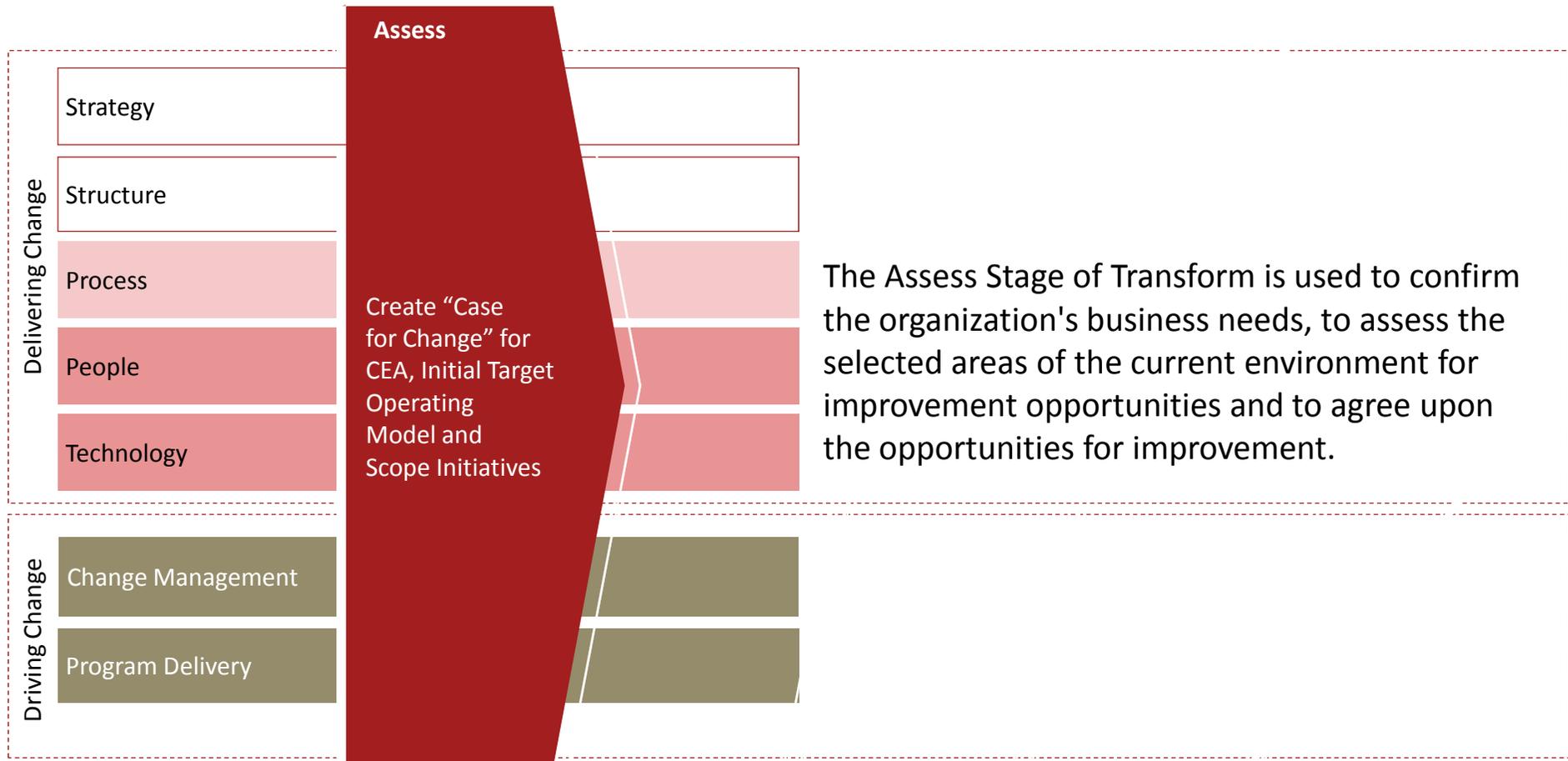
	1996	Today
Overall	<ul style="list-style-type: none"> • Provide risk transfer mechanism to maintain CA residential insurance market 	<ul style="list-style-type: none"> • Considered by many as a going concern with complex operational, financial and statutory environment
Governing Board	<ul style="list-style-type: none"> • Provide public oversight 	<ul style="list-style-type: none"> • Sets strategic direction and approves day-to-day operational decisions
Financial	<ul style="list-style-type: none"> • Minimal flexibility with reinsurers • \$700m start-up capital 	<ul style="list-style-type: none"> • Minimal flexibility with reinsurers • \$4.0 billion in CEA Available Capital
Industry Assessment Layer	<ul style="list-style-type: none"> • IAL was likely to be used following an earthquake • Capital pledged to start up CEA 	<ul style="list-style-type: none"> • Disincentive for PIs to sell CEA policies • CEA capital insulates the IAL from potentially being used
Capital Markets	<ul style="list-style-type: none"> • CEA studied options, however, did not execute 	<ul style="list-style-type: none"> • Repeatable offerings to the capital market
Technology	<ul style="list-style-type: none"> • No data transfer standards • Disparate CEA systems across PIs 	<ul style="list-style-type: none"> • Common data transfer standards • Disparate CEA systems across PIs
Staffing	<ul style="list-style-type: none"> • 25 civil service employee cap 	<ul style="list-style-type: none"> • 25 civil service employee cap • Staff augmented with temporary staffing firms

Section 3

Information Gathering Process

Transform Approach

The CEA and PwC team is using the Transform methodology. Transform helps organizations address all aspects of a transformation program including strategy, structure, process, people and technology.



Information Gathering Overview

Sources of Input

PwC relied on the following sources to understand the current-state of the CEA:

- General observations from on-site interactions
- CEA Executive offsite discussion
- Interviews conducted with CEA key stakeholders
- Review of CEA documentation
- Review of CEA’s peer group
- Review of the CEA Statutory and Regulatory environment
- Review of publicly available data (e.g. meeting minutes, press releases)

Key Stakeholder Groups

PwC contacted 62 individuals for interviews and completed 49 from the following stakeholder groups:

- CEA Governing Board
- CEA Advisory Panel
- CEA Executive Team
- CEA Staff
- Participating Insurers
- Trade Associations
- Consumer Groups
- Reinsurers/ Brokers
- Policy Committees
- Outside Counsel
- Public Relations
- IT Services

The interviews helped the team understand the stakeholder experience with the CEA as well as the unique perspective of each stakeholder group.

Primary Information – Stakeholder Interviews

Stakeholder Group	Stakeholder Name	Company/Role
CEA Governing Board	Pedro Reyes	Governor Designee
	Reid McClaran	Insurance Commissioner Designee
	Bruce Patton	Insurance Commissioner Designee
	Grant Boyken	State Treasurer Designee
	Steve Coony	State Treasurer Designee
	Robert Biegler	State Treasurer Designee
	Patricia Wynne	State Treasurer Designee
	Deborah Doty	Office of the Assembly Speaker Designee
CEA Advisory Panel	Dietrich Stroeh	Senate Rules Committee Designee
	Wayne Coulon (Chair)	State Farm/Insurance Agent
	Mark Simmonds (Vice Chair)	CSAA/Vice President Insurance Product Operations
	Brian Deephouse	AAA-Socal/Vice President & Chief Actuary
	Bruce Johnson	State Farm/Vice President Agency
	Jeff McCarty	State Farm/Assistant Vice President and Actuary
CEA Executive Team	Rod Garcia	Civil Engineer (Governor Appointee)
	Glenn Pomeroy	CEA/Chief Executive Officer
	Bob Stewart	CEA/Chief Operations Officer
	Tim Richison	CEA/Chief Finance Officer
	Shawna Ackerman	CEA/Chief Actuary
	Chris Nance	CEA/Chief Communications Officer
	Danny Marshall	CEA/General Counsel
	Janiele Maffei	CEA/Chief Mitigation Officer
CEA Staff	Dan Dyce	CEA/Earthquake Response Manager
	Silvia Fong	CEA/Administrative Services Unit Manager
	Michael Melavic	CEA/IS Manager
	Trudy Moore	CEA/Operations Liaison
	Mark Dawson	CEA/Finance
	Trudi Miller	CEA/Finance

Primary Information – Stakeholder Interviews

Stakeholder Group	Stakeholder Name	Company/Role
CEA Staff	Joe Zuber	CEA/Legal
	Rick Contreras	CEA/Legal
	Annde Ewertzen	CEA/Communications
Participating Insurers / Consumer Groups / Trade Associations	Alice Bisnos	AAA/Senior Vice President Public Affairs
	Larry Perrin	AAA/ Liaison
	Matt Checchi	State Farm/UW Analyst
	Alice Gannon	USAA/Senior Vice President, Actuary
	Carol Aslin	USAA/Liaison
	Patti Szlosek	Nationwide/Director Personal Product Compliance
	Kathleen Bissell	Liberty Mutual/Regional Director of Public Affairs
	Mike Schalk	Allstate/Senior Manager
	Mark Sektnan	Association of Ca Insurance Companies (ACIC)/President
	Rex Frazier	Personal Insurance Federation of CA (PIFC)/President
Doug Heller	Consumer Watchdog/Executive Director	
Reinsurers/ Brokers	Simon David	WillisRe/Production Director
	Bob Solitro	Swiss Re North American Specialty/Managing Director, President
Policy Committees	Mark Rakich	Assembly Committee on Insurance/Chief Consultant
Vendors	Tony Samer	Protiviti/Associate Director
	Michael Strumwasser	Strumwasser & Woocher/Partner, Attorney at Law
	Bill Donovan	Orrick, Herrington & Sutcliffe LLP/Attorney
	Val Vento	Ogilvy Public Relations Worldwide/Senior Vice President

Secondary Information

Secondary Information	Document Name
<i>CEA Documentation</i>	<ul style="list-style-type: none"> CEA Strategic Plan, 1994 CEA Articles of Governance, December 1996 CEA Plan of Operations, February 1999 CEA Procedures and Accounting Manual, February 1999 CEA Eligibility Standards, February 1999 CEA Inspection Guidelines, February 1999 California Earthquake Authority Insurer Participation Agreement, as modified February 2009 CEA Claims Manual and Quick Reference Guide, April 2009 California Insurance Code, Sections 10089.5 et seq. California Code of Regulations, Title 10, Chapter 5, Subchapter 7.7 Sections 2697-2697.9 CEA Technical Reporting Instructions (TRI) CEA Participating Insurer Operations Guide S.637 Webinar Presentation CEA Insurer Participation Agreement, 2009 CEA Fact Sheet – Rate and Form Change Effective 01 01 2012 Homeowner’s Choice Product – Fact Sheet Rate Impact Analysis – March 27, 2009 Statement of CEA Governance Principles and Delegation of Authority
<i>CEA Sponsored Surveys</i>	<ul style="list-style-type: none"> Rand Report Market Research Millward Brown CEA New Subscribers Survey Consumer Questionnaire Agent Questionnaire CEA Statewide Survey Summary Report
<i>Publicly Available Data</i>	<ul style="list-style-type: none"> Meeting Minutes Governance Meeting Attachments Press Releases Peer Group Information Insurance Product and Insurance Vendors
<i>PwC Data</i>	<ul style="list-style-type: none"> Knowledge Curve Global Best Practices

Section 4

Survey Results

Survey Overview

PwC facilitated a survey with the key-stakeholders identified by the CEA Executive Team. In total, 49 key-stakeholders were interviewed over seven-weeks to understand their experience with the CEA.

1



2



3



4

Identify key-stakeholders for interview and develop survey

Facilitate survey with key-stakeholders

Update survey database

Report and analysis of key findings and observations

Stakeholder Group	Stakeholder Name	Company/Role
CEA Governing Board	Neil Clarke	Insurance Commissioner Designee
	Bruce Patton	Insurance Commissioner Designee
	Grant Boyden	State Treasurer Designee
	Mark Cooney	State Treasurer Designee
	Robert Binger	State Treasurer Designee
	Patrick Wynne	State Treasurer Designee
CEA Advisory Panel	Patrick Ryan	Governor Designee
	Delaney Dery	Office of the Assembly Speaker Designee
	Derrick Strach	Senate Rules Committee Designee
	Wayne Cusker (Chair)	State Farm Insurance Agent
CEA Executive Team	Mark Semmonds (Vice Chair)	CEA Vice President Insurance Product Operations
	Brian DePoy	AAA Agent
	Bruce Johnson	State Farm
	Jeff McCarty	State Farm Assistant Vice President and Actuary

On a scale of 1 to 10, 10 being the highest, how would you rate your overall impression and/or experience of the CEA according to the following matrix?

	1	2	3	4	5	6	7	8	9	10	NA
Quality of Service	<input type="radio"/>										
Response Time	<input type="radio"/>										
Ease of Doing Business	<input type="radio"/>										
Communication	<input type="radio"/>										
2013 Rate Increase, Policy Renewals, New Policy Product	<input type="radio"/>										
Overall Experience	<input type="radio"/>										

Please explain your experience responses above:

Statutory/Regulatory Environment - Do you agree with the following?

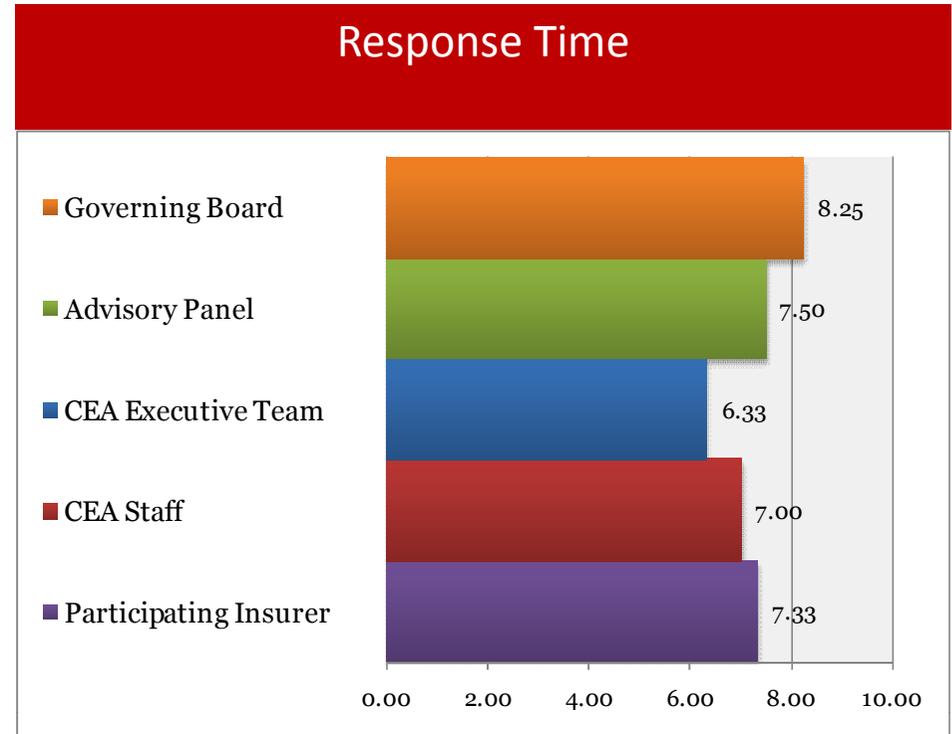
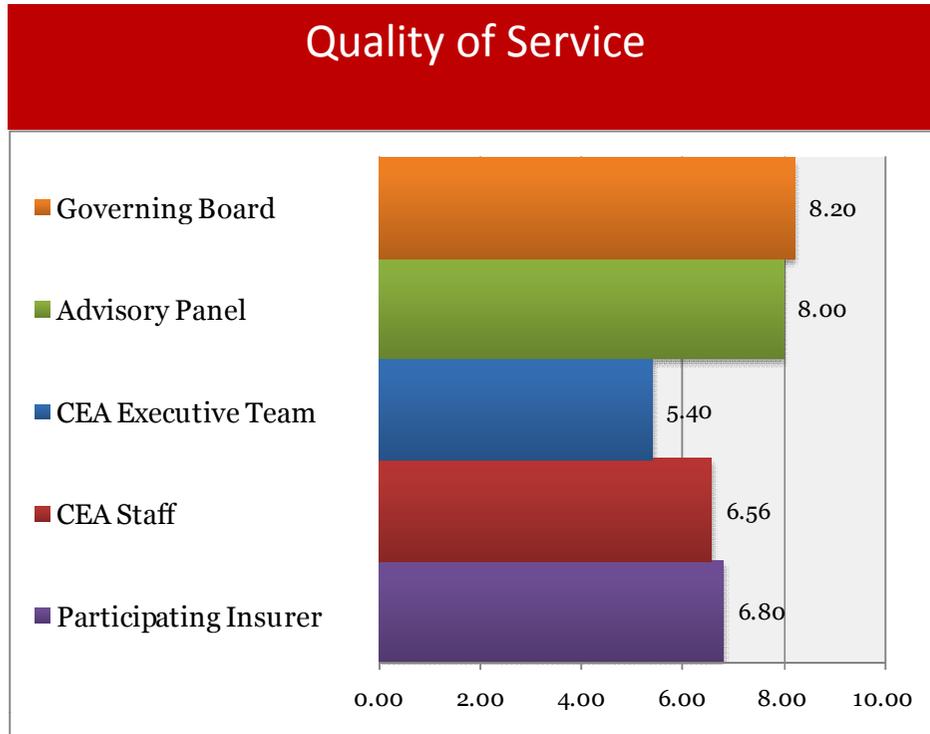
	Agree	Disagree	Neither Agree nor Disagree
CEA should be subject to its current Regulatory environment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
CEA should be subject to the Regulator's Oversight	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
CEA should have a Governing Board composed of external officials	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
State of California should continue to regulate the insurance industry	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Response ID	Response	Response Type	Full Date	Full Time	Initials	Rating
1.00100001	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100002	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100003	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100004	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100005	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100006	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100007	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100008	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100009	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100010	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100011	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100012	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100013	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100014	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100015	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100016	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100017	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100018	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100019	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10
1.00100020	Under the Process	Feedback	10/20/2013 10:00 AM	10/20/2013 10:00 AM	BA175	10

Organizational	Human Capital - Staffing
1.1.01	The CEA is understaffed to handle the day-to-day business demands of the organization
1.1.02	It is challenging for CEA to recruit insurance professionals via a del service or through CEA's temporary employee contracts as neither have resources available with the right experience and skill set. In the past, when an insurance professional was identified as a good fit for CEA, she was not hired directly to the CEA, but first had to contract with one of CEA's temporary employee firms to then be hired on contract with the CEA.
1.1.03	There is significant disparity between the salary and benefit programs among staff working at the CEA. Civil service employees, contractors from Applebee and contractor from Robert Half each have separate salary structures and benefit programs. In some instances, civil service managers overseeing contract employees are compensated less than the contract employees. Moreover, high performing civil service employees who have already reached the salary cap for their position are not eligible for merit based increases. There is no other range or position within the Civil Service structure to promote an individual.
1.1.04	CEA does not have a clear career program to attract, develop and retain employees with the desired functional expertise. Employees are not positioned for promotion in the organization, given the relatively flat organizational structure.
1.1.05	It is difficult for the CEA to compete with the private sector to fill insurance and functional positions. Currently, the CEA is not able to offer a competitive package. Additionally, Sacramento is not generally perceived as favorable as other metropolitan areas nor does it have many other insurance positions in the city. As a result, CEA has difficulty attracting the high caliber talent to the organization.

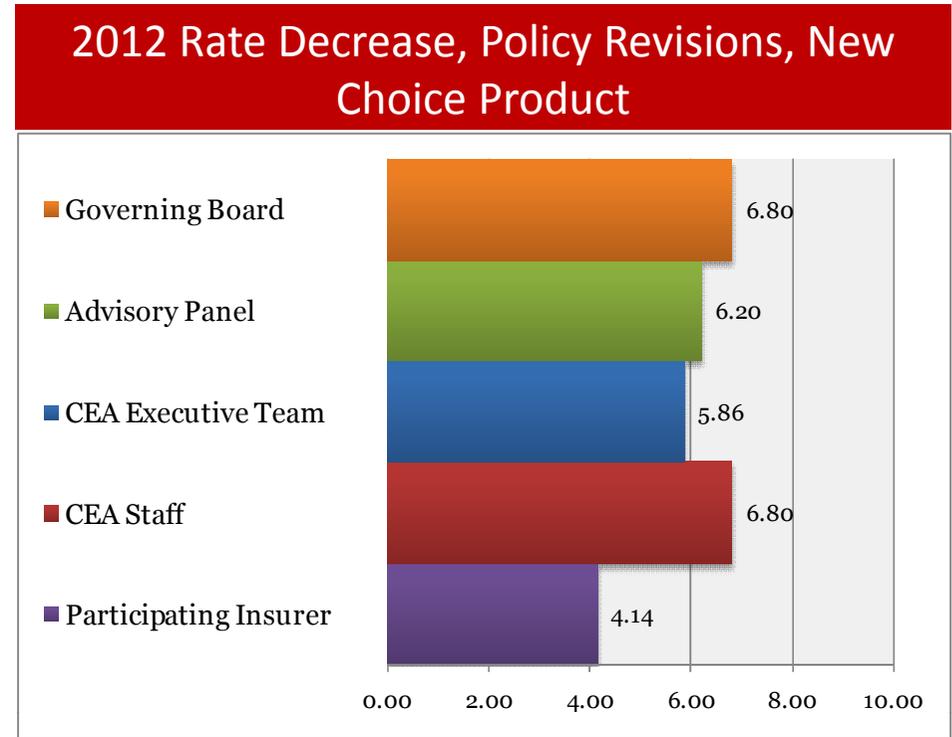
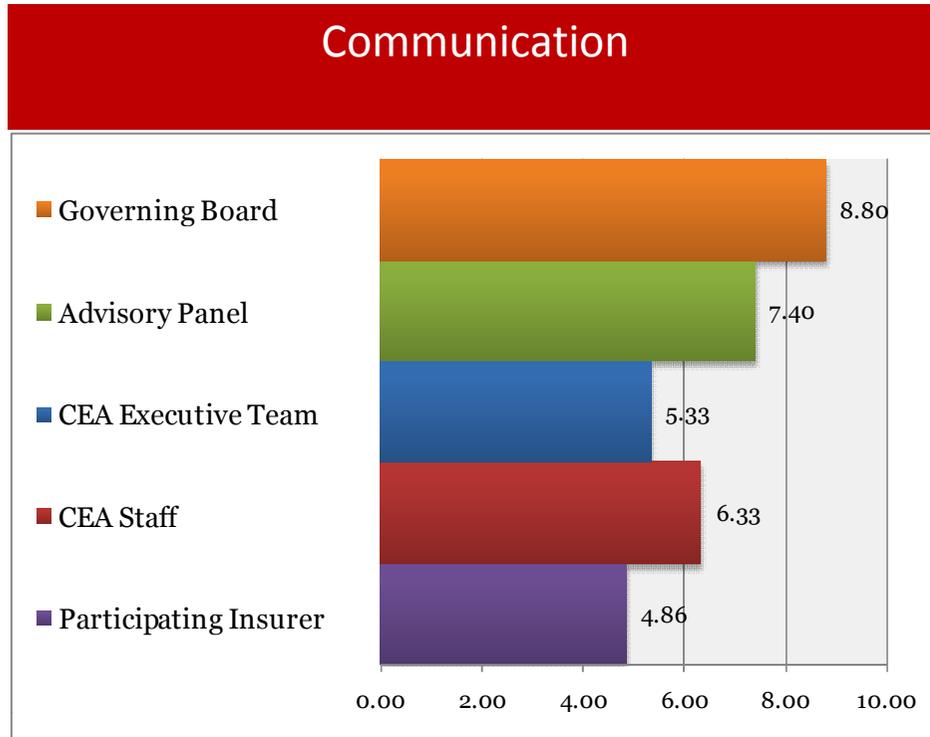
Quality of Service and Response Time Experience



- Quality of Service for day-to-day operations is high across the stakeholder group
- The CEA Executive Team is more critical of the quality of service they provide than other stakeholder groups
- Participating Insurers believe that the day-to-day service they receive from the CEA is satisfactory, acknowledging that the CEA is resource constrained

- The CEA response time for operational issues to external entities is satisfactory
- Within the CEA, the response time between executives and functional areas is not satisfactory

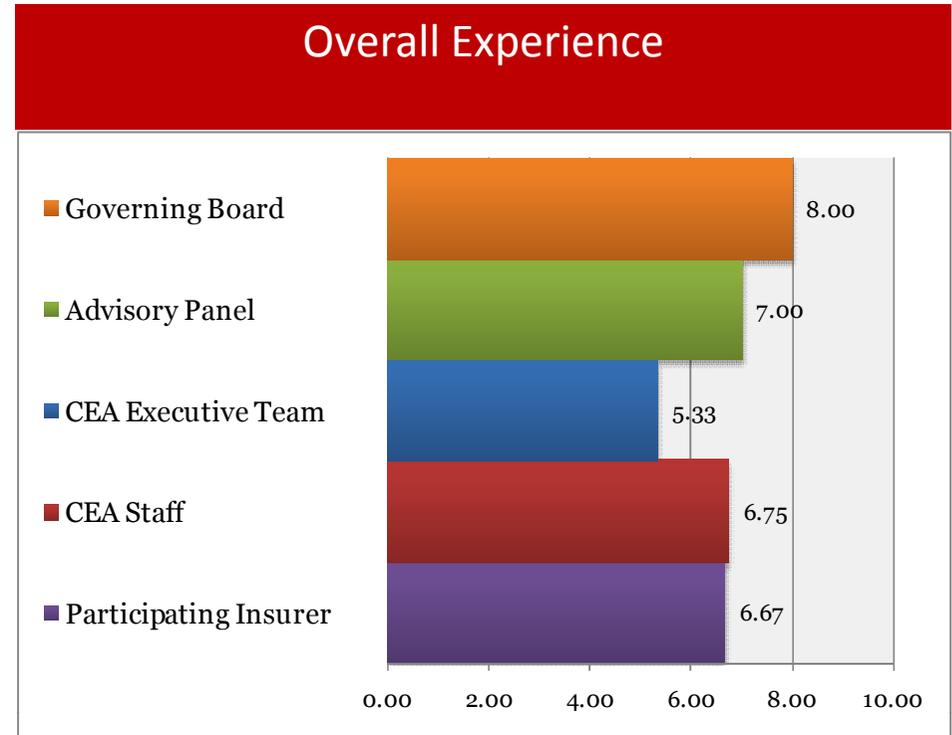
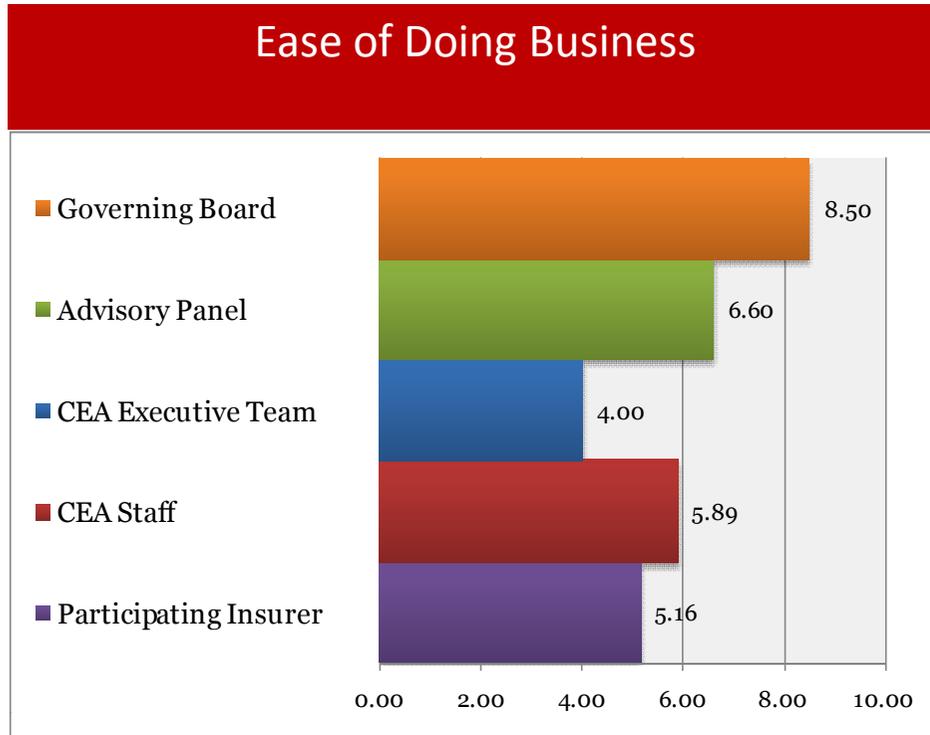
Communication and 2012 Rate Decrease, Policy Revisions, New Choice Product Experience



- 42% of the Participating Insurer (PIs) respondents scored Communication a 3 or less, indicating that current communication is perceived by PIs as ineffective
- There is a disconnect between what the CEA believes they are providing for communication and what the PIs believe they are receiving
- Liaisons between the CEA and PIs are not communicating effectively (e.g. silos by functional area)

- The PIs scored their experience low, given the IT changes required and implementation timeline
- CEA Executive Team members actively involved in the 2012 rate and form filing scored significantly lower than those not operationally involved

Ease of Doing Business and Overall Experience

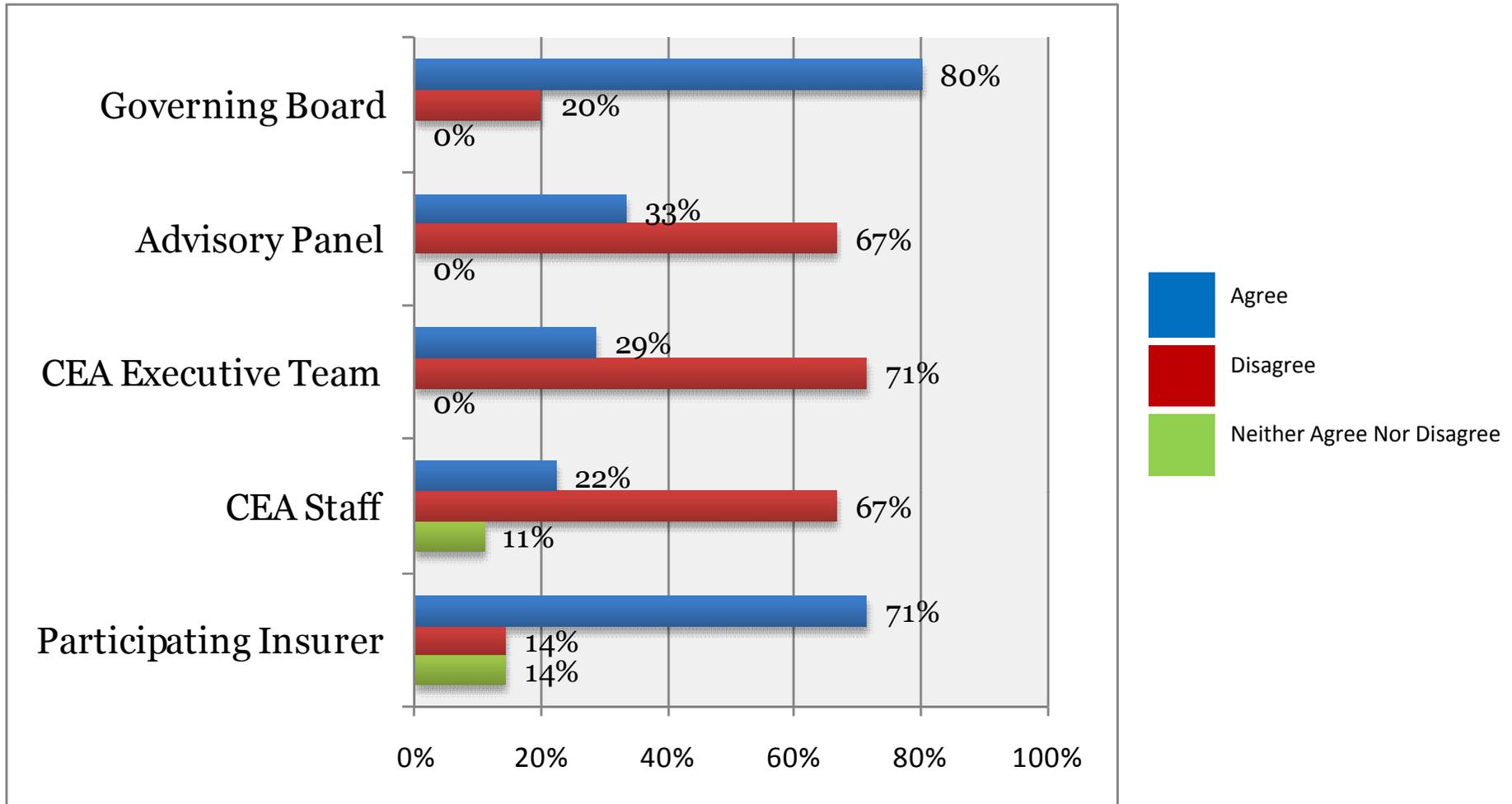


- 17 Participating Insurers need to update their systems for CEA policy changes
- Participating Insurers perceive that the CEA technology requirements are not clear and require rework by the PI when CEA provides clarification

- The CEA is generally viewed as a well-run, focused organization that fulfills an important need for residential insurers wanting to write homeowners' policies in CA.
- The CEA has been able to accomplish a lot with very little, given its limited resources, and has improved considerably in recent years under the new CEA Executive Team.

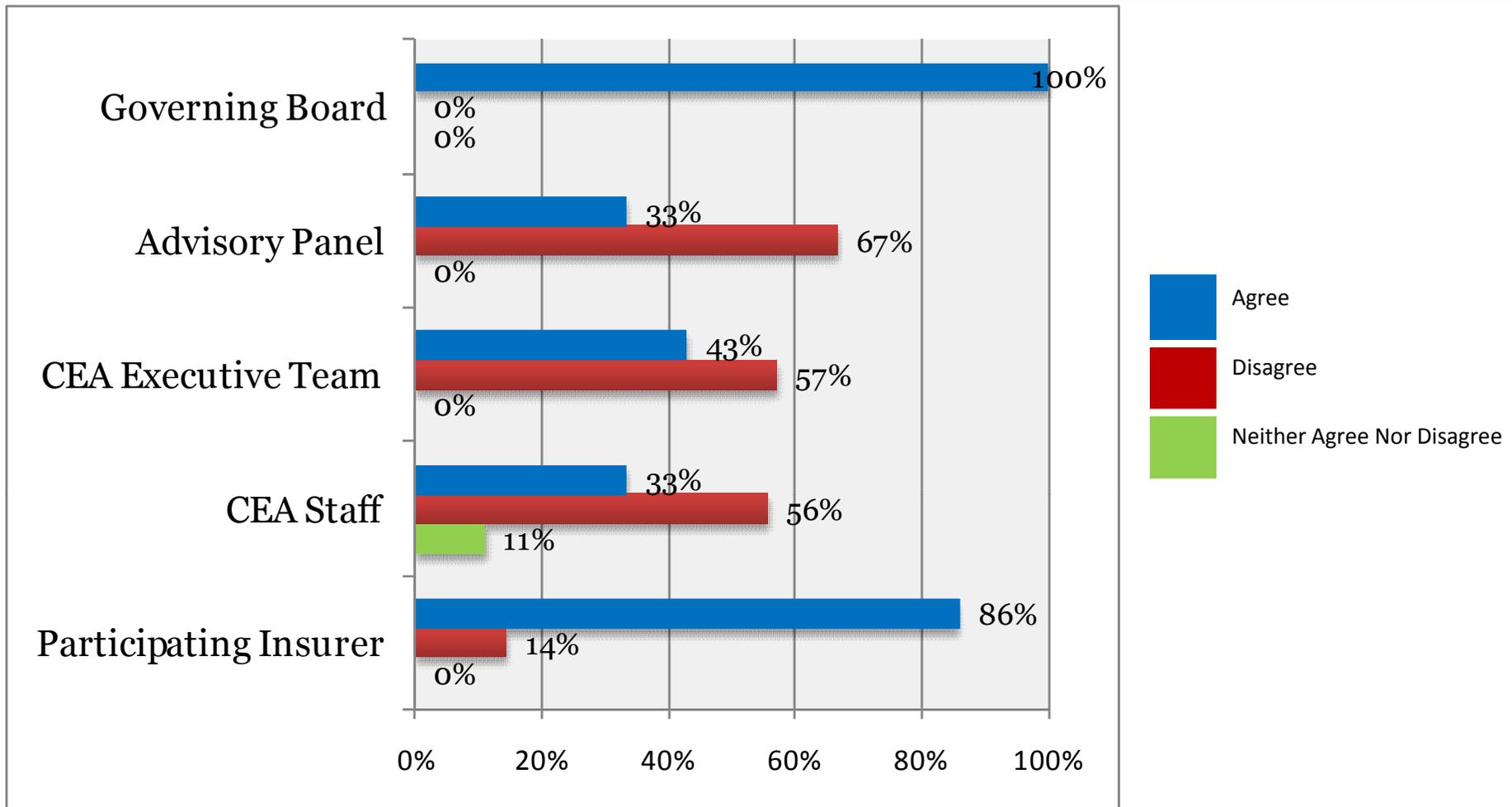
Statutory / Regulatory Environment

The CEA should be subject to its current Regulatory environment.



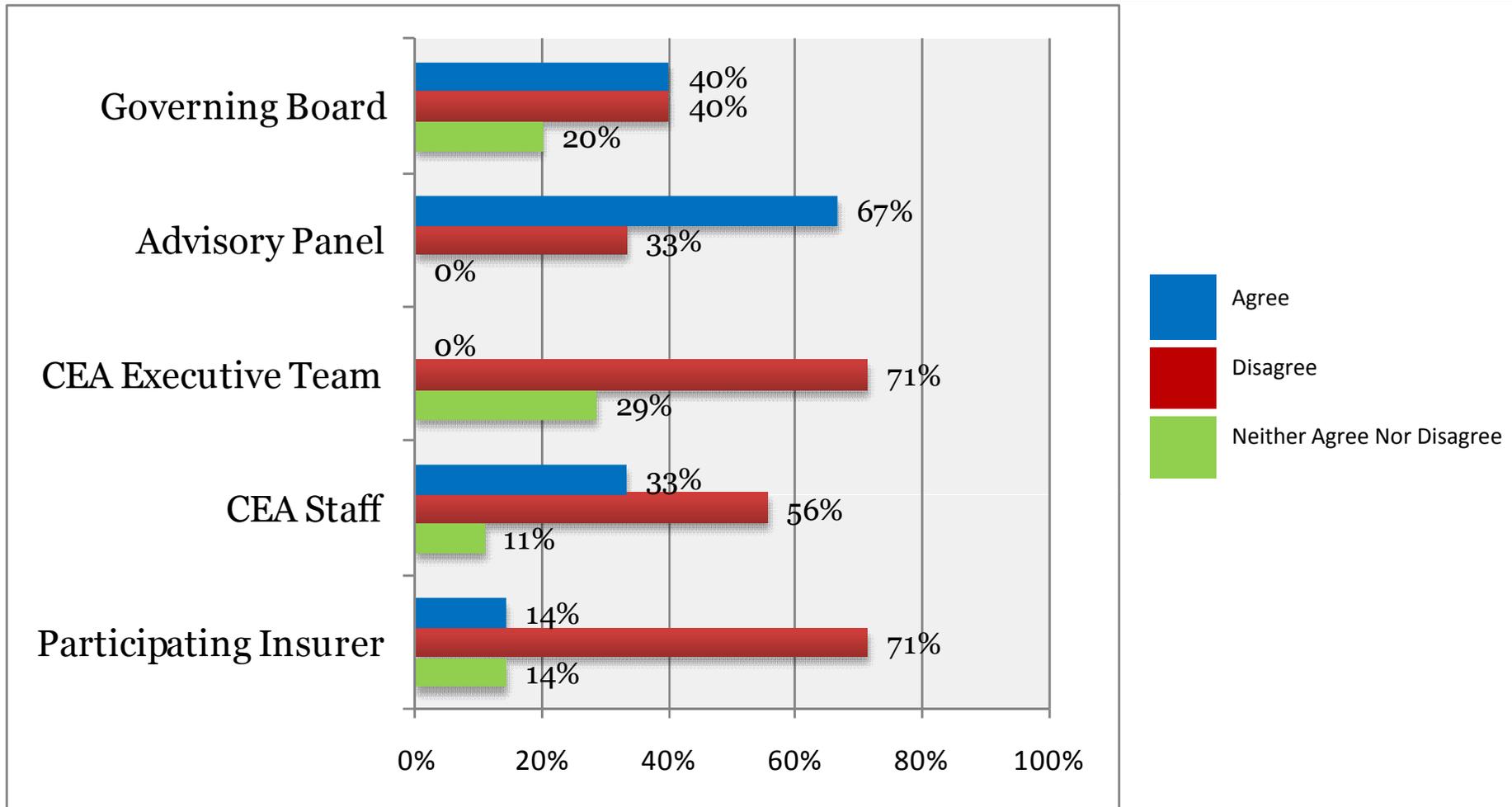
Statutory / Regulatory Environment

The CEA should be subject to the Bagley-Keene Open Meeting Act.



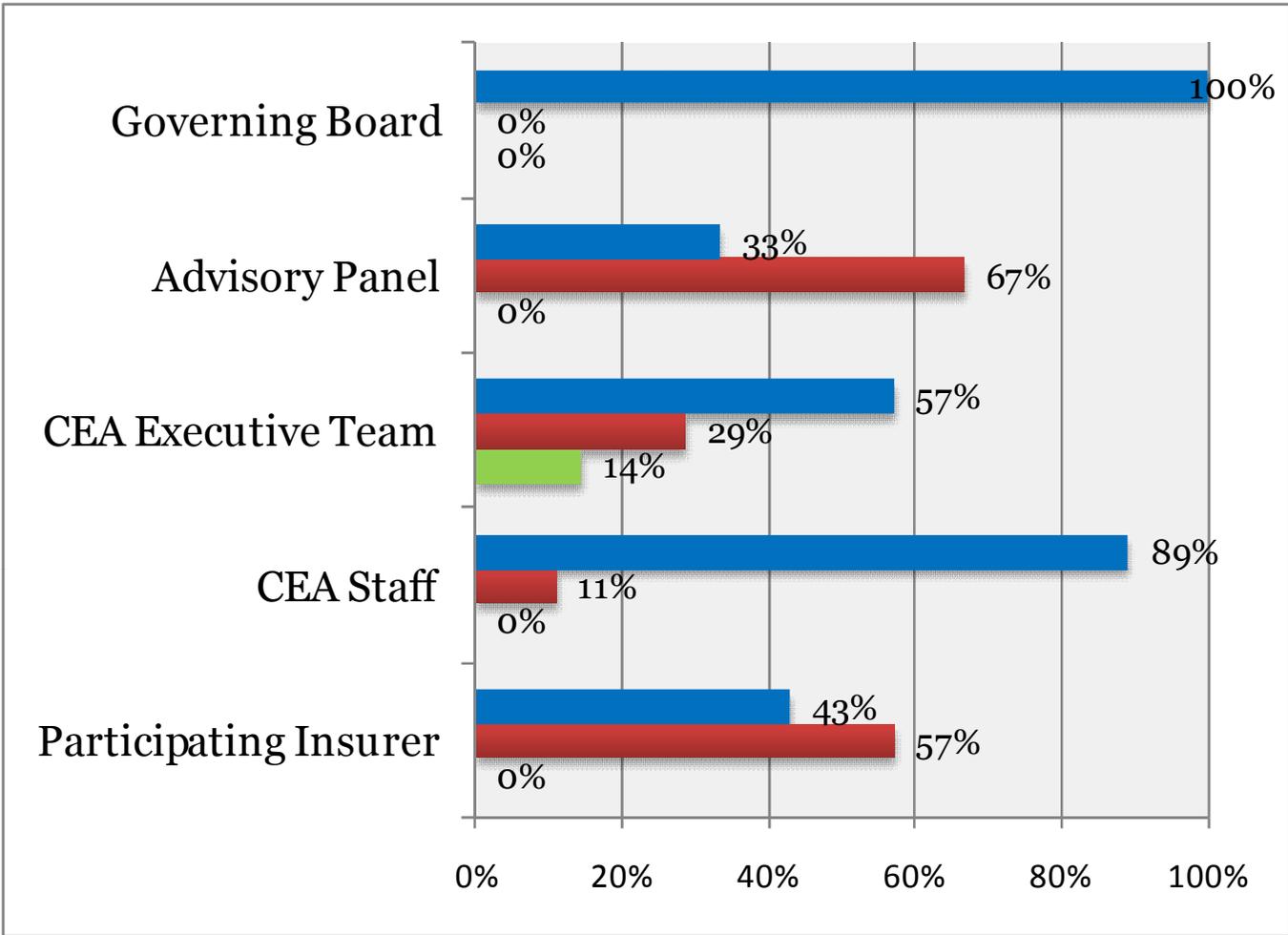
Statutory / Regulatory Environment

The CEA should have a Governing Board composed of elected officials.



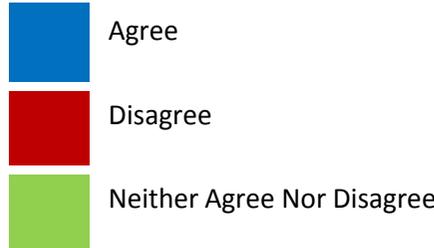
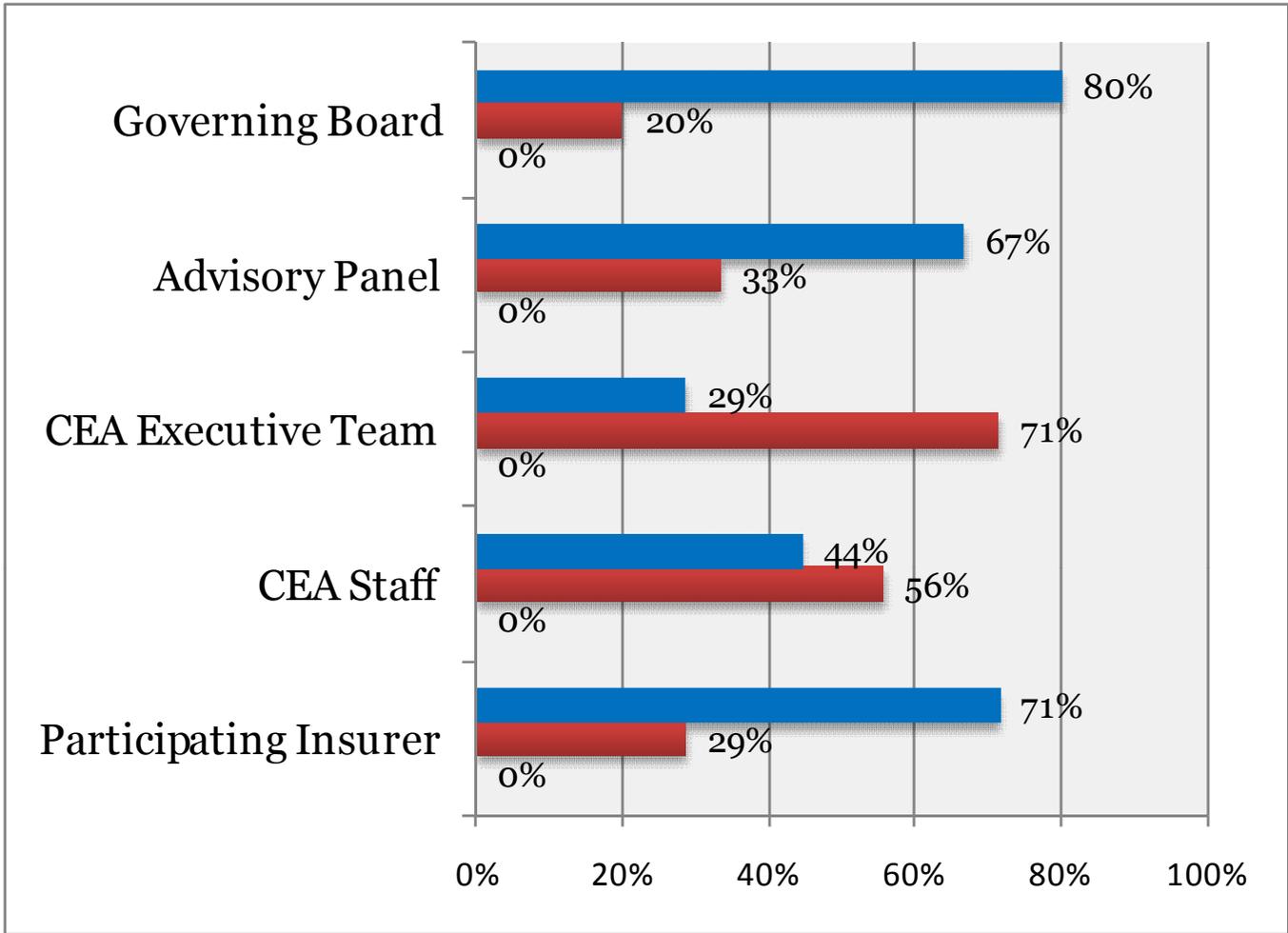
Statutory / Regulatory Environment

State of California should continue to require the Mandatory Earthquake Offer.



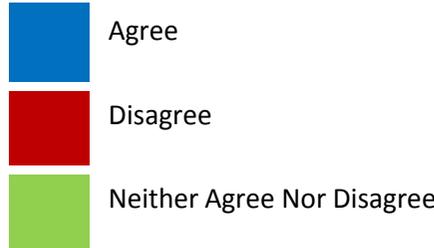
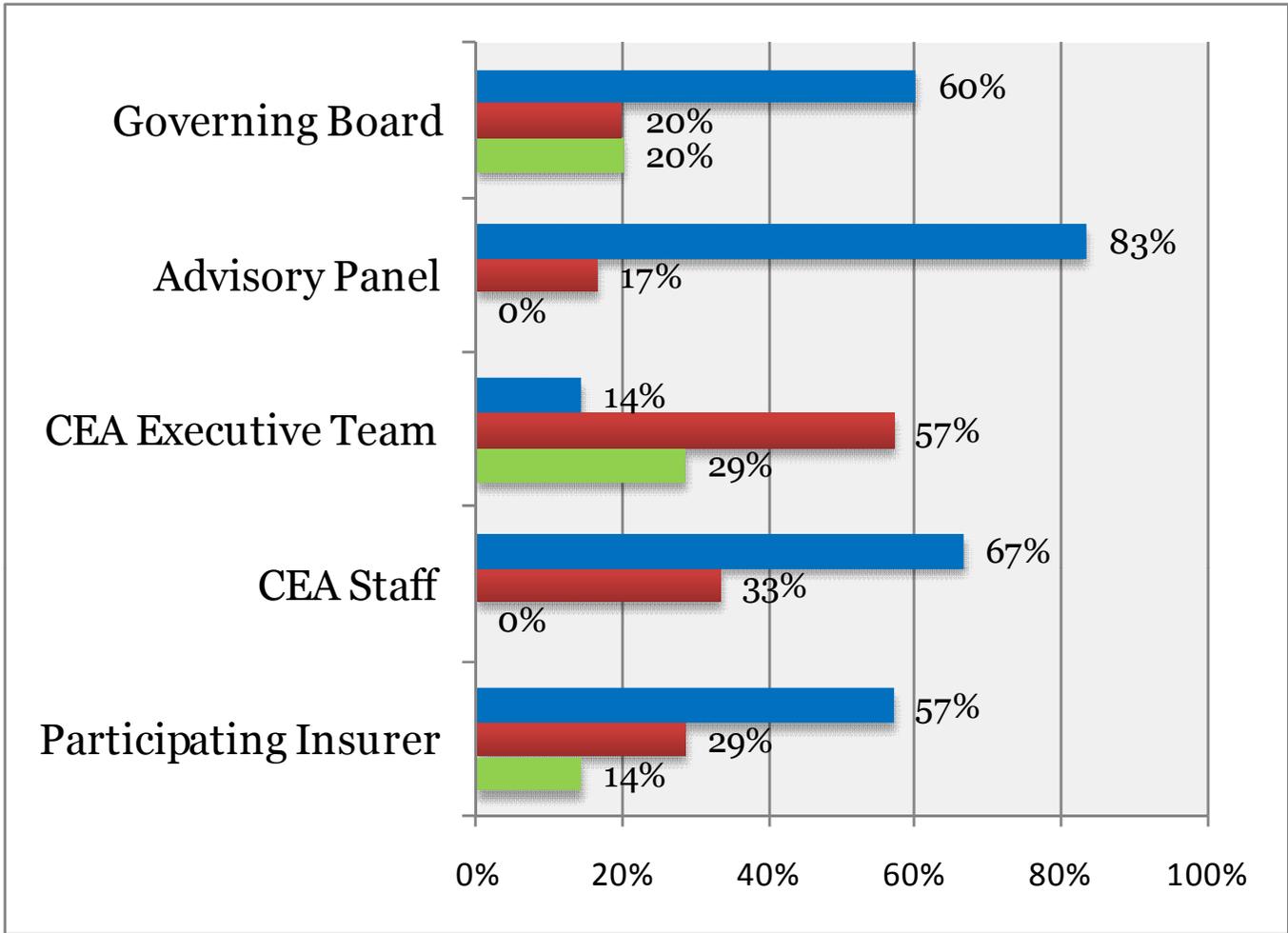
Statutory / Regulatory Environment

The CEA product should be a companion policy to a residential insurance policy.



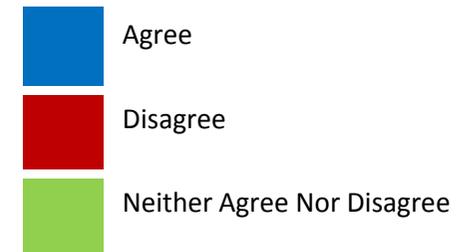
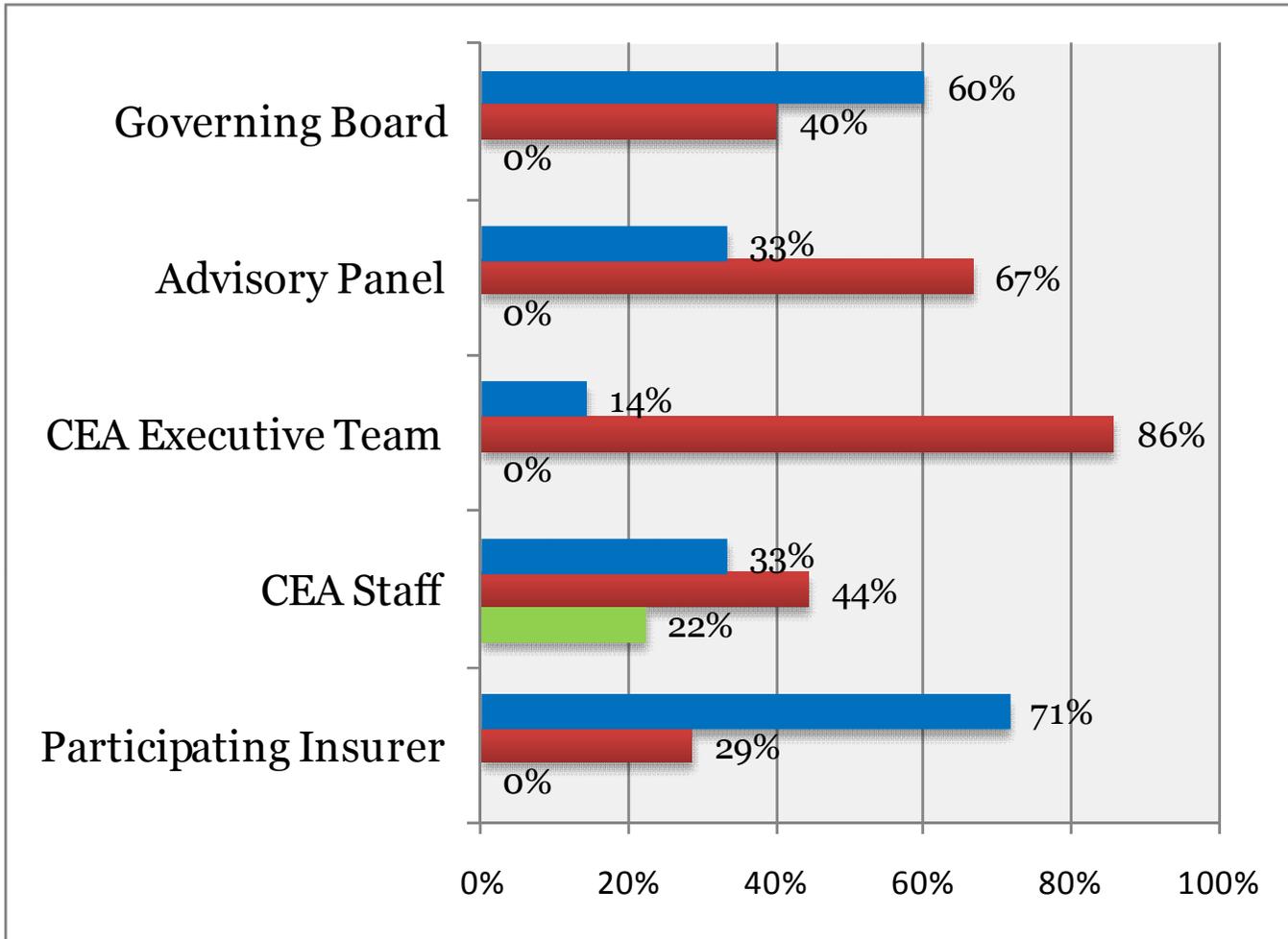
Statutory / Regulatory Environment

Only Participating Insurers should be able to sell CEA earthquake policies.



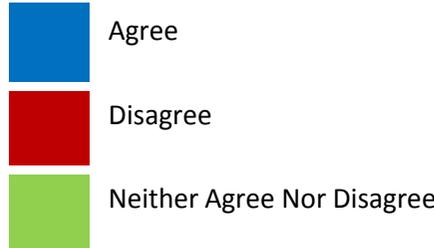
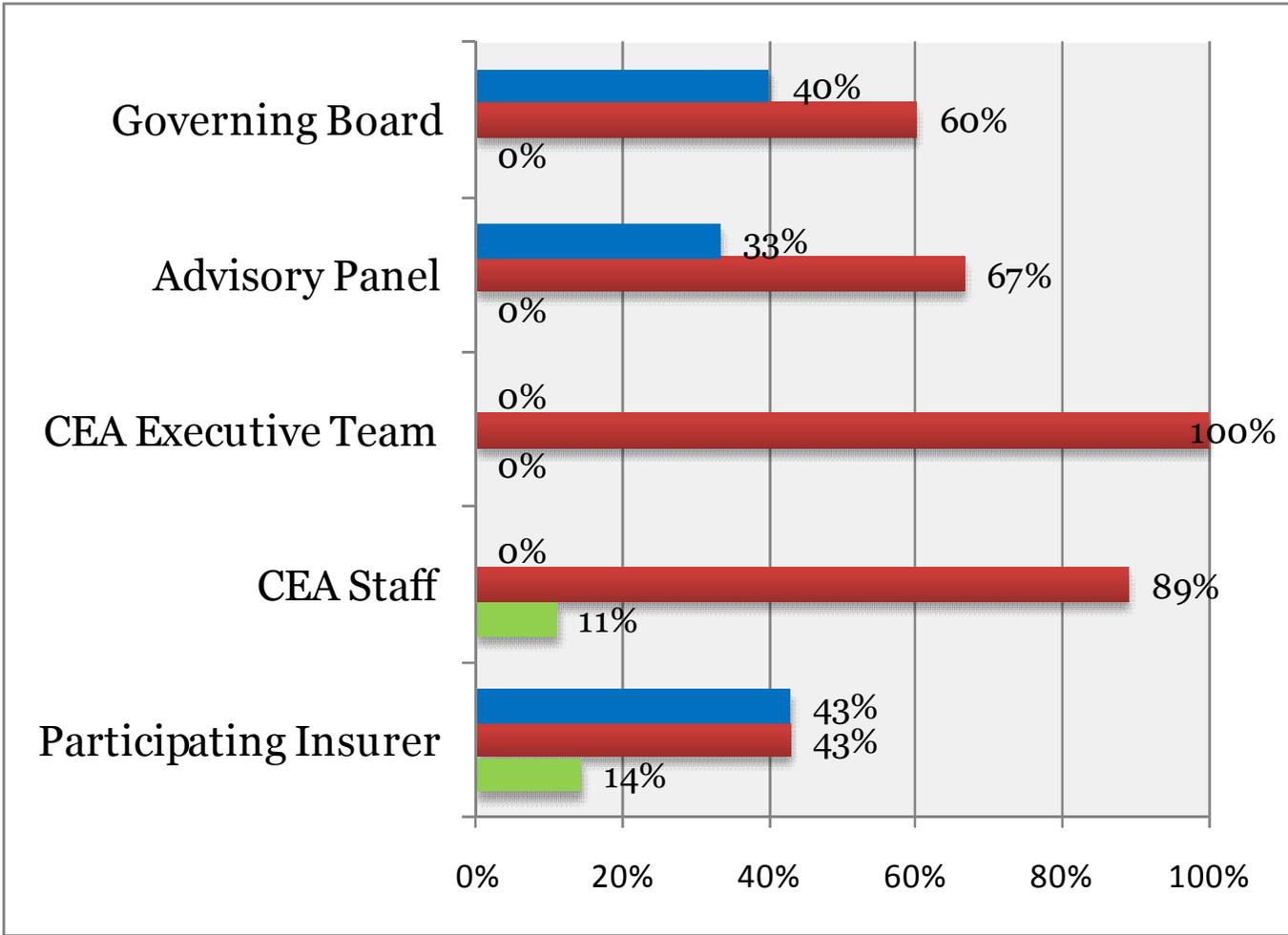
Financial Structure

The current CEA financial structure provides adequate flexibility for the CEA.



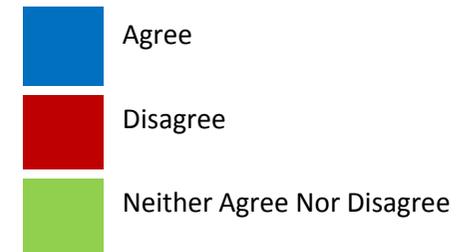
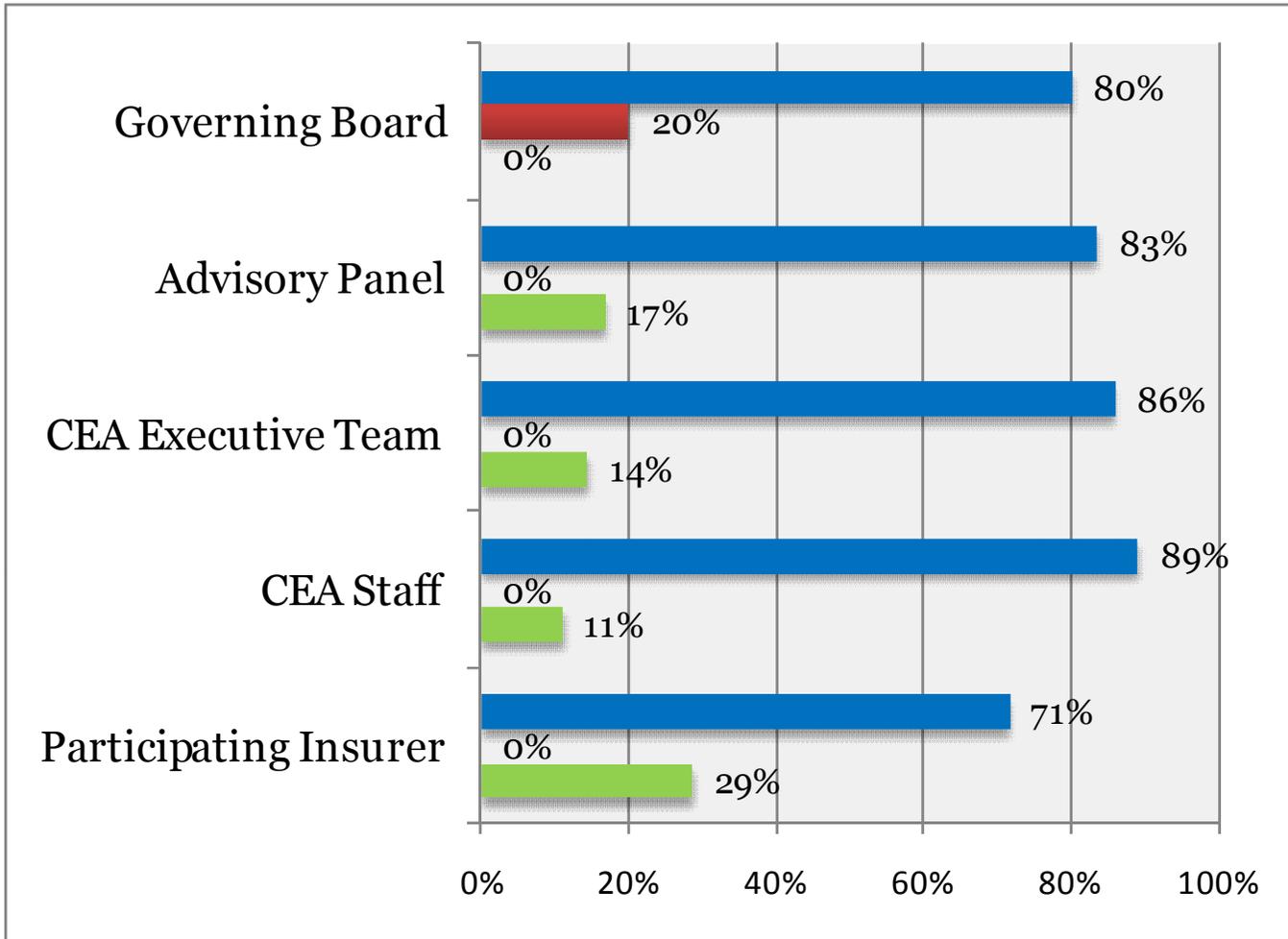
Financial Structure

100% of the CEA's reserves (less \$350m) should be at risk.



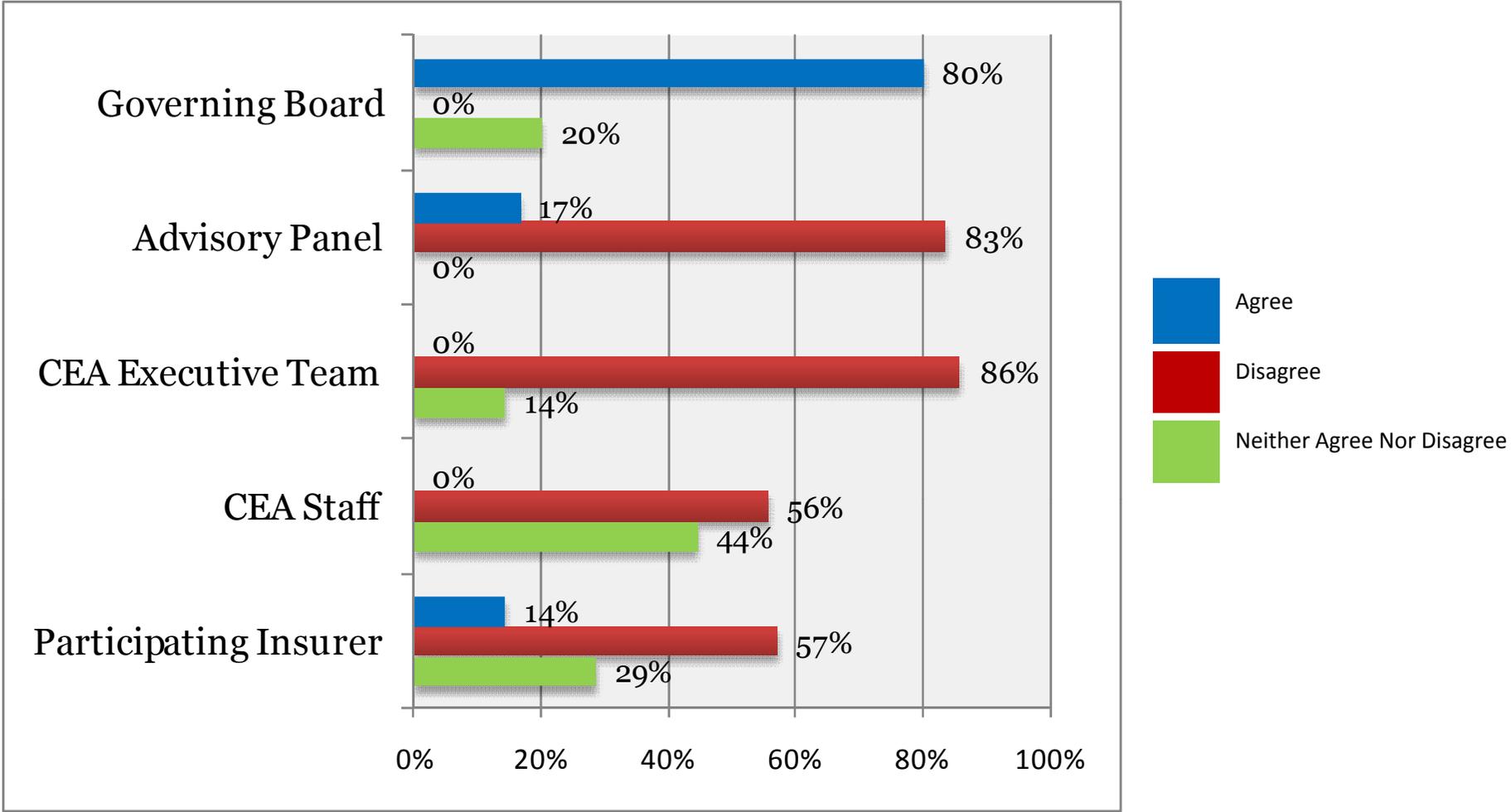
Financial Structure

The CEA should leverage capital markets as an alternate source of funding.



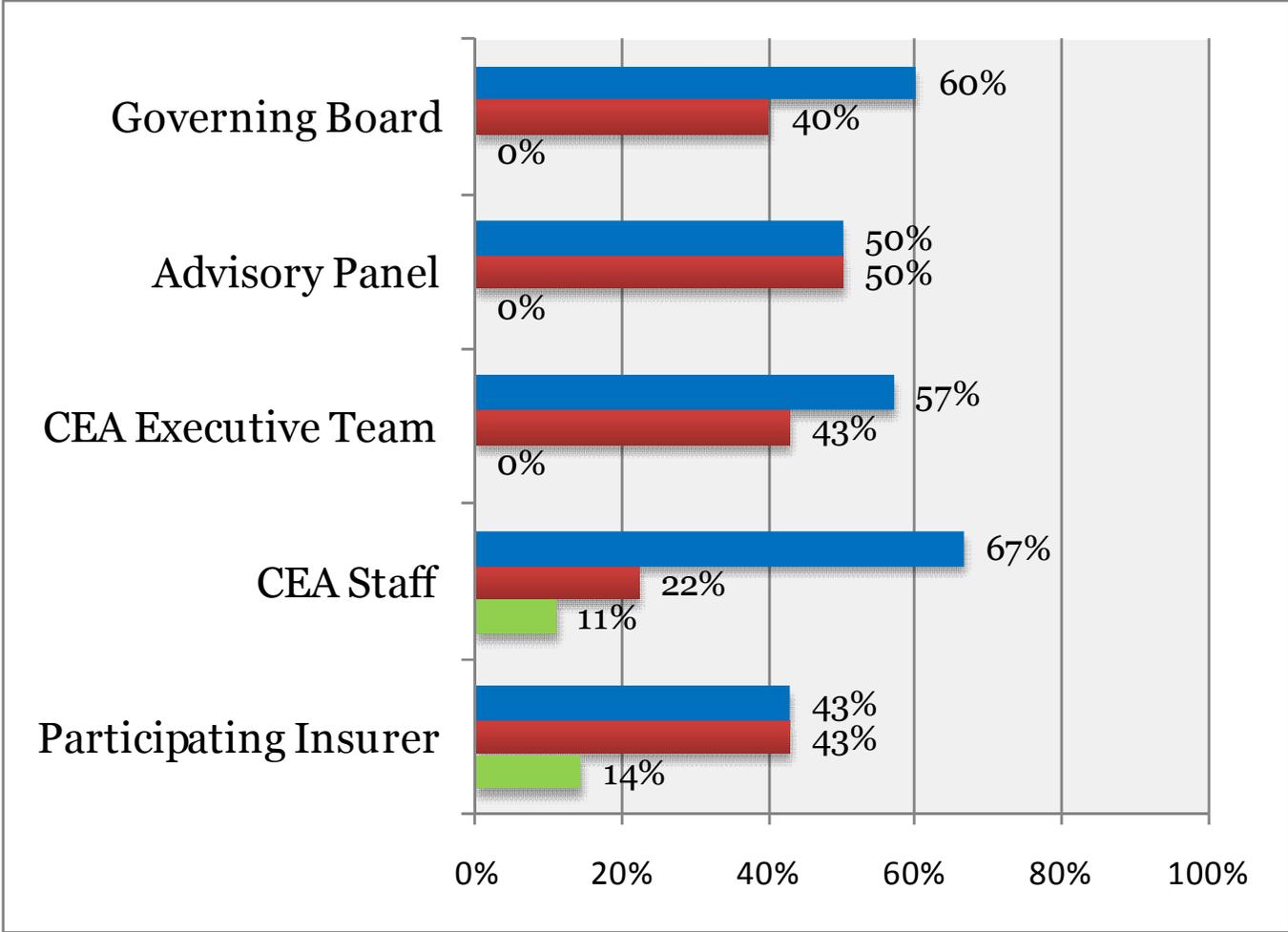
Financial Structure

The treasurer should be required to be the "Agent for Sale" for capital market transactions.



Financial Structure

The Industry Assessment Layer (IAL) is a sound approach to fund reserves for CEA policyholders.



Section 5

CEA Insurance Peer Group

CEA Insurance Peer Group

Company	Overview
California Earthquake Authority (CEA)	The California Earthquake Authority is a publicly managed, largely privately funded organization that provides catastrophic residential earthquake insurance and encourages Californians to reduce their risk of earthquake loss.
California State Compensation Insurance Fund (State Fund)	State Fund is the largest provider of workers' compensation insurance in California. State Fund plays a stabilizing role in California's economy by maintaining an open door policy, ensuring all employers have a strong and stable option for their workers' compensation needs.
The Workers' Compensation Insurance Rating Bureau of California (WCIRB)	The Workers' Compensation Insurance Rating Bureau of California (WCIRB) is a California unincorporated, private, nonprofit association comprised of all companies licensed to transact workers' compensation insurance in California, and has over 400 member companies. No state money is used to fund its operations. The operations of the WCIRB are funded primarily by membership fees and assessments.
Texas Windstorm Insurance Association (TWIA)	Texas Windstorm Insurance Association (TWIA) is a 'pool' of all property and casualty (P&C) insurance companies authorized to write coverage in Texas. TWIA provides basic wind and hail insurance coverage for Gulf Coast property owners who might otherwise be left uninsured.
California Insurance Guarantee Association (CIGA)	CIGA provides a mechanism for the payment of covered (as defined by the Insurance Code and specific case law) property, casualty, and workers' compensation insurance claims of insolvent insurance companies.
North Carolina Insurance Guaranty Association (NCIGA)	The NCIGA is a non-profit, unincorporated legal entity created by Statute to protect North Carolina insurance policyholders and claimants from severe financial losses and delays in claim payments due to the insolvency of a member property and casualty writing insurance carrier.
Florida Citizens	Citizens is a not-for-profit, tax-exempt government corporation whose public purpose is to provide insurance protection to Florida property owners throughout the state. The corporation insures hundreds of thousands of homes, businesses and condominiums whose owners otherwise might not be able to find coverage.
Brickstreet	BrickStreet Mutual Insurance Company began its historic role as West Virginia's first private workers' compensation carrier on Jan. 1, 2006. BrickStreet is a mutual company owned by its policyholders, and is among the largest writers of workers' compensation coverage in the nation.
Employers Insurance Company of Nevada	EMPLOYERS® is a group of companies providing workers' compensation insurance and services to select, small American businesses. Employers was Nevada's original state industrial insurance fund and completed privatization in 2000.
Pinnacol Assurance	Pinnacol Assurance provides workers' compensation insurance in Colorado as a mutual insurance company. It was founded as a state agency and transitioned to a quasi-public authority before transitioning to a mutual company.

Roles and Responsibilities

	CEA	Insurance Peer Group
<i>Governing Board</i>	<ul style="list-style-type: none"> • Governing Board approves CEA Executive Team’s day-to-day operation plans 	<ul style="list-style-type: none"> • Governing Boards / Board of Directors provides strategic direction and expects senior management to make decisions for day-to-day operations
<i>Advisory Panel</i>	<ul style="list-style-type: none"> • According to statute, the Advisory Panel advises the Governing Board with insurance expertise • Advisory Panel creates sub-committees to discuss CEA topics 	<ul style="list-style-type: none"> • The Governing Board / Board of Directors is large enough to create sub-committees from its members to discuss company topics • Advisory panels are leveraged to provide the board subject matter expertise
<i>Executive Team</i>	<ul style="list-style-type: none"> • CEA Executive Team seeks approval of day-to-day operation plans from Governing Board 	<ul style="list-style-type: none"> • Senior management is responsible for executing day-to-day operations without requiring Governing Board / Board of Director approval
<i>Staff</i>	<ul style="list-style-type: none"> • Limited to 25 civil-service employees augmented with temporary staff 	<ul style="list-style-type: none"> • Ability to hire full-time resources with insurance functional experience

Insurance Peer Group – By the Numbers

Governing Board										
	CEA	State Fund	WCIRB	TWIA	CIGA	NCIGA	Florida Citizens	BrickStreet	Employers	Pinnacle
Total Board Members	5	11	12	10	13	8	8	7	9	9
Elected Public Officials (including non-voting members)	5	0	0	0	0	0	0	0	0	0
Private Members	0	11	8*	10	9*	8	8	7	9	9
Voting Members	3	11	12	9	13	7	8	N/A	9	9
Term Lengths (Years)	Varies	Varies	2-3	3	Varies	3	2-3	3	Tenure	Tenure
Meetings per Year	6	6	4	4	4	1	8	N/A	4	12
Compensation	None	\$50K	Yes CNFD	None	None	None	N/A	Yes CNFD	Yes	N/A

* CIGA: (4) Public Officials are appointed

* WCIRB: (4) Public members

N/A: Not Available

CFND: Confidential

Insurance Peer Group - Observations

	Key Findings and Observations
<p><i>Governing Board Comparative Analysis</i></p>	<ul style="list-style-type: none"> • CEA is the only company in this peer group with a board composed entirely of elected officials • CEA has the least number of voting members (3) of the insurance peer group • The average number of board members across the insurance peer group is 9.20 • State Fund, WCIRB, BrickStreet and Employers provide compensation for serving on their Boards • The CEO sits on the board at three of the peer group insurance companies • CEA is the only insurance company in this peer group which does not currently include a voting board member with experience working for an insurance company • Texas Windstorm and Florida Citizens include geographical requirements for their board compositions • State Fund now mandates board training, requires board members to sign financial conflict of interest statements, and provides board members \$50,000 in annual compensation to help attract and retain highly qualified candidates • Sub-committees are generally created from a sub-set of the board members

Insurance Peer Group – Governing Board Requirements

	Governing Board Requirements
California Earthquake Authority (CEA)	<ul style="list-style-type: none"> The CEA is governed by a Governing Board that consists of California's Governor, State Treasurer, and Insurance Commissioner. The Speaker of the California Assembly and the Chairperson of the California Senate Rules Committee serve as nonvoting Board members. All members of the Board, voting and nonvoting, may name designees to serve in their place.
California State Compensation Insurance Fund (State Fund)	<ul style="list-style-type: none"> The Governor appoints nine members, including one from organized labor, and names the chairperson. The Speaker of the Assembly appoints one member who represents organized labor, and the Senate Committee on Rules appoints one member. The board also includes the Department of Industrial Relations Director as a non-voting “ex-officio” member. State law mandates board training, requires board members to sign financial conflict of interest statements, and provides board members \$50,000 in annual compensation to help attract and retain highly qualified candidates.
The Workers' Compensation Insurance Rating Bureau of California (WCIRB)	<ul style="list-style-type: none"> The Governing Committee is composed of twelve members: seven private insurers; State Compensation Insurance Fund; and four public members - two representing insured employers and two representing organized labor.
Texas Windstorm Insurance Association (TWIA)	<ul style="list-style-type: none"> All members must have demonstrated experience in insurance, general business, or actuarial principles. Four Members must be reps of insurance industry Four Members must reside different first tier coastal counties, of which at least one is a property & casualty agent licensed under TWIA code (i.e. not captive agent) One Member must be a rep of an area not located in the seacoast territory and must have demonstrated expertise in insurance and actuarial principals <p>The Non-Voting member must: be an engineer licensed by the Texas Board of Professional Engineers; reside in a first tier coastal county; and have professional expertise in wind-related design and construction practices in coastal areas that are subject to high winds and hurricanes</p>

Insurance Peer Group – Governing Board Requirements

	Governing Board Requirements
California Insurance Guarantee Association (CIGA)	<ul style="list-style-type: none"> The CIGA Board of Governors consists of nine Insurer Members and four Public Members
North Carolina Insurance Guaranty Association (NCIGA)	<ul style="list-style-type: none"> The board of directors of the Association shall consist of not less than five nor more than nine persons serving terms as established in the plan of operation. One nonvoting member of the board shall be a property and casualty insurance agent authorized to write insurance for a member insurer, and appointed by the Commissioner; and the remaining members shall be selected by member insurers subject to the approval of the Commissioner.
Florida Citizens	<ul style="list-style-type: none"> At least half of members appointed must have demonstrated expertise in insurance All must be residents of the State of Florida and be from different geographical areas of the State
Brickstreet	<ul style="list-style-type: none"> One Board seat must be held by an attorney who is an owner or officer of a policyholder. 1 seat requires experience as an officer or employee of a company in the insurance industry with 50 employees or less. One Board seat which must be held by an owner or officer of a policyholder. One Board seat must be held by a certified public accountant who is an owner or officer of a policyholder.
Employers Insurance Company of Nevada	<ul style="list-style-type: none"> The Board must have no fewer than five directors, but can adjust the total number based on qualified director candidates Board members must demonstrate significant accomplishment in his or her field, an ability to make a meaningful contribution to the Board's oversight of the business and affairs of the Company Board member's must have a reputation for honesty and ethical conduct in his or her personal and professional activities Board members must have specific experiences and skills, relevant industry background and knowledge and time availability in light of other commitments
Pinnacol Assurance	<ul style="list-style-type: none"> The nine-member board of directors are appointed by the governor The board is composed of one Board Chairman, two Employee Representatives, four Employer Representatives (one being a Employer Farm and Ranch Representative), one Insurance Representative, and one Finance/Investment Representative

Insurance Peer Group – Governing Board Member Composition

Governing Board Member Composition	
California Earthquake Authority (CEA)	CA Governor CA State Treasurer CA Insurance Commissioner Speaker of the CA Assembly Chairperson of the CA Senate Rules Committee
California State Compensation Insurance Fund (State Fund)	Former Interim President and CEO, State Fund President and CEO, Goodwill Industries Brigadier General, USMC (Ret) Director, Ironworker Management Program Action Cooperative Trust Director, California Conference of Carpenters Strategic Consultant, Sacramento Advocates Treasurer, California Alliance for Retired Americans President, Pinnacle Consulting Group Vice President of Risk Management, Safeway Former Cabinet Secretary, Office of the Governor Acting Director, Department of Industrial Relations
The Workers' Compensation Insurance Rating Bureau of California (WCIRB)	<p>Insurer Members: Representative from ACE Property and Casualty Insurance Company, Employers Compensation Insurance Company, Employers Direct Insurance Company, Hartford Accident and Indemnity Company, Oak River Insurance Company, State Compensation Insurance Fund, Travelers Indemnity Company, Zurich American Insurance Company</p> <p>Public Members: two Employer Representatives, two Labor Representatives</p>
Texas Windstorm Insurance Association (TWIA)	Chief Property and Casualty Actuary , USAA Executive VP, Texas Farm Bureau Insurance Director of State Operations, Liberty Mutual Insurance Operations Vice President, State Farm two Engineers three Insurance Agents Director, University of Texas Marine Science Institute
California Insurance Guarantee Association (CIGA)	<p>Nine Insurer Members: Representative from California Casualty Insurance Group, Employers Insurance Company of California, CAL Insurance & Associates, Allstate Insurance Company, Automobile Club of Southern California, Fireman's Fund Insurance Company, Lawyers' Mutual Insurance Company, Liberty Mutual Insurance Company, Mid Century Insurance Company, State Compensation Insurance Fund</p> <p>Four Public Members: Public Member appointed by the President Pro Term of the Senate, Public Member appointed by Insurance Commissioner to represent Labor, Public Member appointed by the Insurance Commissioner to represent Business, Public Member appointed by the Speaker of the Assembly</p>

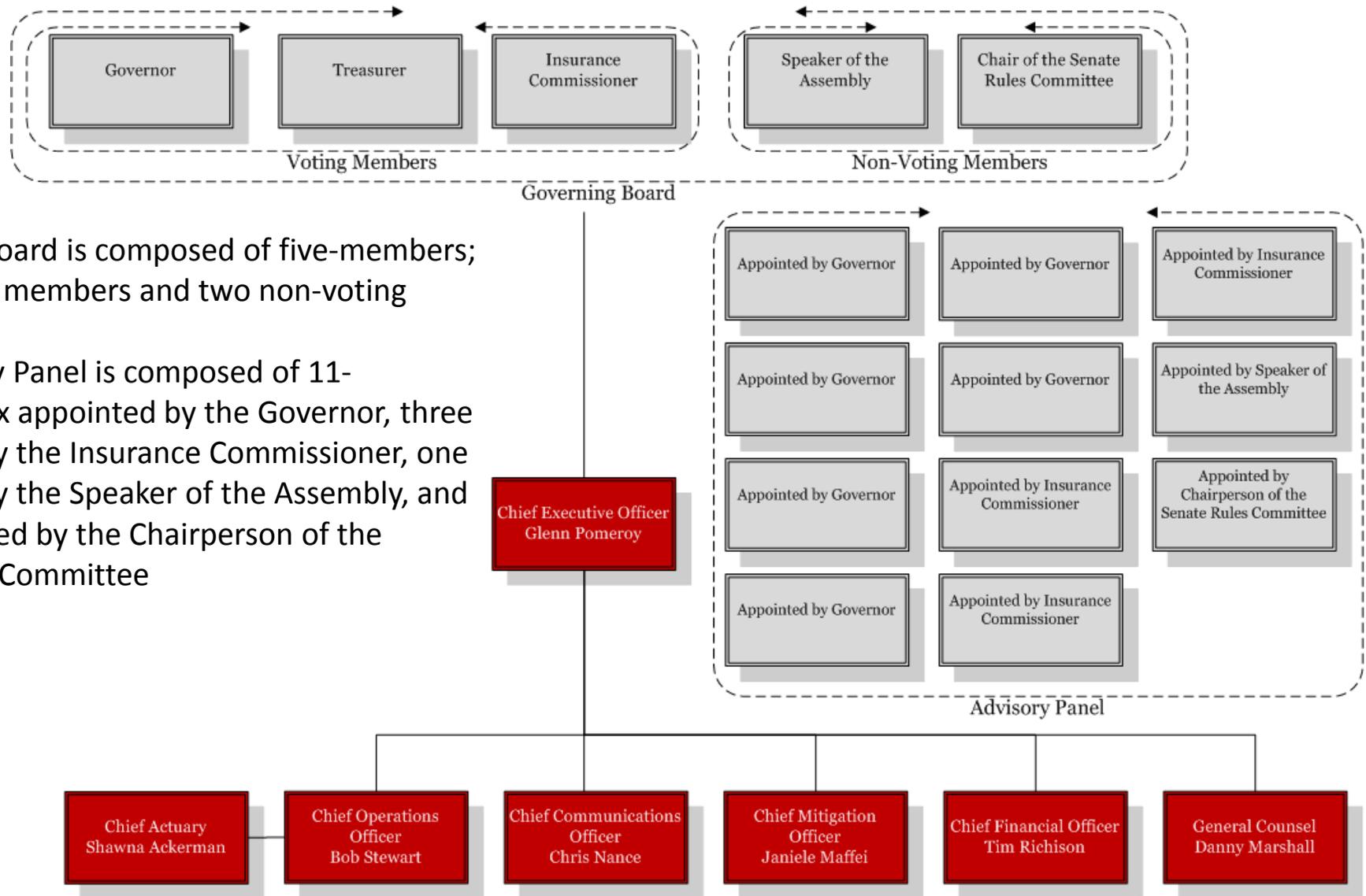
Insurance Peer Group – Governing Board Member Composition

Governing Board Member Composition	
North Carolina Insurance Guaranty Association (NCIGA)	<p>Seven Insurer Members: Representatives from Allstate Insurance Company, Integon Indemnity Corporation, Liberty Mutual Insurance Company, Nationwide Mutual Insurance Company, North Carolina Farm Bureau Mutual Insurance Company, State Farm Mutual Automobile Insurance Company, The Travelers Indemnity Company</p> <p>Non-Voting Member must be property & casualty insurance agent authorized to write insurance for a member insurer</p>
Florida Citizens	<p>President , Travelers of Florida Former State Legislator Insurance Broker and Consultant, Winter Park Former State Legislator President, Plastridge Insurance Agency VP, Insurance Services at BB&T in Tampa 2 Appointees Pending</p>
Brickstreet	<p>Attorney, CEO of WV Physicians' Mutual Insurance Co. President of WV Chamber of Commerce Chairman and CEO Max Capital Group Ltd. Manager, Steven F White, PLLC President and CEO BrickStreet Mutual Insurance Company Senior Vice President and General Counsel BrickStreet Mutual Insurance Company</p>
Employers Insurance Company of Nevada	<p>Founding/Managing Partner Attorney, Kolesar & Leatham President and Chief Executive Officer of Employers Holdings, Inc. Director and former Chairman of the Board, Orthopaedic Clinic Co-owner and publisher, Visitor Publications, Inc. Owner, Energy Works Consulting, LLC and McKinney-James & Associates Former Senior Executive, AEGON N.V. Co-founder and Director, Hobbs, Ong & Associates, Inc. Chief Executive Officer and Chairman of the Board, Cash Systems, Inc. Partner Attorney, Jones Vargas</p>
Pinnacol Assurance	<p>Managing Partner, Bow River Capital Partners Chief of Staff, Colorado Senate for the Senate Majority Former Financial Officer, Acordia President, Strategic Insurance Consultants, Inc., Co-owner and Manager, Barbara Jolly and Sons Ranch, LLC. Managing Director, Metrix Advisors, LLC, Attorney, Gregory & Plotkin, LLC President, Emergi-Medical Care Center and Owner, HealthTrac Walk-In Clinic Insurance Agent, CRS Insurance Brokerage, Inc.</p>

Section 6

Current Organization Environment

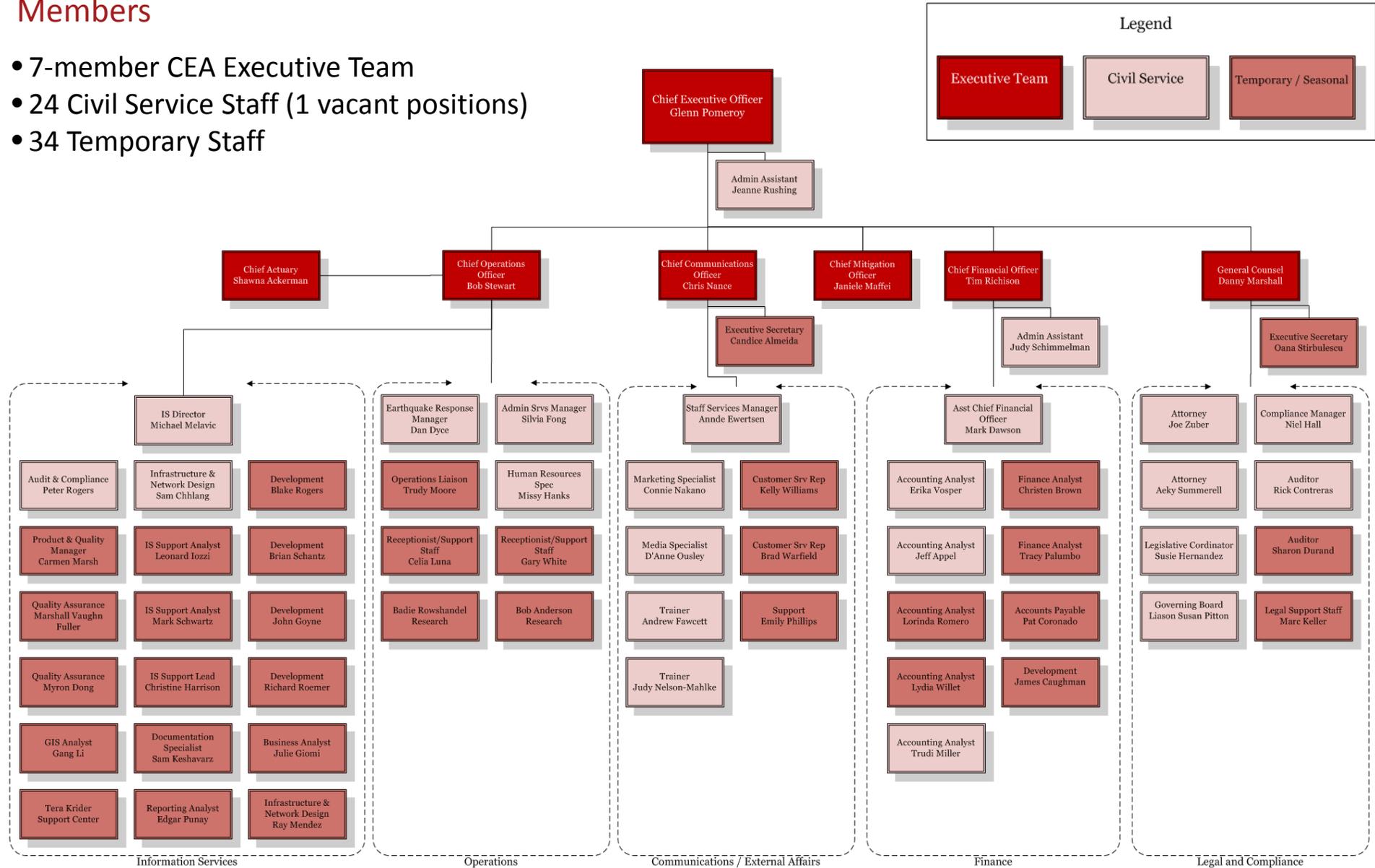
Current CEA Organization Structure – Governing Board, Advisory Panel, and Executive Team



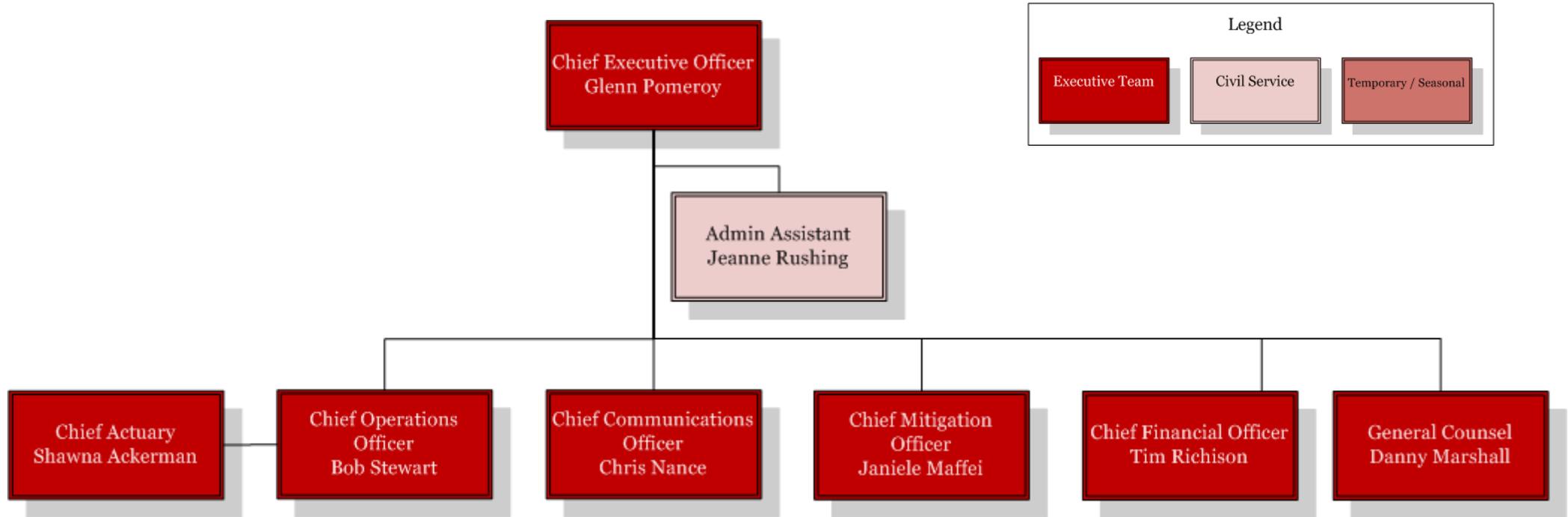
- Governing Board is composed of five-members; three voting members and two non-voting members
- The Advisory Panel is composed of 11-members; six appointed by the Governor, three appointed by the Insurance Commissioner, one appointed by the Speaker of the Assembly, and one appointed by the Chairperson of the Senate Rule Committee

Current CEA Organization Structure – Executive Team, Civil Service and Temporary Staff Members

- 7-member CEA Executive Team
- 24 Civil Service Staff (1 vacant positions)
- 34 Temporary Staff

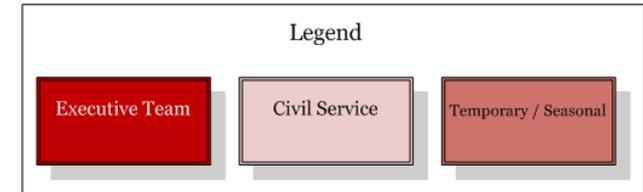
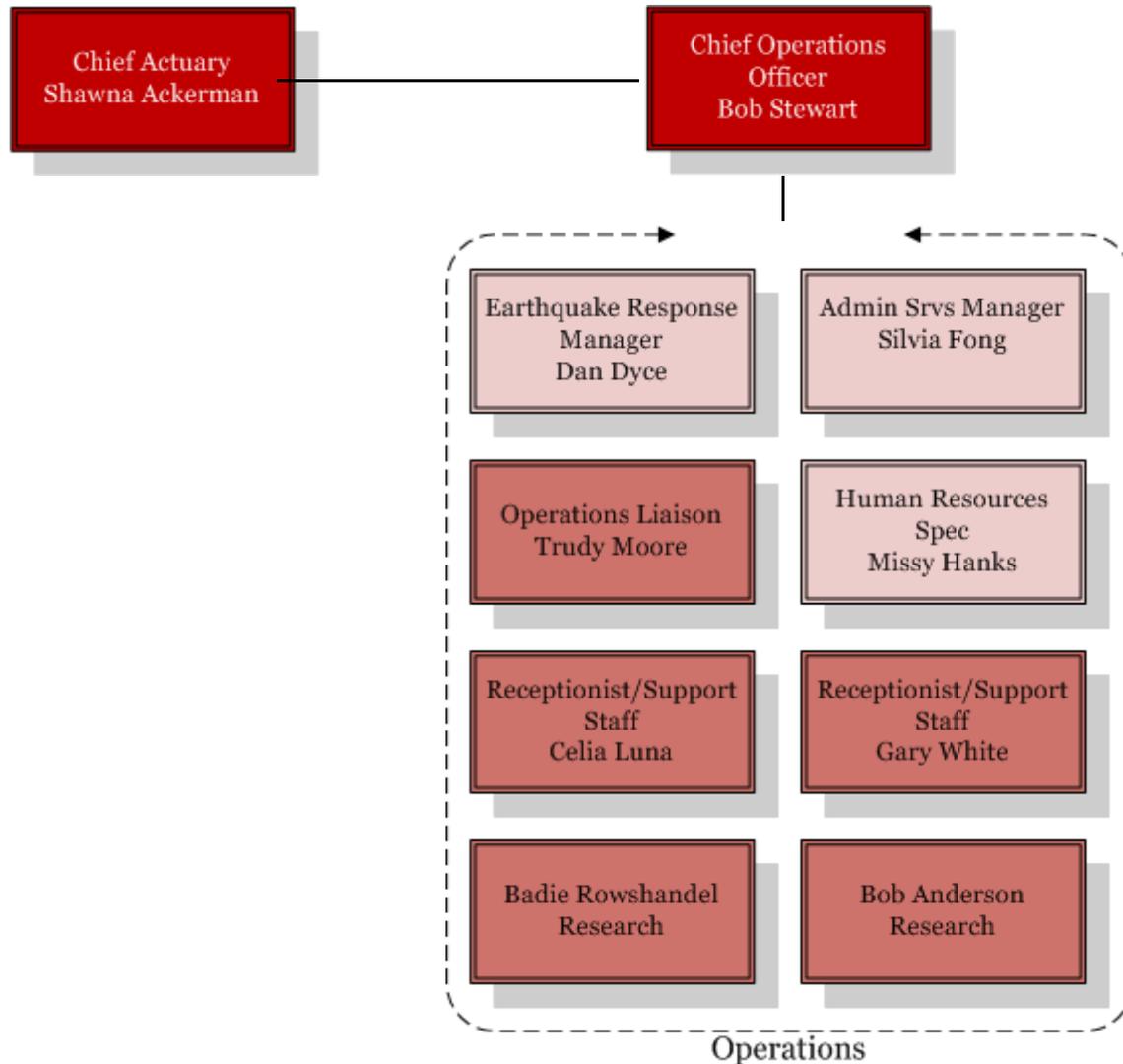


Current CEA Organization Structure – Executive Team



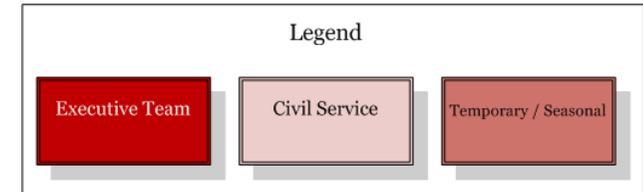
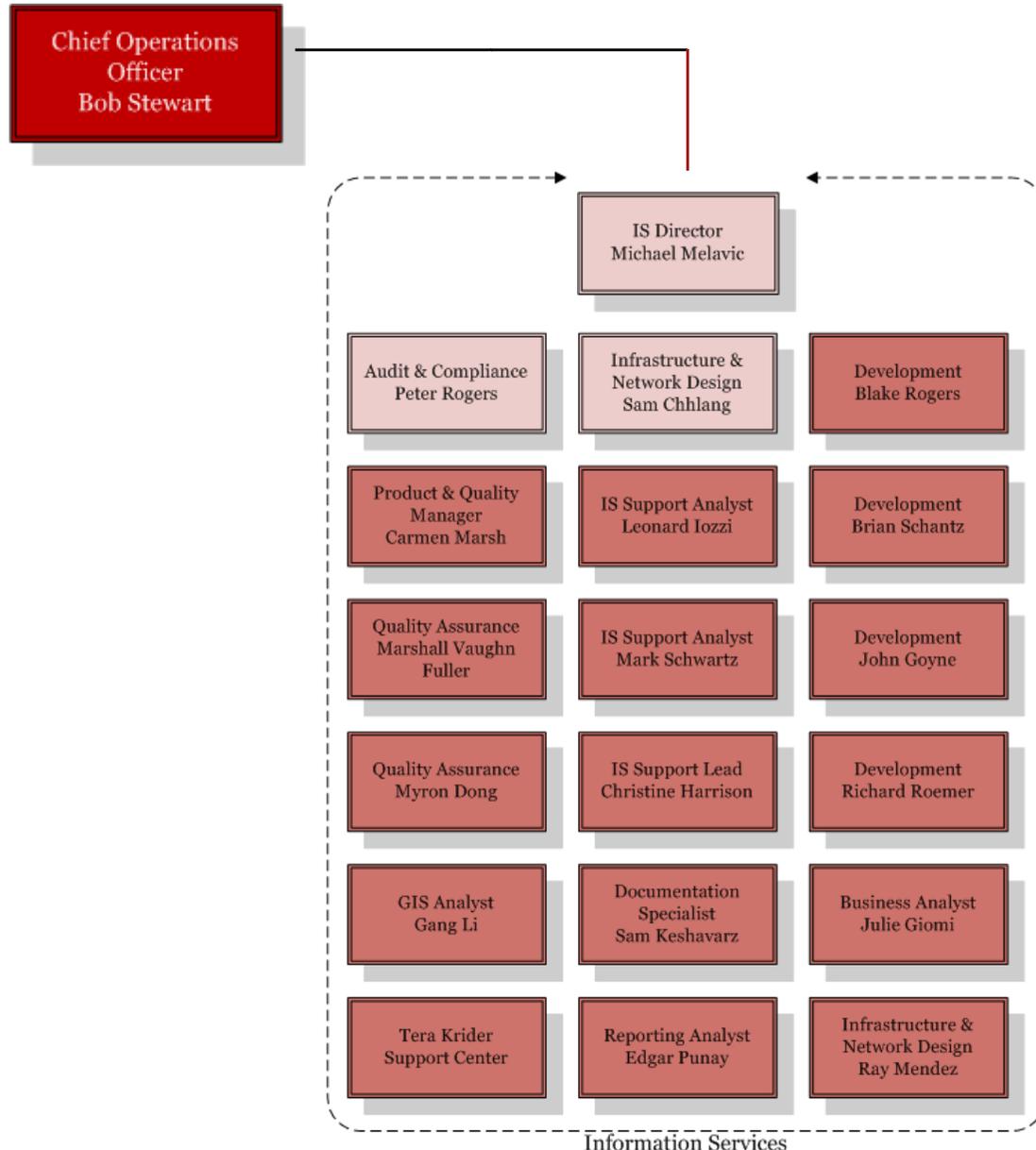
- The CEO leads a team of six-executive team members:
 - Chief Operations Officer
 - Chief Financial Officer
 - Chief Communication Officer
 - Chief Mitigation Officer
 - Chief Actuary
 - General Counsel
- The CEO, COO, CFO, CA, and CMO are contract staff
- The General Counsel is a Career Executive Assignment
- The CCO is Exempt

Current CEA Organization Structure – Operations



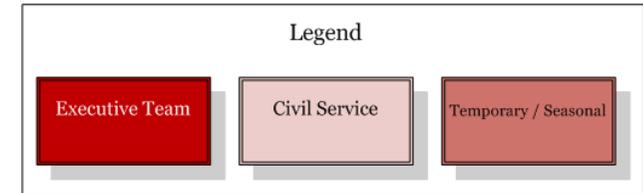
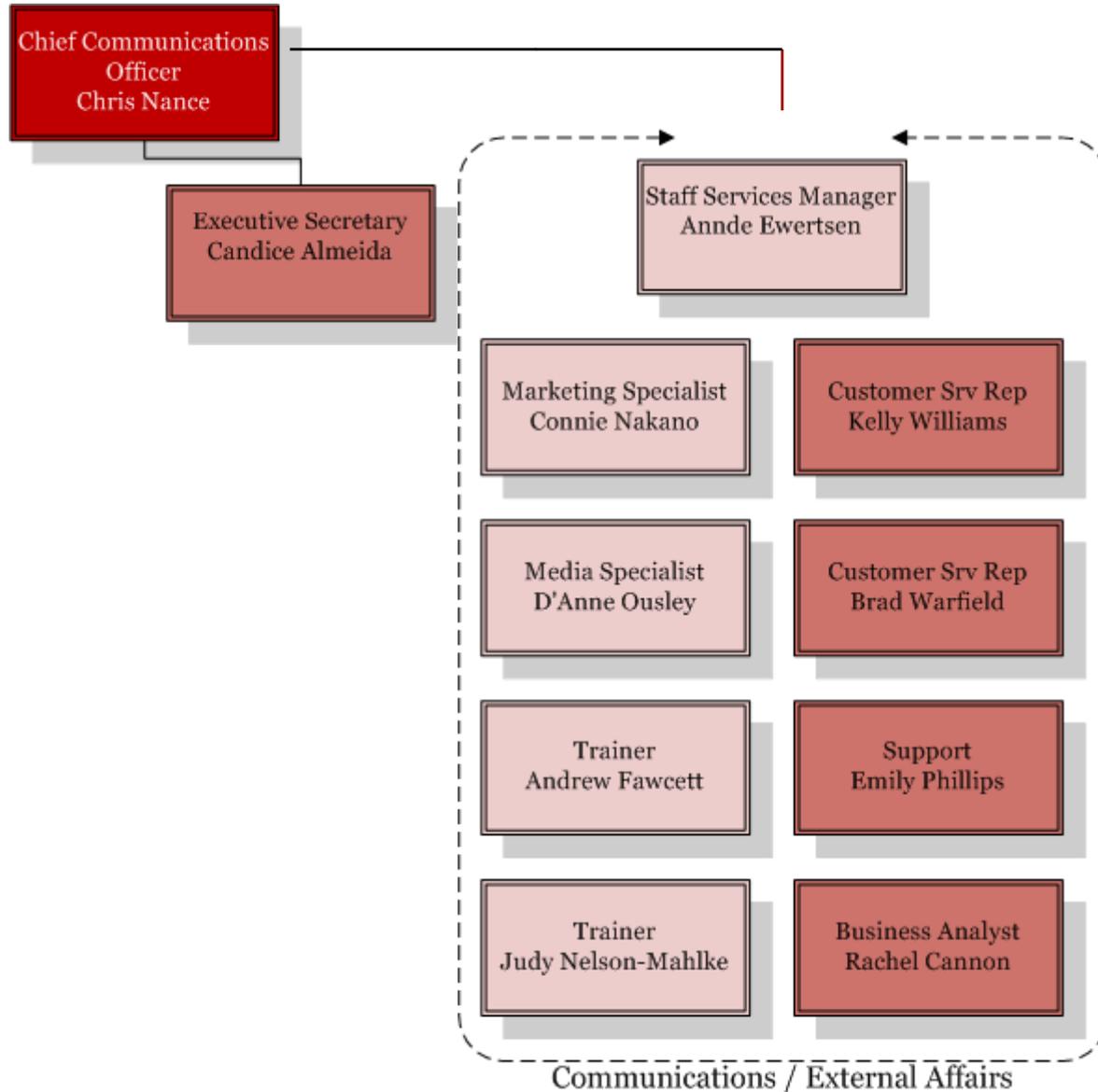
- COO manages a team of 8 in operations (2 HR staff members, 2 Administrative Assistants, 2 researchers from IJT, 2 Insurance Operation professionals) and a team of 19 in IS
- The Chief Actuary reports to the COO
- The COO only has two insurance professionals, a Earthquake Response Manager (i.e. Claims Manager) and an Operations Liaison, to support CEA’s insurance operation
- 2 of the 3 civil service in operations are human resource staff
- The 2 Receptionists/Support Staff are temporary staff
- The Insurance Operation Liaison is a temporary staff member
- While the two researchers are contract staff members to the CEA, they both are civil servants in their primary jobs

Current CEA Organization Structure – Information Services



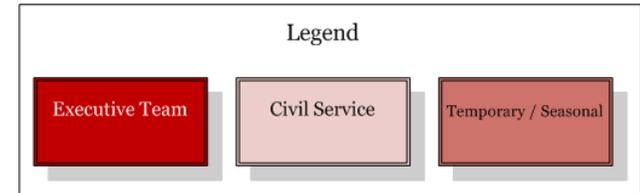
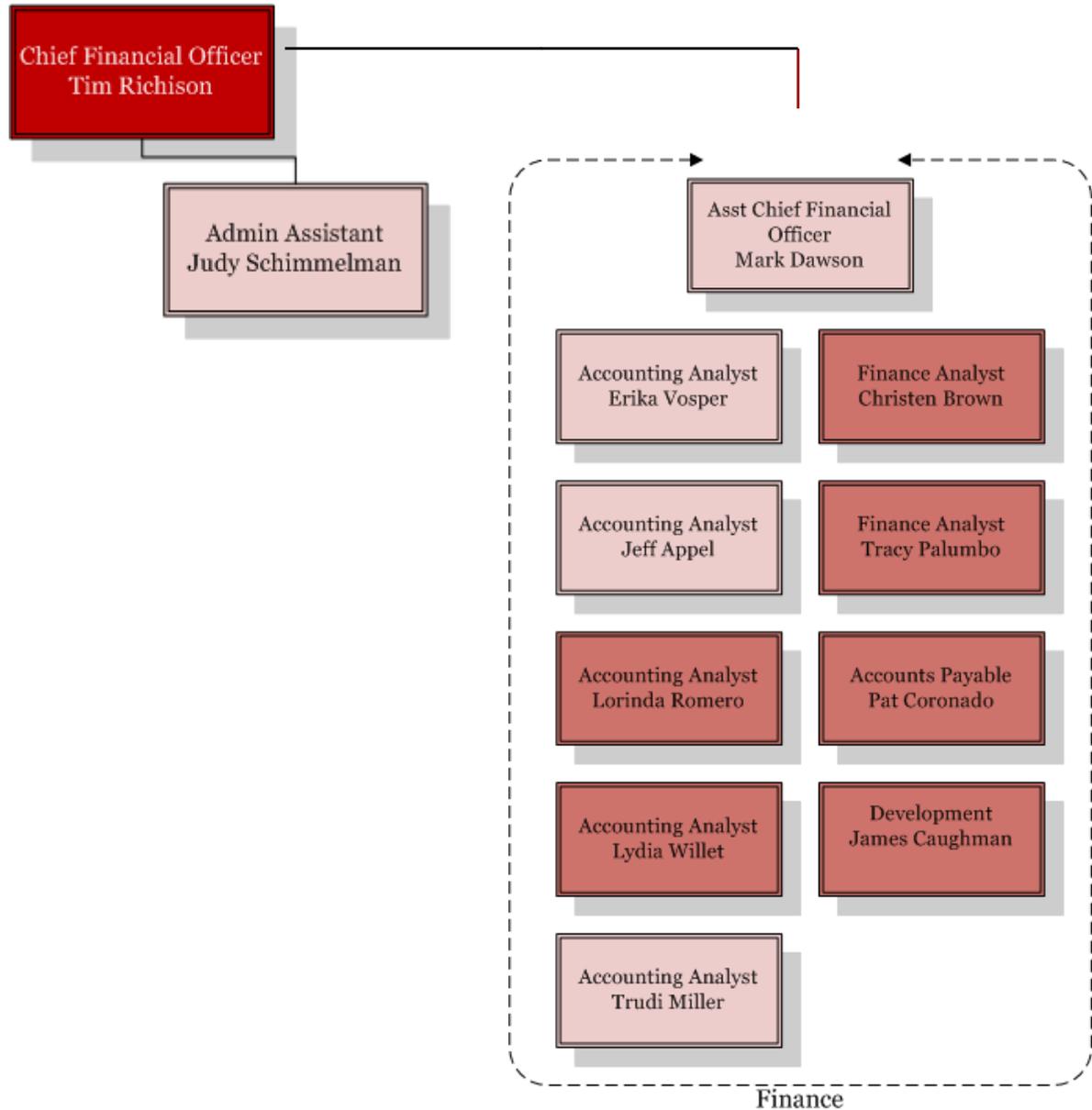
- The COO is responsible for Information Systems
- In addition to operations, the COO manages a team of 19 IS civil service and temporary staff
- The IS Director reports directly to the COO
- There are 3 civil service staff in IS: 1 IS Director, 1 Audit & Compliance, and 1 Infrastructure & Network Design
- There are 16 temporary staff in IS: 4 resources in Development, 1 IS Support Lead, 2 IS Support Analysts, 1 GIS Analyst, 1 Infrastructure & Network Design, 1 Report Analyst, 1 Document Specialist, 1 Product & Quality Manager, 2 Quality Assurance, 1 Support Center

Current CEA Organization Structure – Communications



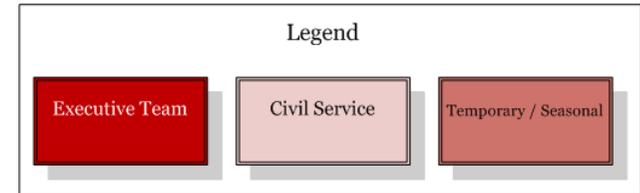
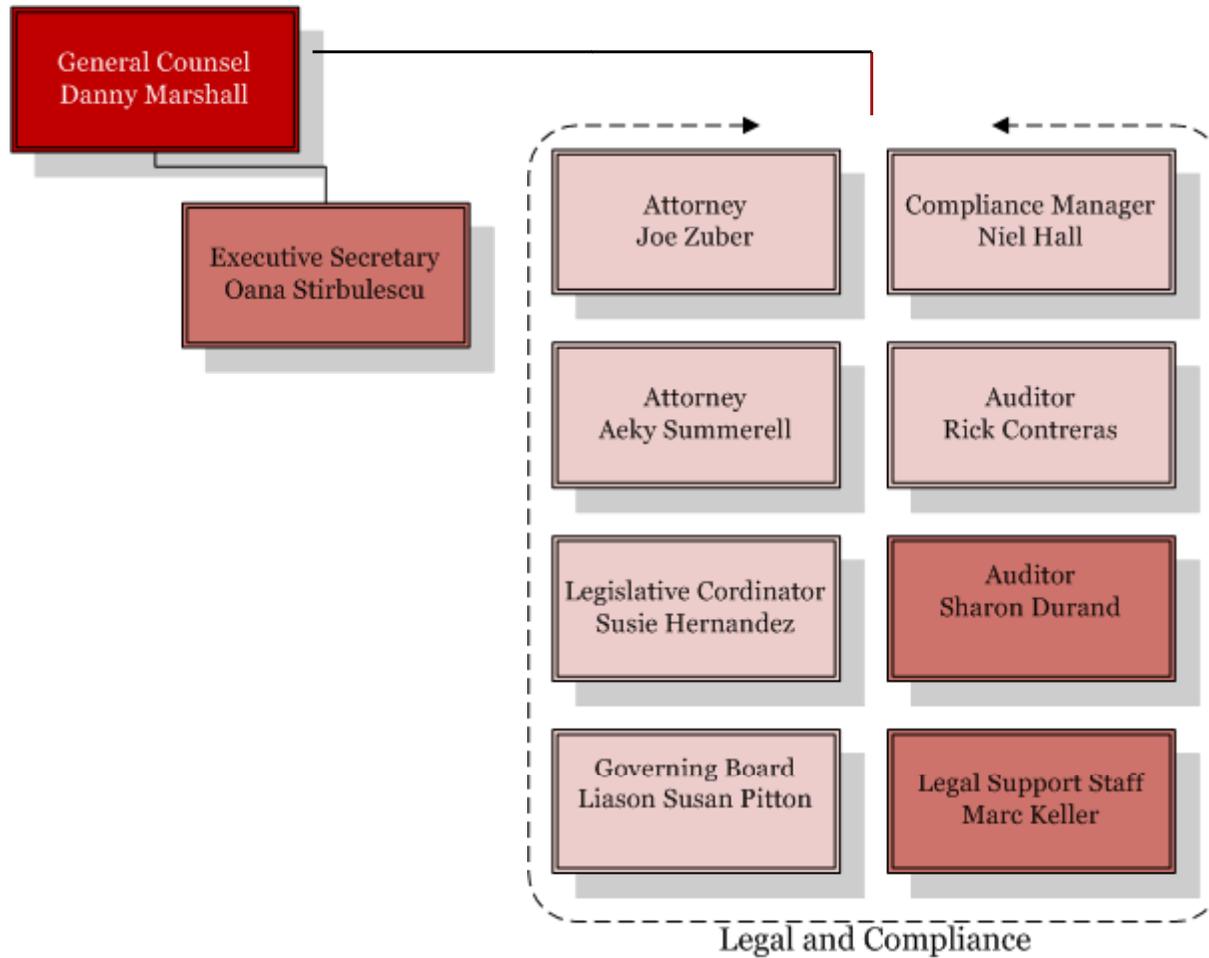
- The CCO is responsible for Communications / External Affairs
- The CCO is an exempt
- There are 5 civil service staff members in Communications: 1 Staff Services Manager, 1 Marketing Specialist, 1 Media Specialist, 2 Trainers
- The Staff Services Manager provides day-to-day oversight of the Communication team
- There are 5 temporary staff members in Communications: 2 Customer Service Reps, 1 Support, 1 Executive Secretary, and 1 Business Analyst

Current CEA Organization Structure – Finance



- The CFO is responsible for Finance and Accounting
- There are 5 civil service staff members in Finance: 1 Assistant Controller, 3 Accounting Analysts, 1 Admin Assistant
- The Assistant Controller oversees accounting
- There are 6 temporary staff members in Finance: 2 Financial Analysts, 2 Accounting Analysts, 1 Accounts Payable, 1 Development

Current CEA Organization Structure – Legal and Compliance



- General Counsel is responsible for leading Legal & Compliance
- The General Counsel is a Career Executive Assignment
- Including the Career Executive Assignment, there are 7 civil service staff members in Legal & Compliance: 1 General Counsel, 2 Attorneys, 1 Legislative Coordinator, 1 Governing Board Liaison, 1 Compliance Manager, 1 Auditor
- There are 3 temporary staff members in Legal & Compliance: 1 Executive Secretary, 1 Auditor, and 1 Legal Support Staff

Section 7

Key Findings & Observations

Number of Key Findings & Observations by Theme

	Theme	Count
Organizational	Human Capital – Staffing	11
	Human Capital – Executive Team	5
	Knowledge Capital	8
	Financial	8
	Statutory/Regulatory	6
Operational	Executive Oversight	5
	Participating Insurer Relationship	4
	Product	8
Technology	IT Services	5
	Data Management	4
Total		64

Summary of Key Findings & Observations

		Summary of Key Findings & Observations	
Theme			
Organizational	Human Capital – Staffing	<ul style="list-style-type: none"> • 25 employee civil-service cap • Understaffed • Challenging to recruit professionals with functional area expertise 	<ul style="list-style-type: none"> • High annual expense on temporary staff members
	Human Capital – Executive Team	<ul style="list-style-type: none"> • Lack of Chief Information Officer (CIO) position • Lack of robust human resource capabilities 	<ul style="list-style-type: none"> • Salary and benefit disparity across staff members types
	Knowledge Capital	<ul style="list-style-type: none"> • Single point of failure within department functions • Lack of cross-training and development • Lack of robust succession and disaster recovery plans 	<ul style="list-style-type: none"> • Administrative tasks performed by executives • Out-of-date documentation
	Financial	<ul style="list-style-type: none"> • 3% operating expense cap of premium income • 100% reserves at-risk before accessing layers of capital 	<ul style="list-style-type: none"> • Political implications to Governing Board for CEA investment decisions
	Statutory / Regulatory	<ul style="list-style-type: none"> • Statute is not updated to reflect the business requirements of the CEA • Delegation of Authority between Governing Board and CEO was established in 2001 	<ul style="list-style-type: none"> • Competitive disadvantage to share reinsurance and pricing strategies in open meeting

Summary of Key Findings & Observations

		Summary of Key Findings & Observations	
Theme			
Operational	Executive Oversight	<ul style="list-style-type: none"> • Governing Board approves day-to-day operational decisions • Advisory Panel under-utilized 	<ul style="list-style-type: none"> • Board members spread thin across many state-run agencies
	Participating Insurer Relationship	<ul style="list-style-type: none"> • Change management for 2012 rate/form filing caused operational and technology issues • Difficult to add CEA projects to Participating Insurers’ budgeted IT roadmaps 	<ul style="list-style-type: none"> • Multiple liaisons within PI and CEA • Challenging or inconsistent communication • Industry Assessment Layer (IAL) is disincentive to sell CEA policies
	Product	<ul style="list-style-type: none"> • 5% mitigation credit not adequate motivator • Earthquake underwriting information not captured • External CAT-modeling turnaround time slow 	<ul style="list-style-type: none"> • High cost to policyholders with minimal product flexibility (e.g. deductible, limit options) • Mandatory Earthquake Offer process is archaic
Technology	IT Services	<ul style="list-style-type: none"> • Disparate systems across the PIs • CEA product changes results in 17 PIs updating their system separately for the same change 	<ul style="list-style-type: none"> • Governance structure not clearly defined • No economies of scale across the PIs
	Data Management	<ul style="list-style-type: none"> • Data mining and integrity inconsistent across PIs • Sales data not available 	<ul style="list-style-type: none"> • Different technical data requirements across the PIs

Section 7.1

Organizational

Key Findings and Observations

Organizational	Human Capital - Staffing
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1.1.01	The CEA is understaffed based on current business demands.
1.1.02	It is challenging for CEA to recruit insurance professionals via civil service or through CEA's temporary staff member contracts as neither have resources available with the right experience and skill-set. In the past, when an insurance professional was identified as a good fit for CEA, they were not hired directly to the CEA, but first had to contract with one of CEA's temporary staff member firms to then be hired on contract with the CEA.
1.1.03	There is significant disparity between the salary and benefit programs among staff working at the CEA. Civil service staff members, contractors from AppleOne and contractors from Robert Half each have separate salary structures and benefit programs. In some instances, civil service managers overseeing contract staff members are compensated less than the contract staff members. Moreover, high-performing civil service staff members who have already reached the salary cap for their position are not eligible for merit-based increases. There is no other range or position within the Civil service structure to promote an individual.
1.1.04	CEA does not have a clear career program to attract, develop and retain staff with the desired functional expertise. Staff members are not positioned for promotion in the organization, given the relatively flat organizational structure.
1.1.05	It is difficult for the CEA to compete with the private sector to fill insurance and functional positions. Currently, the CEA is not able to offer a competitive package. Additionally, Sacramento is not generally perceived as favorably as other metropolitan areas nor does it have many other insurance positions in the city. As a result, CEA has difficulty attracting the high caliber talent to the organization.

Key Findings and Observations

Organizational	Human Capital - Staffing
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1.1.06	CEA is subject to the 25 civil service employee cap and is unable to find skilled insurance professionals from the civil-service structure. CEA does have limited ability to recruit and hire insurance professionals as non-civil service CEA employees.
1.1.07	While the CEA is not subject to the State of California general fund, as a publicly managed authority, the CEA was subject to the state-wide furlough program instituted in 2009 by Governor Schwarzenegger. The civil service employees were furloughed while temporary staff and contract executives were not furloughed, resulting in an employee morale issue at the CEA.
1.1.08	The CEA is subject to only 25 civil service employees, a cap that was set when the CEA was created and not based on business requirements.
1.1.09	Some temporary staff members have worked at the CEA for over five years. They do not have an option to join the CEA on a more permanent basis as a non-civil service staff member of the CEA. Temporary staff members are able to join the CEA as a civil-service employee if a position is available.
1.1.10	Current buy-out provisions with temporary agencies can be modified more favorably for the CEA.
1.1.11	As a resource constrained organization, the CEA staff needs the flexibility to perform tasks that may be beyond their current defined roles and responsibilities.

Key Findings and Observations

Organizational	Human Capital – Executive Team
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1.2.01	Contracted CEA executives receive below-market salaries when compared to similar positions within the insurance industry.
1.2.02	At the executive level, the CEA was originally composed of a CEO, CFO, and an Operations Manager. Over time, the CEA has been able to add a Chief Communications Officer, Chief Actuary, and Chief Mitigation Officer to the CEA Executive Team. The CEA has successfully hired named contract professionals under the current statutory environment by seeking Governing Board approval. This sets a precedent for the CEA to add contract staff members without requiring the services of a temporary agency.
1.2.03	The CEA lacks human resource capabilities to support training and development initiatives, benefits and compensation analysis, internal and external recruiting and managing the process to secure a Career Executive Assignment.
1.2.04	CEA does not have a Chief Information Officer (CIO) role currently within the organization. The CIO role is a strategic position at insurance companies and reports to the CEO.
1.2.05	Given the competitive market for IT professionals, eight IS contract staff members have an annual expense to the CEA greater than the average compensation of the CEA Executive team.

Key Findings and Observations

Organizational	Knowledge Capital
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1.3.01	To address the single point of failure in operations, CEA has received approval to add an Insurance Director.
1.3.02	The CEA has a succession plan to transition authority from the CEO to the CFO to the COO in the event that transfer of power is required. However, there is a gap in the succession plan because it does not define the process to develop staff to take-on a leadership role at the CEA within their functional area.
1.3.03	Many positions within CEA do not have resources that are cross-trained nor have the bandwidth to handle other responsibilities when staff members are out of the office for an extended period of time. There is single point of failure if someone is absent from their role in their functional area.
1.3.04	Institutional knowledge currently resides within each functional area. There is minimal cross-functional learning between functional areas.
1.3.05	University research departments have expressed interest in conducting research for the CEA, however, the CEA struggles to take advantage of these opportunities based on internal resources constraints.
1.3.06	The CEA has a flat organizational structure and there is a gap in the middle-management layer, which impacts delegation of business critical tasks.
1.3.07	CEA does not have a clear plan in place for the following: business continuity, disaster recovery, QA, and Compliance.
1.3.08	Documentation at the CEA does not reflect its as-is operations.

Key Findings and Observations

Organizational	Financial
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1.4.01	<p>The Treasurer is currently required to be the Agent for Sale for capital market transactions. The intent of this requirement is for the treasurer to help less-sophisticated agencies with placing bonds. CEA understands the capital markets and has sophisticated capabilities in preparing capital market transactions. According to the Treasurer, it must remain the Agent for Sale for bonds issued on behalf of the State of California.</p>
1.4.02	<p>CEA's federal tax status was an important consideration when the CEA was created. It may make sense to reconsider if, on balance, doing so improves flexibility of the CEA's organization structure, operations, financial structure, and statutory/regulatory environment.</p>
1.4.03	<p>Risk-transfer financial options proposed by CEA Finance are complex and require Governing Board approval.</p>
1.4.04	<p>Combination of statutory language and general practice indicates that the CEA would exhaust 100% of capital reserves (except for \$350m) before accessing the additional layers of capital in the event of a major earthquake. The statute restricts CEA's ability to build capital reserves for a second or third major event.</p>

Key Findings and Observations

Organizational	Financial
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1.4.05	When the CEA was established in 1996, it was designed as a short-term mechanism for personal lines carriers to continue to sell homeowners policies in CA while transferring the earthquake risk to the CEA. The general consensus is that the CEA was purposely constructed as a "one-hit wonder" as a stop-gap measure until federal legislation was passed or a significant earthquake exhausted its capital. However, once the CEA was up and running, federal legislation lost momentum and CA did not experience a devastating earthquake. Because the CEA has been in operation since 1996, many now consider it to be a going concern, even though its structure has not changed.
1.4.06	The CEA must maintain at least 65% of the cumulative residential property insurance market share to continue operations. In the event that a significant Participating Insurer decides to leave the CEA (bringing the market share below the 65% threshold), CEA would be forced to cease operation, with the remaining Participating Insurers forced to underwrite earthquake insurance within six months.
1.4.07	The operating expenses of the authority shall be capped at not more than 3 percent of the premium income received by the authority. The statutory fixed cap on expenses is not consistent with industry practices.
1.4.08	The US residential housing finance system (e.g. Fannie, Freddie) has significant exposure to residential real estate holdings and currently does not have adequate earthquake insurance to protect their holdings.

Key Findings and Observations

Organizational	Statutory/Regulatory
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1.5.01	The Bagley-Keene Open Meeting Act is not a one-size-fits-all requirement. While it seems that most if not all quasi-government insurance companies are subject to a public meeting forum, there are Bagley-Keene exemptions that allow for certain topics to be discussed in a closed session. The CEA commonly uses two exemptions: personnel and litigation services whereas other quasi-government insurance companies have additional exemptions allowing the companies to conduct defined topics in the closed session of public meetings.
1.5.02	Since the Governing Board runs the CEA, the executive team seeks approval on business decisions during the bi-monthly meetings. However, in certain circumstances, the transparency required by the CEA creates a competitive disadvantage. For example, CEA must discuss their reinsurance strategy with the Governing Board prior to placing reinsurance in the marketplace. Similarly, CEA must discuss plans for all material elements of conducting their business in a public setting (e.g. rates, marketing programs, coverages, limits, forms) with the Governing Board. Reinsurers and CEA's competitors attend the public meeting and gain insight into CEA's strategies. If CEA was able to conduct these topics within the closed session portion of the public meeting, then the CEA would be able to maintain transparency on all topics that promote CEA's ability to maximize policyholder value.
1.5.03	With three voting Governing Board members, one board member cannot (outside a public meeting) discuss an issue regarding CEA business with another Governing Board member.

Key Findings and Observations

Organizational	Statutory/Regulatory
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1.5.04	The statute states that a board may meet in closed session to ". . . consider the appointment, employment, evaluation of performance, or dismissal of a public employee or to hear complaints or charges brought against such employee by another person unless the employee requests a public hearing." However, this only applies to public employees, and does not apply to contract employees, such as the Chief Operations Officer, Chief Financial Officer, Chief Mitigation Officer and Chief Actuary.
1.5.05	Prior to January 1, 1995, section 11126(a) did not apply to employees who were appointed to their positions, such as executive officers, executive directors, and registrars (referred to as "executive officer" for convenience). For example, any decision or deliberations made in the selection or dismissal of an executive officer previously had to be conducted in open session. (68 Ops.Cal.Atty.Gen. 34.) However, with the enactment of SB 1316 (Stats. 1994, Chapt. 845) and SB 95 (Stats. 1997, Chapt. 949), a board can now meet in closed session to consider the appointment, employment, evaluation of, or dismissal of its executive officer, unless the executive officer requests a public hearing.
1.5.06	The CEA has not updated the Statement of CEA Governance Principles and Delegation of Authority by the Governing Board to the Chief Executive Officer since 2000.

Section 7.2

Operational

Key Findings and Observations

Operational	Executive Oversight
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2.1.01	The requirement that the Governing Board be composed entirely of elected officials may inhibit the ability to constitute the board with individuals with experience working at or for insurance companies.
2.1.02	While the designees of the Governing Board are confident in the abilities of the CEA Executive Team to run day-to-day operations, board approval is still required on a variety of topics, which would not require board approval in the private sector. For example, in the past, the CEA sought board approval for the following: adding resources based on business need, claims manual, etc.
2.1.03	When CEA seeks board approval, the Insurance Commissioner generally abstains from voting as a Governing Board member on certain issues because they also review board-approved items as insurance regulator.
2.1.04	Some Governing Board members sit on multiple boards across State-run organizations.
2.1.05	Some Advisory Panel members do not feel that their experience is being appropriately leveraged by the CEA. They feel that the Advisory Panel meetings every other month seem to focus more on reporting outcomes rather than providing timely advice to the Governing Board.

Key Findings and Observations

Operational	Participating Insurer Relationship
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2.2.01	Some PIs note a breakdown with the CEA during change management initiatives, not day to day operations. It is difficult for the PIs to add the CEA's changes to their implementation roadmap, since they are not able to adequately plan until the filing has been approved by the Insurance Commissioner.
2.2.02	PIs assign the CEA a lower priority within their organization. The assignment of being a CEA liaison is passed frequently within company operations, who often have minimal organization knowledge of the CEA, which contributes to the general lack of communication within their own operations regarding the CEA.
2.2.03	For most Participating Insurers, the CEA interacts with a separate operations liaison, IS liaison, marketing liaison, among others. There is no single point of contact within the Participating Insurers. Information from the CEA is often not disseminated to the correct person within the Participating Insurer organization.
2.2.04	The allocation of liabilities within the Industry Assessment Layer (IAL) creates a disincentive for the PIs. Some PIs choose to override this disincentive by wanting to provide maximum coverage for their policyholders.

Key Findings and Observations

Operational	Product
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2.3.01	Participating Insurers are not consistent with their approach to offering different pay plans for CEA policies.
2.3.02	Deductibles are still commonly misunderstood by consumers. Effective agents/brokers educate their consumer to clarify that a 15% deductible on an earthquake policy does not mean that they need to write a check to the CEA before activating coverage.
2.3.03	CEA currently outsources the cat modeling, which presents a challenge from a requirements standpoint. Gaps still exist between the understanding of requirements between what CEA is requesting and what the cat modeler is able to provide. As the CEA continues to iterate the CEA product and validates actuarial rates within defined parameters, the timeliness and accuracy of the cat modeling will continue to be important.
2.3.04	The CEA is only able to sell its product to consumers who purchase a residential insurance policy from a CEA participating insurer. This neglects all other potential consumers including approximately 25% of homeowners who do not have a residential insurance policy and may be interested in buying earthquake coverage from the CEA.
2.3.05	Many participating insurers believe that the CEA policy should continue to be offered as a companion product to the homeowner policy, citing that the linkage between the two allows for pre-population of data entered as well as keeping policy changes in synch. However, residential insurers capture fire insurance underwriting information, not earthquake insurance underwriting information. For example, construction type for a fire insurance policy may be listed as stucco. This is adequate underwriting information for a fire insurance policy, but not adequate for an earthquake policy.

Key Findings and Observations

Operational	Product
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2.3.06	While some participating insurers thought the earthquake coverage should remain with few options, the majority agreed that the earthquake policy should allow for significant product flexibility. One participating insurer suggested that consumers should have the option to select any deductible, ITV, Personal Property and Loss of Use on a sliding scale. Consumers should not be required to have the homeowners ITV match the earthquake ITV.
2.3.07	The current 5% mitigation credit on the CEA policy is not an adequate motivator for either purchasing earthquake coverage or conducting mitigation. It also does not adequately reflect the reduction of risk for mitigation.
2.3.08	The Mandatory Earthquake Offer has not been updated since 1985 and the communication process to homeowners is archaic, costly, and does not adequately convey the importance of earthquake insurance.

Section 7.3

Technology

Key Findings and Observations

Technology	IT Services
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3.1.01	Given the unique relationship between the CEA and PIs, when a product change is made to the CEA policy that needs to be updated in the PI systems, all 17 PIs need to make the same changes to their respective systems to support the changes to the CEA policy. The average PI cost for these changes is estimated between \$400,000 - \$700,000.
3.1.02	As part of implementation of the 2012 approved rate and form changes, and as a building block for future developments, the CEA is requiring that PIs begin using web services and other technologies for conducting business with the CEA. Once the building blocks are in place, the system will be more flexible – making it easier to implement changes in an effort to increase sharing of data and ensuring policy alignment between systems.
3.1.03	Since Information Systems reports to operations, the flow of information is not typical for an insurance company because there is a lack of role assignment between business and IT when participating insurers need clarification on requirements which may require input from both business and IT.
3.1.04	Some Participating Insurers outsource their CEA policy processing system to third party vendors expecting that the vendor will handle CEA's business requirements. However, the vendors still need business input from PI business analysts to implement the CEA business requirements.
3.1.05	The CEA does not have a clearly defined process or governance structure in place to transition IT projects from business requirements to deployment.

Key Findings and Observations

Technology	Data Management
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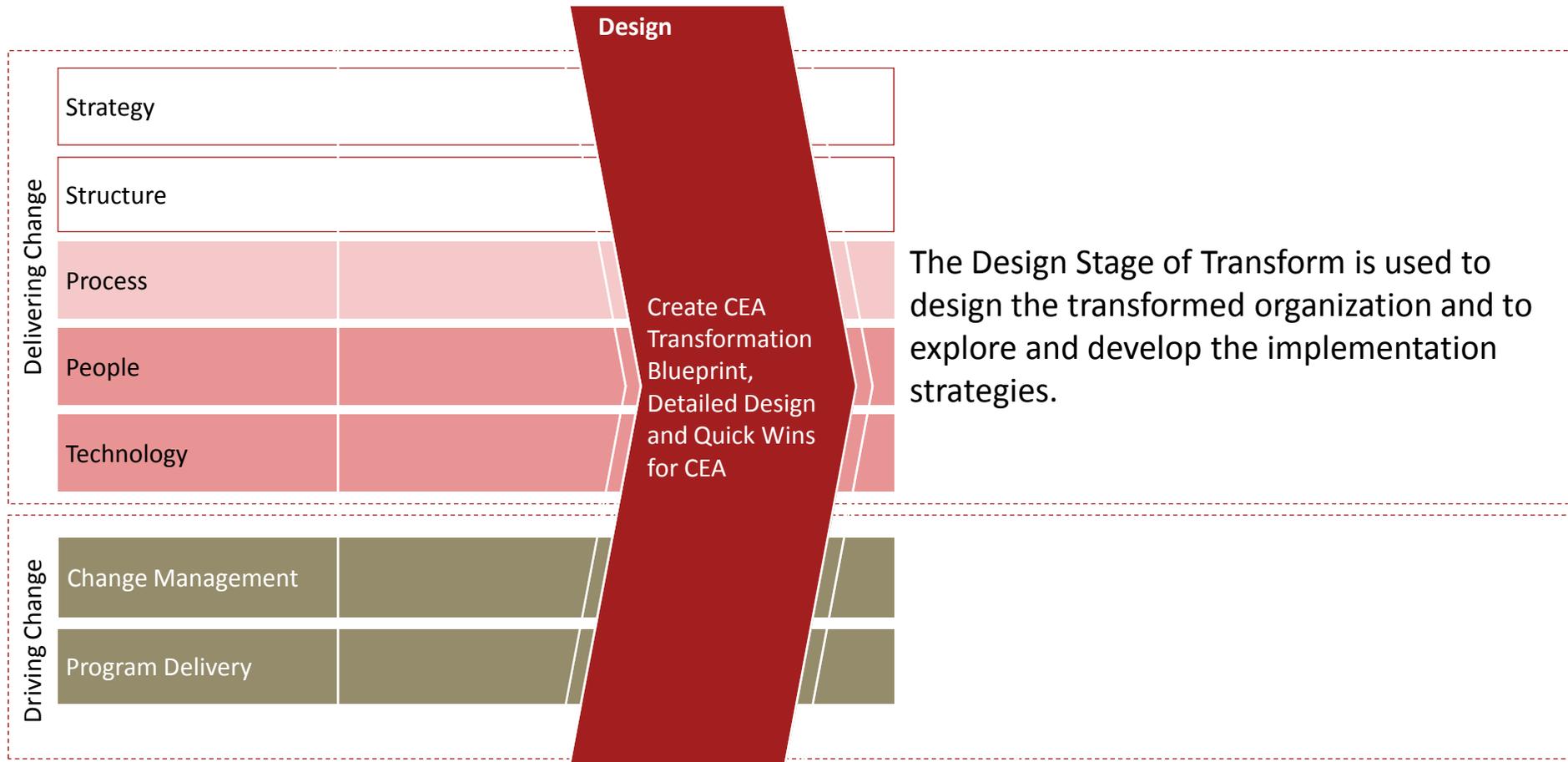
3.2.01	Participating Insurers that use the same third party vendor have different iterations of the software since the requirements (e.g. number of fields, information captured) are still different among Participating Insurers, reducing the overall potential for cross-PI efficiencies for handling CEA policies.
3.2.02	Data mining and data integrity across policies is inconsistent between the Participating Insurers systems and CEA's reporting capabilities.
3.2.03	Sales data has not been available to help frame marketing programs.
3.2.04	Different Participating Insurers have different technical requirements and it makes it challenging for the CEA to create one solution for all PIs.

Section 8

Summary Recommendations

Transform Approach

The CEA and PwC team is using the Transform methodology. Transform helps organizations address all aspects of a transformation program including strategy, structure, process, people and technology.



PwC’s recommendations are grounded in CEA’s goal to **Protect More Homes** and to provide California homeowners **The Strength to Rebuild**



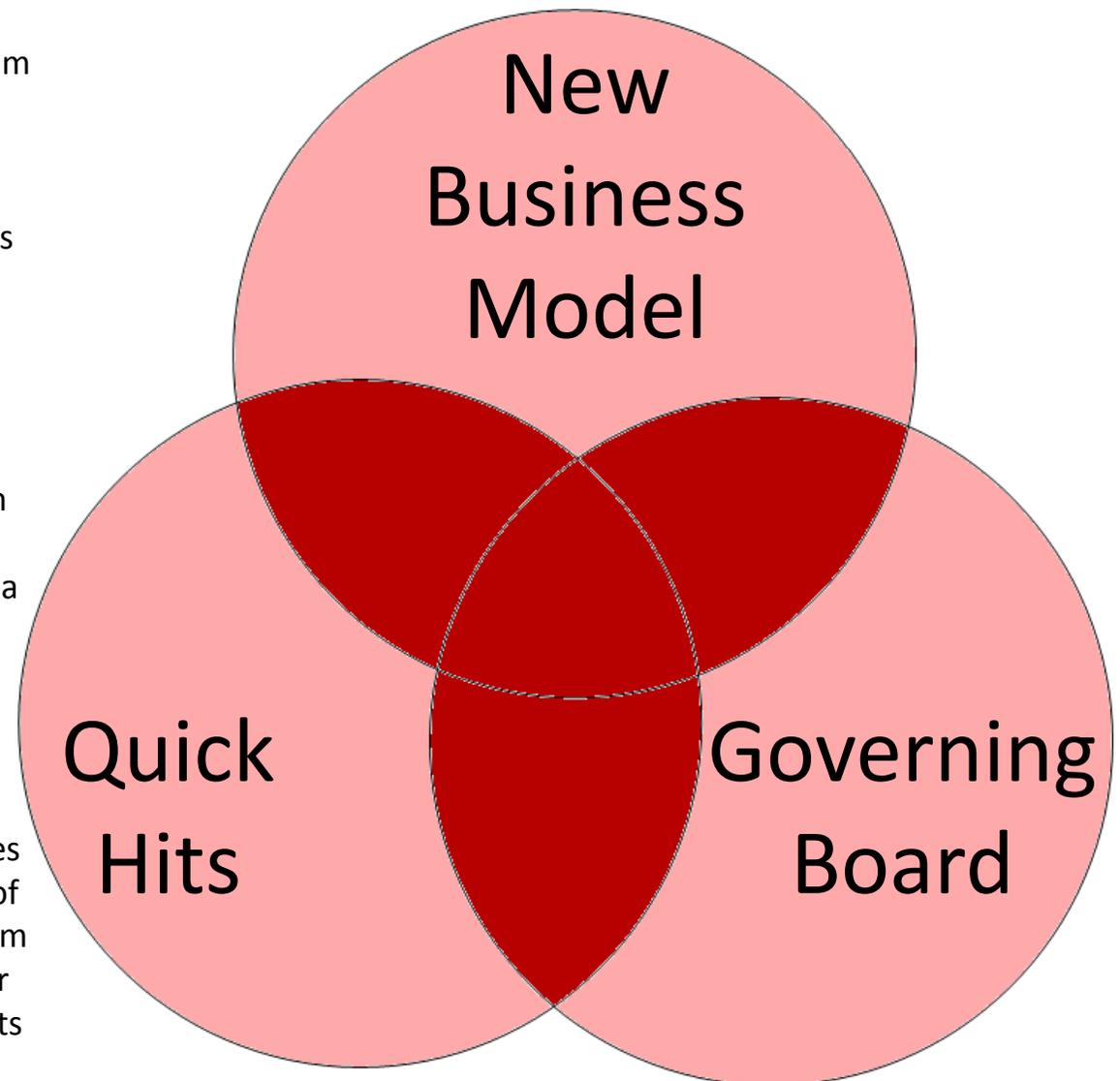
Recommendation Implementation Paths

There are three primary implementation paths for the proposed recommendations:

- **Quick Hits:** Recommendations that can be implemented immediately by the CEA Executive Team
- **Governing Board:** Recommendations that are championed by the Governing Board
- **New Business Model:** Transformational recommendations that position the CEA to realize its future-state organizational goals

While the Executive Team is able to lead the implementation path on some of the recommendations, PwC recommends that they continue to work closely with the Governing Board on all recommendations. Additionally, some of the New Business Model recommendations will either require a vote from the state legislature or federal congress. However, it is important to note that there are activities that the Executive Team can undertake now to prepare for a legislative event.

In addition, PwC has provided high level cost estimates for each of the recommendations. For the purposes of this report, recommendations with cost estimates from \$0 to \$100k is considered a low cost. Any cost greater than \$100k to \$1m is considered a medium cost. Costs above \$1m is considered a high cost.



Recommendations

PwC organized and prioritized the recommendations into the following sequence. The prioritization numbering will also be used in the recommendation detail and roadmap sections of this report.

	Recommendation Overview	Implementation Path	Strategy	Structure	People	Process	Technology
1	Create, acquire or contract with a Third Party Administrator to centralize a range of services, including Policy Administration, Billing and Claims Processing	New Business Model	X	X	X	X	X
2	Allow the CEA to hire additional functional area expertise on a full-time as needed basis and provide CEA tools to enhance recruitment and retention of resources	New Business Model			X		
3	Update the CEA statute to allow the Governing Board to staff and set budgets according to business needs	New Business Model		X	X	X	
4	Enhance the CEA marketing campaign and corporate relationships (e.g. update Mandatory Earthquake Offer, identify California technology partners, deductible education)	New Business Model	X		X	X	X
5	Continue to pursue the proposed Earthquake Insurance Affordability Act (S. 637)	New Business Model	X		X	X	X
6	Hire a Chief Information Officer (CIO) with a strong technology background into the organization	Governing Board		X	X		X
7	Continue to study, identify and address any disincentive for Participating Insurers to sell CEA policies	Quick Hits	X			X	

Recommendations

PwC organized and prioritized the recommendations into the following sequence. The prioritization numbering will also be used in the recommendation detail and roadmap sections of this report.

	Recommendation Overview	Implementation Path	Strategy	Structure	People	Process	Technology
8	Conform the CEA Governance Structure to be in alignment with industry standards among catastrophe insurance carriers	New Business Model	X	X	X	X	
9	Update the delegation of authority between the Governing Board and CEO	Quick Hits		X	X	X	
10	Commit to exploring the feasibility of lender-facing CEA earthquake products to address the uncovered exposure for REOs, Freddie Mac, Fannie Mae, banks, hedge funds, and investors	New Business Model	X		X	X	X
11	Augment the current Human Resource capabilities and approach, develop a competitive incentive and benefit program to actively reward high-performing staff members	Governing Board			X		
12	Develop a robust communication plan to build a mutually beneficial communication structure	Quick Hits			X	X	X
13	Encourage Californians to mitigate their homes through enhanced incentives, research and education	Quick Hits			X	X	
14	Perform CAT-modeling in-house in addition to the current CAT-modeling activities	Quick Hits			X	X	X
15	Develop a business-aligned IS strategy and blueprint	Governing Board	X		X	X	

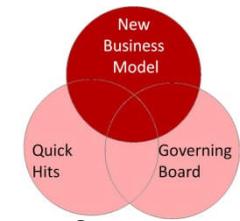
Recommendations

PwC organized and prioritized the recommendations into the following sequence. The prioritization numbering will also be used in the recommendation detail and roadmap sections of this report.

	Recommendation Overview	Implementation Path	Strategy	Structure	People	Process	Technology
16	Develop an optimized data architecture and data warehouse to support CEA's reporting and analytics needs	Governing Board			X		X
17	Amend the CEA Act to authorize the Governing Board to discuss in closed session all business and personnel matters that are confidential or privileged	New Business Model	X		X	X	
18	Position the CEA as a global center of excellence for earthquake research, insurance, risk management, consultancy, retrofits and construction practices	New Business Model	X		X	X	
19	Hire a Risk Manager reporting directly to the COO to enhance the Disaster Recovery Plan, Business Continuity Plan, Quality Assurance, Compliance Program and Succession Plans	Governing Board			X	X	
20	Update out-of-date documentation in functional areas	Quick Hits			X	X	

Section 9

Recommendation Description and Rationale



1. Create, acquire or contract with a Third Party Administrator to centralize a range of services, including Policy Administration, Billing and Claims Processing

Recommendation Description	Create a Third Party Administrator as a subsidiary organization to the CEA to provide centralized services for the Participating Insurers and potentially other states. The TPA will provide specific earthquake support to the CEA with a potential solution as Earthquake Insurance Services and may be leveraged by other states for earthquake insurance processing and knowledge sharing.
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Desired Benefits by Stakeholder				
<p>Policyholder:</p> <ul style="list-style-type: none"> Provides consistent experience and ease of doing business with the CEA in an effort to protect more homes in California Provides opportunity to pass on potential additional cost savings <p>Participating Insurer:</p> <ul style="list-style-type: none"> Provides economies of scale across the 17 PIs Reduces the burden on the PIs by centralizing the CEA data store, processing and messaging systems Reduces resource requirements for supporting CEA business 	<ul style="list-style-type: none"> Reduces exposure to unplanned costs <p>CEA:</p> <ul style="list-style-type: none"> Provides national leadership as a center of excellence for earthquake insurance Improves speed to market and roll-out of new product and rate changes Enhances flexibility to attract insurance functional expertise to run and manage the subsidiary organization of the CEA Leverages the subsidiary to handle other states’ earthquake authority processing 			
Tactical Plan - Activities		Potential Impact		
<ol style="list-style-type: none"> Enhance the current organization structure to prepare the CEA for the creation of the TPA (e.g. hire Chief Information Officer, HR Director) Prepare business case to support the creation of the TPA and draft legislation Socialize benefits of the TPA to key stakeholders, including Governing Board and Participating Insurers Conduct vendor selection analysis to identify the policy administration, billing and claims processing systems Develop detailed plan to build and launch the TPA Pilot the TPA with a sub-set of the Participating Insurers Roll-out TPA to all Participating Insurers Develop a TPA blueprint that will outline how the CEA can support other states with its subsidiary organization 		People	Process	Technology
		H	H	H
Key Considerations / Cost & Savings		Challenges		
<ul style="list-style-type: none"> The 3.09% operating expense with the Participating Insurers will be reduced Participating Insurers will support training agents/brokers on entering and submitting earthquake-specific underwriting information into system The CEA will be able to retain its current federal tax status Estimated Cost: High cost, \$18 – \$22 per policy per year based on policy processing industry benchmarks 		<ul style="list-style-type: none"> Develop the intellectual capital to support the operations Receive support from Participating Insurers to allow the CEA to process earthquake policies 		

Exploring and Designing CEA’s TPA model

New operating models are emerging across the global insurance industry as companies reconstruct their operational value chain to focus their resources on the areas where they can derive the most value.

1. Build and Re-engineer

For some lines of business, functions, processes, or geographies, value creation may be best achieved by re-building and re-engineering internally

2. Shared Services

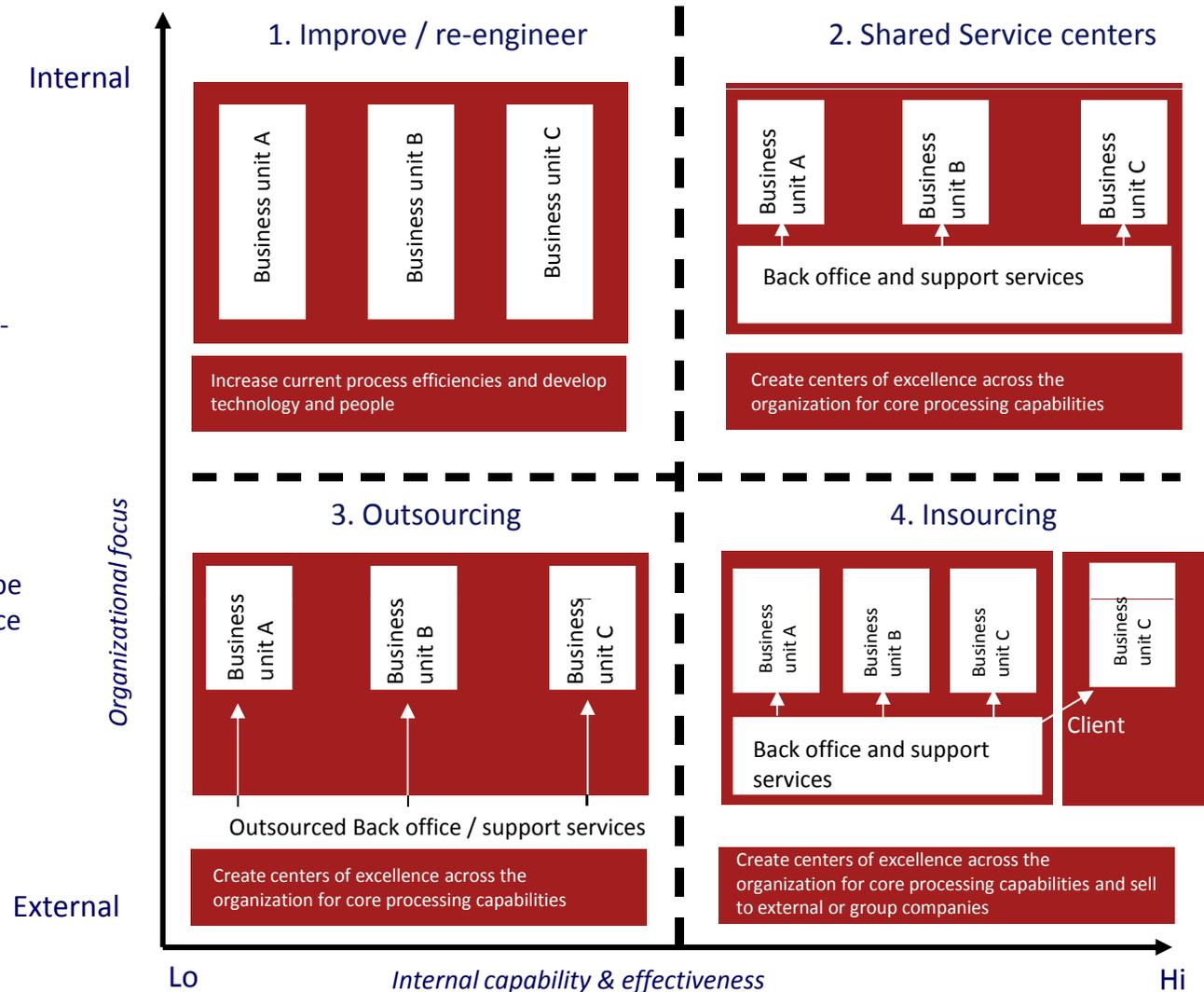
For others, it might be better to look at opportunities for cross-product or cross-geography shared service facilities, utilizing the best internal infrastructure to enhance service and eliminate functional duplication

3. Outsourcing

Previously held, in-house services may be sourced from external parties to enhance shareholder value via a strategic relationship

4. Insourcing

In the boldest of strategic moves, an organization might choose to set itself up as an insourcer, leveraging its operational excellence to turn a cost center into a revenue generator

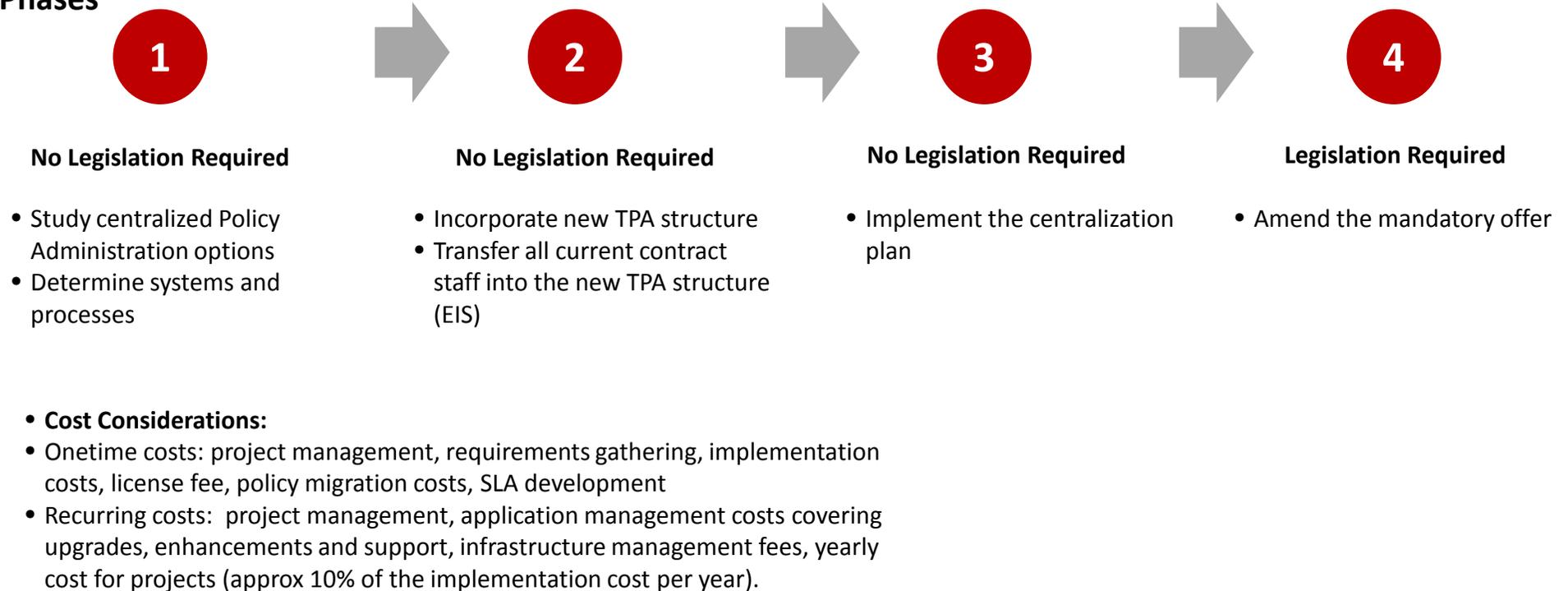


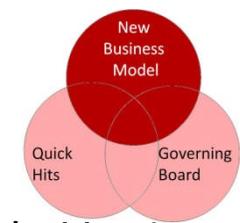
Phased approach toward a insurance services provider to the CEA: Earthquake Insurance Services (EIS)

The goal of the new entity is to provide the following:

- Support online sales of earthquake insurance policies
- Centralize policy administration of earthquake insurance for all PIs
- Support the marketing and mandatory offer in California

Phases





2. Allow the CEA to hire additional functional area expertise on a full-time as needed basis and provide CEA tools to enhance recruitment and retention of resources

Recommendation Description	Provide CEA the flexibility to hire full-time at-will employees who add functional expertise to the organization with a competitive benefits package.
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Desired Benefits by Stakeholder			
Policyholder:	<ul style="list-style-type: none"> Increases the skills and capabilities of the organization to support California policyholders 	Does not impact state budget	Creates jobs
Participating Insurer:	<ul style="list-style-type: none"> Increases the skills and capabilities of the organization to support Participating Insurers 	Staff with functional expertise	Hire resources at market rates and not pay a premium through temporary staffing agencies
CEA:	<ul style="list-style-type: none"> Reduces the reliance on temporary staffing agencies and saves CEA approximately \$5.3 million over five years 	Improves retention of qualified employees	
Tactical Plan - Activities		Potential Impact	
<ol style="list-style-type: none"> 1. Explore how the CEA could potentially hire temporary staff members into full-time CEA employees 2. Review existing contracts with temporary staffing agencies to understand the cost implications of hiring existing temporary staff 3. Work with HR (and/or HR consultants) to develop the full-time CEA employee hiring process and benefits packages 4. Draft statutory language 5. Define the job descriptions required by the organization for full-time CEA employees 6. Transition temporary staff members and recruit external candidates 		People	Process
		H	L
		L	L
Key Considerations / Cost & Savings		Challenges	
<ul style="list-style-type: none"> HR capabilities will be able to balance civil-service and full-time CEA staff requirements CEA will be able to find qualified resources in Sacramento CEA will be able to put together a competitive benefits package HR will establish programs to increase employee morale Key dependencies: statutory change, Governing Board Approval, civil-service hiring knowledge and process Estimated Savings: \$5.3m over five years, with a high initial estimated cost 		<ul style="list-style-type: none"> Transitioning the organization from temporary staff members to full-time CEA employees Finding qualified candidates Ability to execute on the administrative requirements through transition Training new hires 	

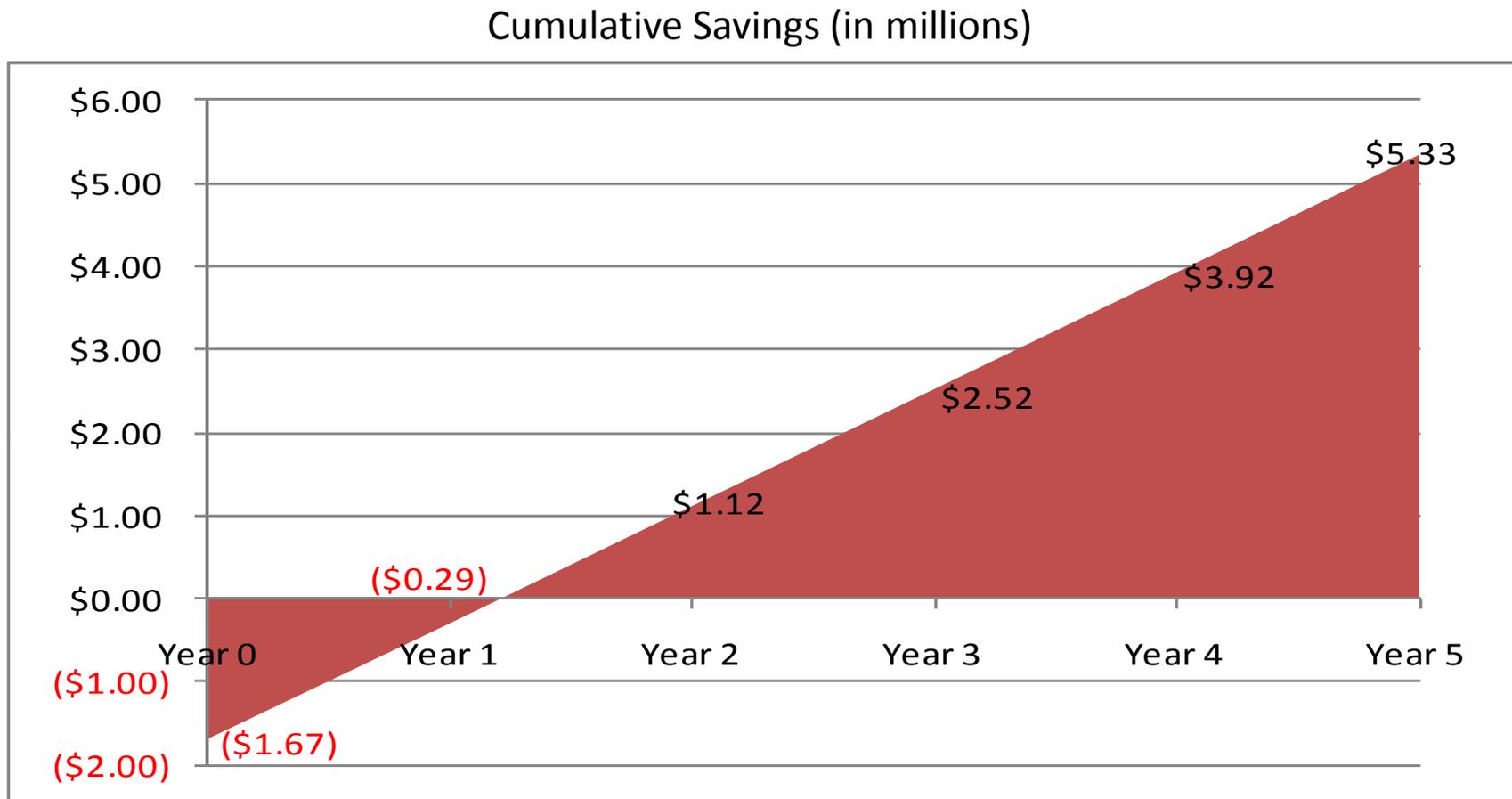
Staff Cost Analysis - Temporary Staff Members vs. Full-Time Employees

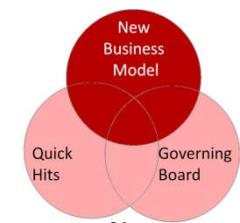
The 33 temporary staff members have an average annual expense to the CEA of almost 2X their average annual salary. Assuming a 40% benefits package as a full-time CEA employee above their current annual salaries, the CEA could save in excess of \$1.45 million per year transitioning temporary staff members to full-time employees.

	Temporary Staff		Full-Time Employees	
	#	CEA Annual Expense	Estimated Annual Expense	Potential Annual Savings*
Communications / External Affairs	4	\$304,242	\$252,178	\$52,064
Legal & Compliance	3	\$275,767	\$168,459	\$107,308
Finance	6	\$736,820	\$494,078	\$242,742
Operations	3	\$315,474	\$254,275	\$61,199
Information Services	17	\$3,194,700	\$2,254,230	\$940,470
Total	33	\$4,827,003	\$3,374,220	\$1,452,783

Staff Cost Analysis - Temporary Staff Members vs. Full-Time Employees

CEA could pay \$1.67 million in conversion fees* to transition temporary staff members to full-time employees. With annual savings estimated at \$1.45 million, the CEA could off-set the conversion fees of \$1.67 million with positive savings in Year 1 and cumulative savings of \$5.33 million in Year 5.





3. Update the CEA statute to allow the Governing Board to staff and set budgets according to business needs

Recommendation Description	Remove the fifteen year old constraint of 25 civil-service employees, 3 percent operating expenses of the premium income, 5% mitigation credit and other constraints in the statute.
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Desired Benefits by Stakeholder

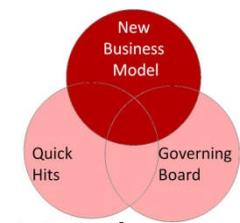
<p>Policyholder:</p> <ul style="list-style-type: none"> Enhances quality of service to California policyholders Increases incentive for policyholders to mitigate their earthquake exposure with a higher mitigation credit based on actuarially sound analysis <p>Participating Insurer:</p> <ul style="list-style-type: none"> Increases capacity of the CEA to handle workloads and respond to PI inquiries 	<p>CEA:</p> <ul style="list-style-type: none"> Enhances transparency into financial structure of the CEA Eliminates the above and below the line financial operating data Aligns execution of CEA’s goals and objectives with day-to-day operations Removes arbitrary statute constraints Allows the CEA to adapt based on business needs
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Tactical Plan - Activities **Potential Impact**

<ol style="list-style-type: none"> 1. Identify resources to draft statutory changes 2. Draft statutory changes and submit to CEA Governing Board and Executive Team 3. Submit amendment to state legislature for consideration 4. Prepare CEA staffing and budget changes to reflect updated statute 	People	Process	Technology
	H	M	L

Key Considerations / Cost & Savings **Challenges**

<ul style="list-style-type: none"> Workload within the CEA requires insurance, financial and technical expertise Statutory change Estimated Cost: Medium, outside Counsel fees 	<ul style="list-style-type: none"> Balancing the hiring practice at the CEA with the required work load Aligning CEA workload with the proper skills
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4. Enhance the CEA marketing campaign and corporate relationships (e.g. update Mandatory Earthquake Offer, identify California technology partners, deductible education)

Recommendation Description	Exempt the Participating Insurers from sending the current Mandatory Earthquake Offer and allow in its place, CEA to provide the required notification as part of its enhanced marketing campaign. Work with California based technology companies to promote CEA and earthquake catastrophe education. Develop curriculum to educate California homeowners and change “deductible” to Self-Insured Retention (SIR).
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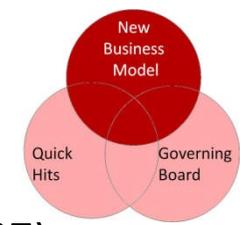
Desired Benefits by Stakeholder

Policyholder: <ul style="list-style-type: none"> Increases policyholder understanding through earthquake educational program Eliminates archaic Mandatory Earthquake Offer Participating Insurer: <ul style="list-style-type: none"> Participating Insurers no longer have to send the existing Mandatory Earthquake Offer Provides savings to PIs for Mandatory Earthquake Offer administrative costs Incent PIs with retention of CEA policies through marketing program 	CEA: <ul style="list-style-type: none"> California-based technology companies promote tools and solutions for earthquake preparedness and early warning Increases the take-up rate by having educated California homeowners Enhances brand awareness and brand image of the CEA
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Tactical Plan - Activities	Potential Impact		
1. With the enhanced marketing program at the CEA, the Mandatory Earthquake Offer can be assumed by a proactive marketing campaign 2. Establish an annual marketing budget that can be funded through a combination of premiums, investment income or PI participation 3. Leverage the marketing campaign to support EQ deductible education and premium payment considerations 4. Identify and establish relationships with key technology companies based in CA (e.g.; Apple’s EQ App for Japan, Google Earth, etc.) 5. Develop curriculum to educate California homeowners on deductible vs. self-insured retention definitions 6. Amend policy language to self-insured retention	People	Process	Technology
	M	H	M

Key Considerations / Cost & Savings	Challenges
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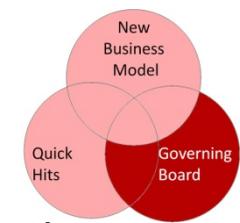
<ul style="list-style-type: none"> There is an established annual CEA marketing campaign A CEA proactive marketing program effectively communicates the required Mandatory Earthquake Offer information CEA technology will receive the required data from Participating Insurers There are enough resources within the CEA to help support new technology relationships and grow the relationships Statutory change Estimated Cost: TBD 	<ul style="list-style-type: none"> Change in the existing statute and regulations Establishing key technology relationships Public perceives their earthquake damage exposure as low Buying an earthquake insurance policy is seen as high cost and low value
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5. Continue to pursue the proposed Earthquake Insurance Affordability Act (S. 637)

Recommendation Description	Continue to build the political capital to support the Earthquake Insurance Affordability Act (S. 637). Post event financing supports the CEA’s business goal as a going concern.
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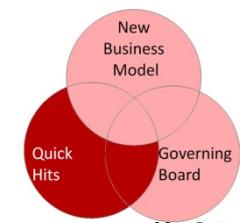
Desired Benefits by Stakeholder									
Policyholder:	<ul style="list-style-type: none"> Enhances access to post -event funding for the CEA and other states that participate in the program Provides a stronger financial position for EQ writers and can translate to more policies sold to a wider range of homeowners 	CEA:	<ul style="list-style-type: none"> Capital for post-event bonds will lower costs and increase financial strength for all states that participate More flexible capital management strategies Reduces some reliance on reinsurance with availability of post-event bonds 						
Participating Insurer:	<ul style="list-style-type: none"> Strengthen CEA’s sustainability to repay and prepare for subsequent events 								
Tactical Plan - Activities			Potential Impact						
<ol style="list-style-type: none"> Continue existing work with Federal government Build relationships with additional states that may form eligible authorities Collaborate with other states and approach representatives Build a coalition that includes other entities like insurers, banks, home-builders and other constituencies to support the enactment of the bill 			<table border="1" style="width: 100%; text-align: center;"> <tr> <td style="writing-mode: vertical-rl; transform: rotate(180deg);">People</td> <td style="writing-mode: vertical-rl; transform: rotate(180deg);">Process</td> <td style="writing-mode: vertical-rl; transform: rotate(180deg);">Technology</td> </tr> <tr> <td>H</td> <td>H</td> <td>L</td> </tr> </table>	People	Process	Technology	H	H	L
People	Process	Technology							
H	H	L							
Key Considerations / Cost & Savings		Challenges							
<ul style="list-style-type: none"> Political capital in Washington D.C. is able to secure the fund request Recent earthquake on the east coast highlights the need and severity of earthquake catastrophes Key dependencies: Federal Legislation, statutory change Savings: Potential savings of \$100m in reinsurance costs 		<ul style="list-style-type: none"> Change management required for the general public regarding the perception that the Federal government will provide the necessary funding to rebuild individual homes 							



6. Hire a Chief Information Officer (CIO) with a strong technology background into the organization

Recommendation Description	Hire a Chief Information Officer (CIO) reporting directly to the Chief Executive Officer who can help develop new products and services, improve communications with customers and suppliers and use data to make better- informed decisions while continuing to make the information services organization more efficient.
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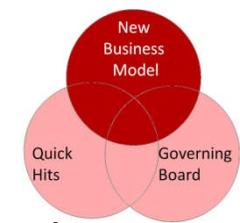
Desired Benefits by Stakeholder			
Policyholder:	<ul style="list-style-type: none"> Increases the skills and capabilities of the organization to support California policyholders 		
Participating Insurer:	<ul style="list-style-type: none"> Develops a longer-term vision of IS at CEA Builds credibility and confidence with the Participating Insurers Enhances PI experience across business and IS 		
CEA:	<ul style="list-style-type: none"> Adds a technology leader to the executive team Refocuses the COO on business matters Embraces leading methodologies to enhance project management capabilities 		
Tactical Plan – Activities		Potential Impact	
<ol style="list-style-type: none"> 1. Build a business case to hire a Chief Information Officer (CIO) 2. Obtain Governing Board budget and approval 3. Develop Chief Information Officer (CIO) job description and identify potential candidates 4. Hire the Chief Information Officer (CIO) that has the necessary insurance and technology experience 		People	Process
		H	L
		M	
Key Considerations / Cost & Savings		Challenges	
<ul style="list-style-type: none"> The CIO candidate will have experience leading an IS organization with insurance background The CIO will understand the technical aspects of the position The CIO will report directly to the CEO The COO will work side-by-side with the CIO to understand business and technology requirements Estimated Cost Medium: \$200,000 - \$250,000 based on industry P&C management compensation benchmarks 	<ul style="list-style-type: none"> Finding a CIO with insurance and technology experience 		



7. Continue to study, identify and address any disincentive for Participating Insurers to sell CEA policies

Recommendation Description	Selling more CEA policies increases the Participating Insurers’ exposure to the Industry Assessment Layer. Investigate options that the CEA has to incent Participating Insurers to sell more earthquake policies.
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Desired Benefits by Stakeholder					
Policyholder:	CEA:				
<ul style="list-style-type: none"> Increases access to earthquake insurance for CA homeowners 	<ul style="list-style-type: none"> Protects more homes in California from earthquakes Increases incentive for Participating Insurers to sell CEA policies Potentially increases take-up rate 				
Participating Insurer:					
<ul style="list-style-type: none"> Increases incentive for Participating Insurers to sell CEA policies Understand how to realign the goals of the CEA with the goals of the Participating Insurer to protect homeowners Improves the marketing relationship between the PIs and CEA 					
Tactical Plan - Activities			Potential Impact		
<ol style="list-style-type: none"> 1. Conduct analysis to understand options 2. Work with Participating Insurers to identify potential amendment to the PI agreement 3. Obtain approval to PI Agreement amendment 4. Draft statutory language to update IAL benchmark 5. Determine roll-out schedule of proposed changes 			People	Process	Technology
			L	H	L
Key Considerations / Cost & Savings		Challenges			
<ul style="list-style-type: none"> PIs will react differently based on their exposure to the change Estimated Cost Low 		<ul style="list-style-type: none"> Obtaining support from PIs to amend the PI agreement Building consensus with 17 PIs 			



8. Conform the CEA Governance Structure to be in alignment with industry standards among catastrophe insurance carriers

Recommendation Description	Enhance the CEA Governing Board by expanding it to nine (9) voting members. California’s Governor, State Treasurer, Insurance Commissioner, Speaker of the California Assembly, and Chairperson of the California Senate Rules Committee would each appoint one (1) member. Four (4) additional members would be selected through the selection and nomination process and approved by the majority of the Board. The appointee must meet the minimum qualifications to serve on the board and will receive compensation as a member.
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Desired Benefits				
Policyholder:	<ul style="list-style-type: none"> Aligns CEA’s governance structure with industry standards among catastrophe insurance carriers Provides Governing Board flexibility to create sub-committees with the extended voting members Provides Governing Board members with ability to discuss CEA business matters outside of formal Governing Board meetings Provides thought leaders to help set strategy for the executive team 			
Participating Insurer:				
CEA:				
<ul style="list-style-type: none"> Enhances reliability of the CEA for CA homeowners Grants authority to the CEO to make day-to-day operational decisions Enhances insurance, technology and finance expertise on the Governing Board Adds Governing Board diversity Refocuses the Governing Board on setting policy and strategic direction 				
Tactical Plan - Activities		Potential Impact		
<ol style="list-style-type: none"> 1. Determine the qualification criteria for serving as a member of the Governing Board 2. Develop a selection and nomination process for Governing Board members 3. Identify Governing Board members for consideration 4. Approve Governing Board members 		People	Process	Technology
		H	H	L
Key Considerations / Cost & Savings		Challenges		
<ul style="list-style-type: none"> All Governing Board members would have voting rights Governing Board members cannot represent a conflict of interest with their primary job responsibilities The CEA Executive Team is encouraged to submit candidates for Governing Board nomination. The new board would chair the subcommittees, such as, compensation, audit, finance, technology. Governing Board members receive compensation for their services and reimbursed for reasonable travel expenses. Governing Board members can serve for four-year terms, which may be staggered for administrative convenience, and members can be reappointed Estimated Cost: TBD based on board compensation, if any 		<ul style="list-style-type: none"> Balancing changes to the Governing Board while seeking approval on other recommendations May impact the ability to execute legislative recommendations without the Governor, Treasurer, and Insurance Commissioner sitting on the Governing Board 		

Governing Board Effectiveness at the CEA

The PwC team worked closely with PwC's Center for Board Governance to understand how leading companies are enhancing their Governing Board effectiveness. CEA Governing Board members could also more effectively meet the challenges of their critical role by strengthening their corporate governance in the following eight (8) topics:

1. CEA Strategy & Implementation

CEA's strategy sets the direction for the organization and impacts virtually everything the company does. PwC sees the right strategy is the starting point for success. The board has a vital role to play in overseeing management's development of the strategy and its implementation. But this is a challenging area because it requires board members to thoroughly understand the company, the industry, emerging trends and risks, and management's assumptions. Equipped with the right information and time, board members can engage in robust discussion that allows them to contribute to management's proposed strategic plan. Ideally, their involvement will help the company adopt the plan most likely to enhance CA policyholder value.

2. Risk & Crisis Management

The CEA faces a vast array of risks – both known and unexpected. Some risks turn into crises that have significant implications for operations or even the organization's future. Given this setting, it's a challenge for the board to get comfortable that risk is addressed appropriately – but it's a critical responsibility. Boards frequently delegate elements of risk oversight to committees - most commonly to the audit committee. But ultimately the responsibility for risk oversight resides with the full board, and each member should understand the key risks facing the company.

3. Corporate Ethics

CEA values compliance with laws and regulations and PwC sees this as critical, this is only the starting point in creating a culture of ethical behavior. The right tone at top, reinforced by business managers throughout the company, is vital to ensure these values cascade to all employees. The Board has an opportunity to help shape the values and morale at the CEA.

4. Monitoring CEA's Performance

Commonly boards use data points to monitor company performance – including traditional financial metrics and nonfinancial metrics, along with peer and industry information. Knowing what metrics are most effective at the CEA in helping board members to understand performance and see early indicators of trouble will be challenging. In the industry, PwC sees astute board members also know it is important to raise concerns based on a gut feeling – even if their concerns prove to be unfounded.

Source: PwC's Center for Board Governance: Board Effectiveness – What Works Best

Governing Board Effectiveness at the CEA

The PwC team worked closely with PwC's Center for Board Governance to understand how leading companies are enhancing their Governing Board effectiveness. CEA Governing Board members could also more effectively meet the challenges of their critical role by strengthening their corporate governance in the following eight (8) topics:

5. CEA Transformational Transactions

At some stage, the CEA will go through a potentially transformative transaction. This could be a financial transaction or business alliance such as a joint venture. The stakes for the CEA are high in terms of investment, reputation, and whether the deal ultimately contributes to the success of the company's overall strategy and the CA policyholder. Given the significant potential impact of a deal, the CEA board has a key role in working with company executives to set the stage for successful transactions and maximize their value.

6. Management Evaluation, Compensation, and Succession

CEA executive compensation is the board responsibility most scrutinized by the media and other stakeholders. Stakeholders have extensive visibility into executive remuneration levels, but perhaps more limited understanding of the complexity board members face as they try to get it "right". PwC sees boards that must balance many factors in reaching compensation directions – attracting and retaining top talent while incenting behaviors that will achieve long-term value. PwC has several recommendations around this finding for the board's consideration.

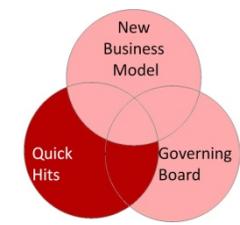
7. Communicating with Stakeholders

CEA disclosure requirements – for financial statements and other regulatory filings – have become more voluminous and complex and are under greater scrutiny. Stakeholders have also been asking for more information, beyond what the CEA is required to provide, to really help them understand performance and risks. These factors alone make the board's role more challenging. In addition, new technologies are changing how companies communicate with stakeholders and how stakeholders and company critics exchange information.

8. Board Dynamics

Composition and leadership are critical in supporting the CEA board's ability to carry out its responsibilities effectively. **PwC sees effective Boards need the right combination of skills and experience – and to be alert to the fact that the "right" combination changes over time.** They also need a leader who will ensure the board effectively discharges its responsibilities and a process that engages board members most productively.

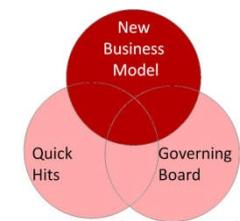
Source: PwC's Center for Board Governance: Board Effectiveness – What Works Best



9. Update the delegation of authority between the Governing Board and CEO

Recommendation Description	The delegation of authority between the Governing Board and CEO has not been updated since 2001. Update the contract to reflect the roles and responsibilities between the Governing Board and CEO.
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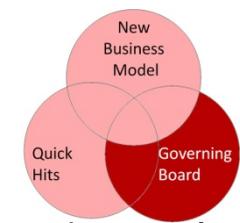
Desired Benefits by Stakeholder									
Policyholder:	<ul style="list-style-type: none"> Enhances the operational efficiency of the CEA in an effort to improve service levels 	CEA:	<ul style="list-style-type: none"> Refocuses the Governing Board on setting policy and strategic direction Operational decisions are made in a timely fashion Eliminates preparation to bring operational decisions to the public meeting setting 						
Participating Insurer:	<ul style="list-style-type: none"> Reduce turnaround time on operational decisions 								
Tactical Plan - Activities			Potential Impact						
<ol style="list-style-type: none"> Review the current delegation of authority Work closely with the Governing Board to identify language to update in the following sections: General Statement of Retained Governing Board Powers & Authority, Administrative Duties and Responsibilities of CEO, Authority and Duty of CEO to Act Finally, and Other Acts of the CEO Draft updated delegation of authority statement Apply the delegation of authority changes to Governing Board meetings 			<table border="1" style="width: 100%; text-align: center;"> <tr> <td style="writing-mode: vertical-rl; transform: rotate(180deg);">People</td> <td style="writing-mode: vertical-rl; transform: rotate(180deg);">Process</td> <td style="writing-mode: vertical-rl; transform: rotate(180deg);">Technology</td> </tr> <tr> <td>M</td> <td>H</td> <td>L</td> </tr> </table>	People	Process	Technology	M	H	L
People	Process	Technology							
M	H	L							
Key Considerations / Cost & Savings		Challenges							
<ul style="list-style-type: none"> In the absence of a reconstituted board Estimated Cost Low 		<ul style="list-style-type: none"> Reluctance to delegate 							



10. Commit to exploring the feasibility of lender-facing CEA earthquake products to address the uncovered exposure for REOs, Freddie Mac, Fannie Mae, banks, hedge funds, and investors

Recommendation Description	Develop the flexibility to allow lender-facing CEA earthquake products to address the uncovered exposure for REOs, Freddie Mac, Fannie Mae, banks, hedge funds, and investors
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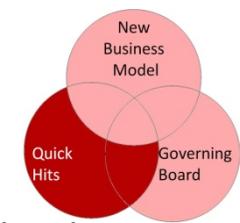
Desired Benefits by Stakeholder			
Policyholder: <ul style="list-style-type: none"> Protects more homes in CA from significant earthquake damage Maintains neighborhood property values Participating Insurer: <ul style="list-style-type: none"> Potentially provides additional commission for selling lender-facing CEA earthquake products 	CEA: <ul style="list-style-type: none"> Protects more homes in CA from significant earthquake damage Protects more homes in CA from significant earthquake damage Develops an additional premium-earning product-line Establishes an insurance vehicle for the lending institutions 		
Tactical Plan - Activities		Potential Impact	
<ol style="list-style-type: none"> 1. Build business case to sell lender-facing products to lending institutions 2. Amend statute to allow lender-facing products 3. Create lender-facing product offerings and go-to-market strategy 4. Develop the necessary infrastructure to support lender-facing earthquake products 5. Develop a separate tower of capital, as to avoid CEA policyholders sharing capital with lending institutions 6. Create and educate sales team to sell CEA lender-facing policies 		People	Process
		M	H
		M	M
Key Considerations / Cost & Savings		Challenges	
<ul style="list-style-type: none"> Establishing a new lending tower of capital Establishing wholesale product that is attractive to the lending institutions Establish underwriting guidelines, rating, claims processing, actuarial inputs, market research, legal to support new product offering Specialized CEA resource constraints Estimated Cost Medium: \$50,000 - \$150,000 		<ul style="list-style-type: none"> Developing people, process, and technology to handle additional capacity Building brand awareness of new product offering with lending institutions 	



11. Augment the current Human Resource capabilities, develop a competitive incentive and benefit program to actively reward high-performing staff members

Recommendation Description	Augment the current HR capabilities to enhance hiring capabilities, workforce productivity, leadership, employee development, efficient compensation and benefit packages, workforce engagement, employee retention and workforce alignment.
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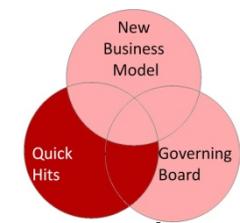
Desired Benefits by Stakeholder			
Policyholder: <ul style="list-style-type: none"> Optimizes the operational efficiency of staff at all levels of the organization Participating Insurer: <ul style="list-style-type: none"> Optimizes the operational efficiency of staff at all levels of the organization CEA: <ul style="list-style-type: none"> Strengthens the knowledge capital of the CEA Provides CEA Executive Team with employee bench-strength and grooming successors for sustainability 	<ul style="list-style-type: none"> Provides HR with the necessary tools to source, attract, hire, evaluate, develop, reward and retain employees Provides the CEA employees with opportunities and incentives to grow in the organization Enhances continuing education opportunities for employees 		
Tactical Plan - Activities		Potential Impact	
<ol style="list-style-type: none"> 1. Identify a HR executive or HR consultants to support CEA Executive Team 2. Hire HR resource to enhance HR capabilities 3. Assess CEA HR requirements to enable CEA’s goals and objectives 4. Build a work-plan to develop HR capabilities 5. Implement work-plan 		People	Process
		H	L
Key Considerations / Cost & Savings		Challenges	
<ul style="list-style-type: none"> Expertise in quasi-governmental insurance companies Experience with companies at different maturity levels Estimated Cost Medium: \$140,000 based on industry P&C management compensation benchmarks 		<ul style="list-style-type: none"> HR is not currently perceived as a business partner at the leadership table in driving business strategy from the workforce/talent management dimension. In general, HR is not considered effective in partnering with executive leadership teams. HR service delivery performance has opportunities for improvement due to organizational misalignment, process defects, nonintegrated/underleveraged HR systems, and lack of required skills and competencies across the HR organization. 	



12. Develop a robust communication plan to build a mutually beneficial communication structure

Recommendation Description	Support ongoing communication efforts and add new initiatives to build a better communication structure with the participating insurers.
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Desired Benefits by Stakeholder				
Policyholder:	CEA:			
<ul style="list-style-type: none"> Enhances Quality of Service Demonstrates communication alignment across stakeholders 	<ul style="list-style-type: none"> Enhances internal communication within the CEA and Governing Board Timely communication and alignment with stakeholders Manages expectations Supports change management and governance model 			
Participating Insurer:				
<ul style="list-style-type: none"> More effective communication with Participating Insurers Information distributed to the right people in a timely fashion Enhances Quality of Service Provides sales leads to Participating Insurers 				
Tactical Plan - Activities		Potential Impact		
<ol style="list-style-type: none"> 1. Identify liaisons within each PI who can effectively manage CEA communication throughout their organizations 2. Establish standing meetings and webinars with the PIs 3. Work with each PI to understand the single points of contact 4. CEA sponsor a “break-out” session or panel at an industry leading conference for attending PIs (CEA can even support attendee participation) 5. Hire a CEA event coordinator / CEA university / Internal Communication 		People	Process	Technology
		H	M	M
Key Considerations / Cost & Savings		Challenges		
<ul style="list-style-type: none"> PIs are willing to support and participate in the communication effort Identify the right resources within each PI Estimated Cost Low: 2011 Communication funding approved 		<ul style="list-style-type: none"> Devote resources with appropriate skills within PIs Increasing the level of face to face communication among PIs and CEA 		



13. Encourage Californians to mitigate their homes through enhanced incentives, research and education

Recommendation Description	Implement the existing mitigation program and provide an incentive to policyholders that mitigate their earthquake risk
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Desired Benefits by Stakeholder

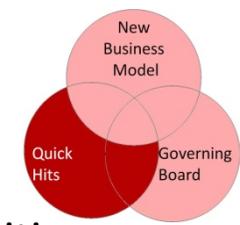
<p>Policyholder:</p> <ul style="list-style-type: none"> Improve incentives to mitigate home exposure to earthquake damage Educate homeowners on research-based mitigation preparedness Allow policyholders the option to reduce premium amount or deductible amount for qualified mitigation credits <p>Participating Insurer:</p> <ul style="list-style-type: none"> Provides an additional benefit to help sell PI policies with a more attractive CEA companion policy 	<p>CEA:</p> <ul style="list-style-type: none"> Increases California homeowner participation in mitigation activities Enhances product flexibility
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Tactical Plan - Activities **Potential Impact**

<ol style="list-style-type: none"> 1. Research actuarially sound product earthquake mitigation offerings 2. Develop an aggressive project plan to implement mitigation strategy with JPA 3. Identify programs to coordinate with the JPA 4. Proactively build and communicate mitigation product offering with support from marketing 5. Identify CEA policyholders to participate in the California Residential Mitigation Program that want to invest in mitigation to protect their homes 6. Monitor and review mitigation program to react to the marketplace 	People	Process	Technology
	M	H	L

Key Considerations / Cost & Savings **Challenges**

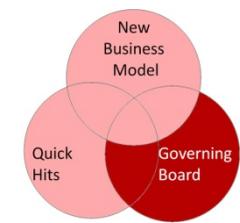
<ul style="list-style-type: none"> Coordination with JPA members Collaborative support of the mitigation program between stakeholders Estimated Cost Low 	<ul style="list-style-type: none"> Human resource constraints New program to the CEA and California homeowner
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14. Perform CAT-modeling in-house in addition to the current CAT-modeling activities

Recommendation Description	Allow CEA the flexibility to assess preliminary product strategies with in-house CAT-modeling to support scenario-based planning for new product offerings.
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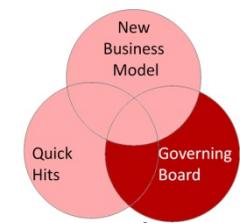
Desired Benefits by Stakeholder			
<p>Policyholder:</p> <ul style="list-style-type: none"> Develops ability for policyholders to choose additional coverage and deductible amounts on sliding scale <p>Participating Insurer:</p> <ul style="list-style-type: none"> Enables early communication to Participating Insurers regarding product updates Proactively addresses and communicates new product proposals and potential Participating Insurer impact 	<p>CEA:</p> <ul style="list-style-type: none"> Enhances management reporting and customer-segmentation capabilities Reduces turnaround time to validate modeling scenarios Develop a knowledge-base around actuarially sound rates and product attributes Enhances management reporting and customer-segmentation capabilities 		
Tactical Plan - Activities		Potential Impact	
<ol style="list-style-type: none"> Conduct vendor selection analysis of CAT-modeling solutions Select a CAT-modeling solution Identify potential resources to manage modeling solution within the CEA Implement CAT-modeling solution Configure CAT-modeling solution based on CEA requirements Initiate scenario-based modeling Monitor and review modeling capabilities 		People	Process
		M	M
		H	
Key Considerations / Cost & Savings		Challenges	
<ul style="list-style-type: none"> Identify resources to support CAT-modeling efforts Estimated Cost Medium: \$170,000 for software and \$30,000 for hardware Actuary Assistant / Database Administrator: \$50,000 - \$65,000 		<ul style="list-style-type: none"> Human resource constraints 	



15. Develop a business-aligned IS strategy and blueprint

Recommendation Description	Adopt a business-aligned IS governance (project management), systems deployment methodology, communication and infrastructure that supports the CEA and Participating Insurers
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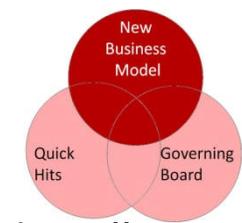
Desired Benefits by Stakeholder									
<p>Policyholder:</p> <ul style="list-style-type: none"> Enhances Quality of Service and Ease of Doing Business <p>Participating Insurer:</p> <ul style="list-style-type: none"> Optimizes the operational efficiency of staff at all levels of the organization Provides transparency into the CEA IS roadmap Minimizes potential impact on PI operational staffing needs 	<p>CEA:</p> <ul style="list-style-type: none"> Increases alignment with business strategy Increases transparency of business needs and technology initiatives Enables on-going engagement with business stakeholders Efficient use of IS assets Communications vehicle to set high-level direction to IT staff 								
Tactical Plan - Activities			Potential Impact						
<ol style="list-style-type: none"> Define a steering committee composed of business, operations, and IS leadership Focus on enterprise-wide scope, medium- to long-term projects including common solutions Use enterprise and business unit goals to drive plans Prioritize the allocation of resources to achieve business objectives Provide executive gating to ensure on-going technology efforts are in-line with business objectives 			<table border="1" style="width: 100%; height: 100%;"> <tr> <td style="writing-mode: vertical-rl; transform: rotate(180deg);">People</td> <td style="writing-mode: vertical-rl; transform: rotate(180deg);">Process</td> <td style="writing-mode: vertical-rl; transform: rotate(180deg);">Technology</td> </tr> <tr> <td style="text-align: center;">M</td> <td style="text-align: center;">H</td> <td style="text-align: center;">H</td> </tr> </table>	People	Process	Technology	M	H	H
People	Process	Technology							
M	H	H							
Key Considerations / Cost & Savings		Challenges							
<ul style="list-style-type: none"> IS strategy planning is an on-going function, requiring dedicated staff Validates and approves annual IS spend Refreshed based on business / IS strategy and IS roadmap Build on existing communications to include IS town halls focused on delivery of business benefits Estimated Cost Medium: \$250,000 - \$300,000 		<ul style="list-style-type: none"> CEA alignment of IS to long term business strategy Shifting business priorities challenge resources 							



16. Develop an optimized data architecture and data warehouse to support CEA's reporting and analytics needs

Recommendation Description	Develop a data structure that supports CEA California Earthquake requirements and is a standard set across all Participating Insurers.
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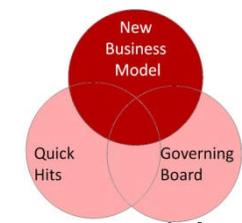
Desired Benefits by Stakeholder				
Policyholder:				
<ul style="list-style-type: none"> Enhances Quality of Service and Ease of Doing Business 				
Participating Insurer:				
<ul style="list-style-type: none"> Enhances Quality of Service and Ease of Doing Business Optimizes the operational efficiency of data management 				
CEA:				
<ul style="list-style-type: none"> Enhances management reporting and customer-segmentation capabilities 	<ul style="list-style-type: none"> Highly scalable OLAP data structures, optimized to meet CEA’s performance requirements for reporting and analytics Promotes business-user driven self service environment Consolidates data environment Efficient use of IS assets Communication vehicle to set high-level direction to IS staff Develops business intelligence capabilities 			
Tactical Plan - Activities		Potential Impact		
<ol style="list-style-type: none"> 1. Create a logical information model (data subject areas) to develop data stores with required aggregations (facts and measures) 2. Create the data model to support accurate and timely data for management 3. Use data services to minimize redundant point to point connections between downstream systems 4. Establish CEA enterprise standards for data architecture 5. Coordinate with PIs to incorporate data standards within their infrastructure 		People	Process	Technology
		M	L	H
Key Considerations / Cost & Savings		Challenges		
<ul style="list-style-type: none"> Identify and consolidate underutilized data stores and replace with strategic repository Data structure and repositories conducive to reporting and analytics Estimated Cost Medium: \$450,000 - \$550,000 		<ul style="list-style-type: none"> Data is passed from PIs to CEA and there are data integrity and fidelity issues Different PIs use different systems and data transfer standards; CEA needs to create multiple translations There are no enterprise standards for data architecture across the PI and CEA data models 		



17. Amend the CEA Act to authorize the Governing Board to discuss in closed session all business and personnel matters that are confidential or privileged

Recommendation Description	Amend the CEA Act to protect it’s competitive position in the earthquake insurance market by allowing staff to confidentially discuss reinsurance and product pricing strategies as well as personnel matters with the Governing Board.
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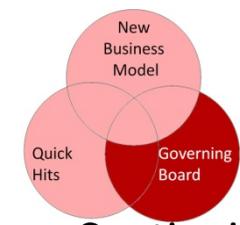
Desired Benefits by Stakeholder			
Policyholder:	<ul style="list-style-type: none"> California homeowners may receive additional savings when new rates are filed because of lower reinsurance costs 	CEA:	<ul style="list-style-type: none"> Allows the Governing Board to discuss a broader range of proprietary topics in the closed session portion of the meetings Sub-committees of two (2) members can discuss topics Protect CEA’s ability to strategize reinsurance and product pricing without divulging the information to reinsurers and competitors
Participating Insurer:	<ul style="list-style-type: none"> PI customers may receive additional savings when new rates are filed because of lower reinsurance costs 		
Tactical Plan – Activities			Potential Impact
<ol style="list-style-type: none"> Identify the amendments to the CEA Act Identify amendments from other quasi-governmental agencies that would support new legislation Work with legal to draft amended statutory language Obtain Governing Board approval Apply amended CEA Act to Governing Board meetings 			People
			Process
			Technology
			M M L
Key Considerations / Cost & Savings		Challenges	
<ul style="list-style-type: none"> Review existing exemption language for CalPERS investment committee meetings Key Dependency: statutory update Estimated Cost Low: Outside Counsel fees 		<ul style="list-style-type: none"> Gaining agreement on the amendments to the CEA Act 	



18. Position the CEA as a global center of excellence for earthquake research, insurance, risk management, consultancy, retrofits and construction practices

Recommendation Description	The CEA is a leading authority on Earthquake research and insurance knowledge. As a supporter of multiple grants, the CEA is uniquely positioned to become a global provider of earthquake insurance knowledge.
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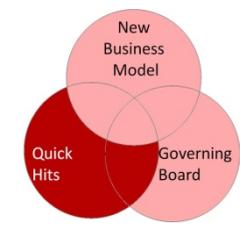
Desired Benefits by Stakeholder					
Policyholder: <ul style="list-style-type: none"> Global leader providing earthquake insurance and knowledge to CA homeowners, demonstrates strength and reliability Conveys safety to CA policyholders Participating Insurer: <ul style="list-style-type: none"> Association with global leader in earthquake insurance 	CEA: <ul style="list-style-type: none"> The CEA becomes known globally as the leading authority for earthquake knowledge CEA is branded as the “Center of Excellence” (e.g. representation at the world forum, Japan, New Zealand, Australia) Leading universities work with the CEA to provide intellectual capital about earthquake research and mitigation 				
Tactical Plan - Activities			Potential Impact		
<ol style="list-style-type: none"> 1. Build a business case to create a Center of Excellence at the CEA 2. Identify resources within the CEA who will be assigned the management (liaisons) of the relationships with the higher education institutions 3. Target a subset of the universities and begin identifying key projects that aligns with CEA’s goals and objectives 4. Develop a CEA marketing campaign to attract and promote CEA’s intellectual capital 5. CEA sponsor a “break-out” session or panel at an industry leading conference for attending PIs (CEA can even support attendee participation) 			People	Process	Technology
			M	H	L
Key Considerations / Cost & Savings		Challenges			
<ul style="list-style-type: none"> Based on CEA interaction at conferences and research, there are a significant number of higher education institutions wanting to partner with the CEA Institutions will be willing to effectively support an ongoing relationship with the CEA The CEA has presented to the World Forum and several other countries (Japan, Australia, New Zealand, etc.) Resource capacity Estimated Cost: TBD 		<ul style="list-style-type: none"> Ability to manage multiple higher education and government relationships 			



19. Hire a Risk Manager to enhance to enhance the Disaster Recovery Plan, Business Continuity Plan, Quality Assurance and Succession Plans

Recommendation Description	Hire a Risk Manager to plan and direct the development of the overall risk management program for the CEA.
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Desired Benefits by Stakeholder				
Policyholder:				
<ul style="list-style-type: none"> Support policyholder claims in the event of an earthquake 				
Participating Insurer:				
<ul style="list-style-type: none"> Minimizes disruption at the organization 				
CEA:				
<ul style="list-style-type: none"> Strengthens crisis management plan Reduces risk of single point of failure Builds bench-strength in key roles Leverage momentum of IS Disaster Recovery Plan Strengthens internal controls at the CEA 				
Tactical Plan - Activities		Potential Impact		
<ol style="list-style-type: none"> 1. Identify resources to enhance the Disaster Recovery Plan, Business Continuity Plan, Quality Assurance and Succession Plans 2. Incorporate leading practices in CEA's enhancements to process documentation 3. Obtain Governing Board approval 4. Socialize updates to key constituents 5. Monitor and review process flows as business requirements evolve 		People	Process	Technology
		M	H	L
Key Considerations / Cost & Savings		Challenges		
<ul style="list-style-type: none"> Updating Operations Manual Estimated Cost Medium: \$120,000 - \$140,000 based on industry P&C management compensation benchmarks 		<ul style="list-style-type: none"> Resource constraints Addressing single points of failure Transitioning to a more significant operation 		



20. Update out-of-date documentation in functional areas

Recommendation Description	Update out-of-date documentation in operations, information services, finance, communications, and legal & compliance
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Desired Benefits by Stakeholder			
Policyholder: <ul style="list-style-type: none"> Aligns PIs with the CEA policies and procedures to ensure a consistent claims handling experience Participating Insurer: <ul style="list-style-type: none"> Allows the CEA to quickly ramp-up Participating Insurers on CEA policies and procedures Addresses inconsistencies in current documentation 	CEA: <ul style="list-style-type: none"> Documentation reflects as-is operations Improves CEA audit findings and management control points Allows the CEA to quickly ramp-up new resources on CEA policies and procedures Addresses inconsistencies in current documentation 		
Tactical Plan - Activities			Potential Impact
<ol style="list-style-type: none"> 1. Identify documentation in functional areas to update 2. Assign resources to update documentation 3. Revise documentation to reflect current information 4. Review documentation with senior management 5. Submit documentation for Governing Board approval 6. Socialize up-to-date documentation with appropriate stakeholders 			People
			Process
			Technology
			M M L
Key Considerations / Cost & Savings		Challenges	
<ul style="list-style-type: none"> Given the interdependencies between documents, some documents will need submitted at the same time Estimated Cost Low 		<ul style="list-style-type: none"> Resource constraints, given other priorities 	

Large complex transformations, like the one the CEA is currently considering, require numerous critical success factors*

<i>Top 10 Barriers to Success</i>	<i>% of companies</i>
Competing resources	48%
Functional boundaries	44%
Change skills	42%
Middle management	38%
Long IT lead times	35%
Communication	34%
Employee opposition	33%
People issues	32%
Initiative fatigue	32%
Unrealistic timetables	31%

<i>Top 10 Success Factors</i>	<i>% of companies</i>
Ensuring top sponsorship	82%
Treating people fairly	82%
Involving employees	75%
Giving quality communications	70%
Providing sufficient training	68%
Using clear performance measures	65%
Building teams after change	62%
Focusing on culture/skill changes	62%
Rewarding success	60%
Using internal champions	60%

Source: PwC survey focusing on large change projects in 500 multinationals and public sector companies covering all industry sectors in North America, Europe, Far East

*excludes regulatory environment

Section 10

Tactical Roadmap

Roadmap Considerations

In an effort to **Protect More Homes** and to provide California homeowners **The Strength to Rebuild**, PwC considered the following when developing the tactical roadmap:

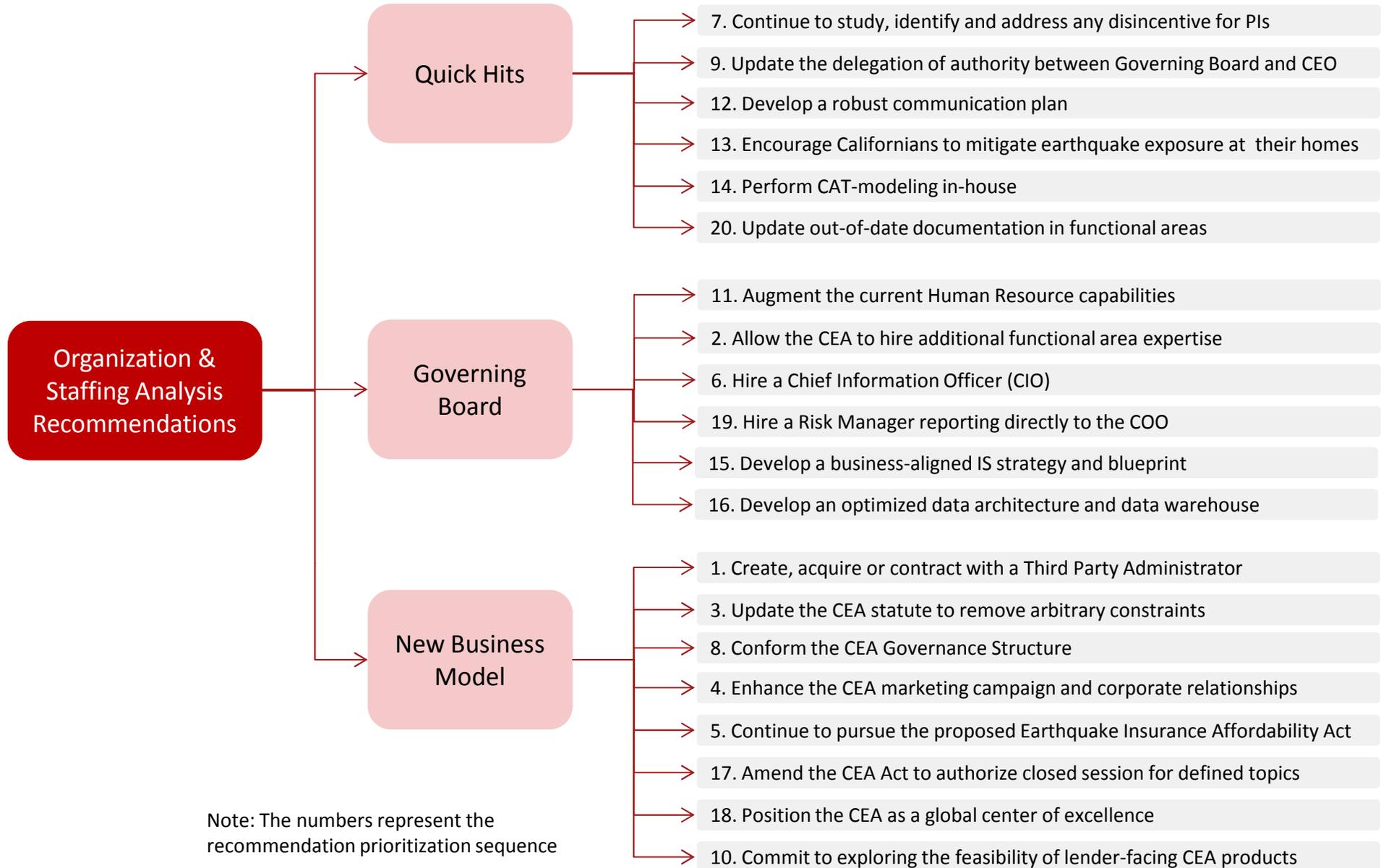
Objective

- Implement recommendations to transform the CEA to its future-state organization structure in an accelerated timeline

Assumptions

- Budget will be approved to implement the roadmap
- CEA will augment staff to support implementation of the accelerated timeline
- CEA staff will be able to balance day-to-day responsibilities with the additional work associated with implementing the recommendations

Quick Hits, Governing Board, and New Business Model Recommendations



Quick Hit Recommendations

2011	2012			
Q4	Q1	Q2	Q3	Q4

7. Continue to study, identify and address any disincentive for PIs

9. Update the delegation of authority between Governing Board and CEO

12. Develop a robust communication plan

13. Encourage Californians to mitigate earthquake exposure at their homes

14. Perform CAT-modeling in-house

20. Update out-of-date documentation in functional areas

Governing Board Recommendations

2011	2012			
Q4	Q1	Q2	Q3	Q4

2. Allow the CEA to hire additional functional area expertise

11. Augment the current Human Resource capabilities

6. Hire a Chief Information Officer (CIO)

15. Develop a business-aligned IS strategy and blueprint

16. Develop an optimized data architecture and data warehouse

19. Hire a Risk Manager reporting directly to the COO

New Business Model Recommendations

2011	2012				2013				2014			
Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4

1. Create, acquire or contract with a Third Party Administrator ➡➡➡

3. Update the CEA statute to remove arbitrary constraints

17. Amend the CEA Act to authorize closed session for defined topics

8. Conform the CEA Governance Structure

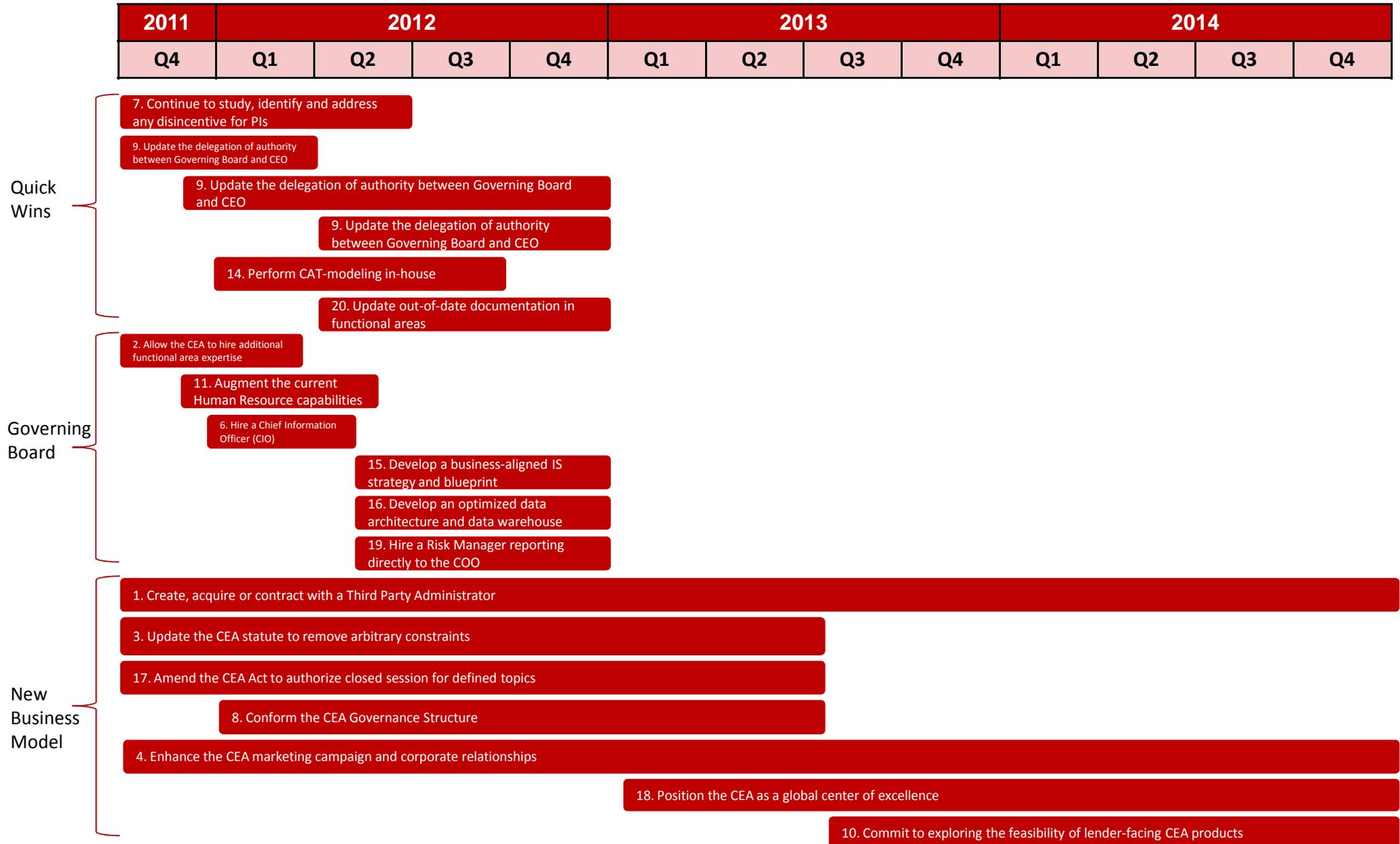
4. Enhance the CEA marketing campaign and corporate relationships ➡➡➡

★ 5. Continue to pursue the proposed Earthquake Insurance Affordability Act

18. Position the CEA as a global center of excellence ➡➡➡

10. Commit to exploring the feasibility of lender-facing CEA products

Recommendations Journey Map

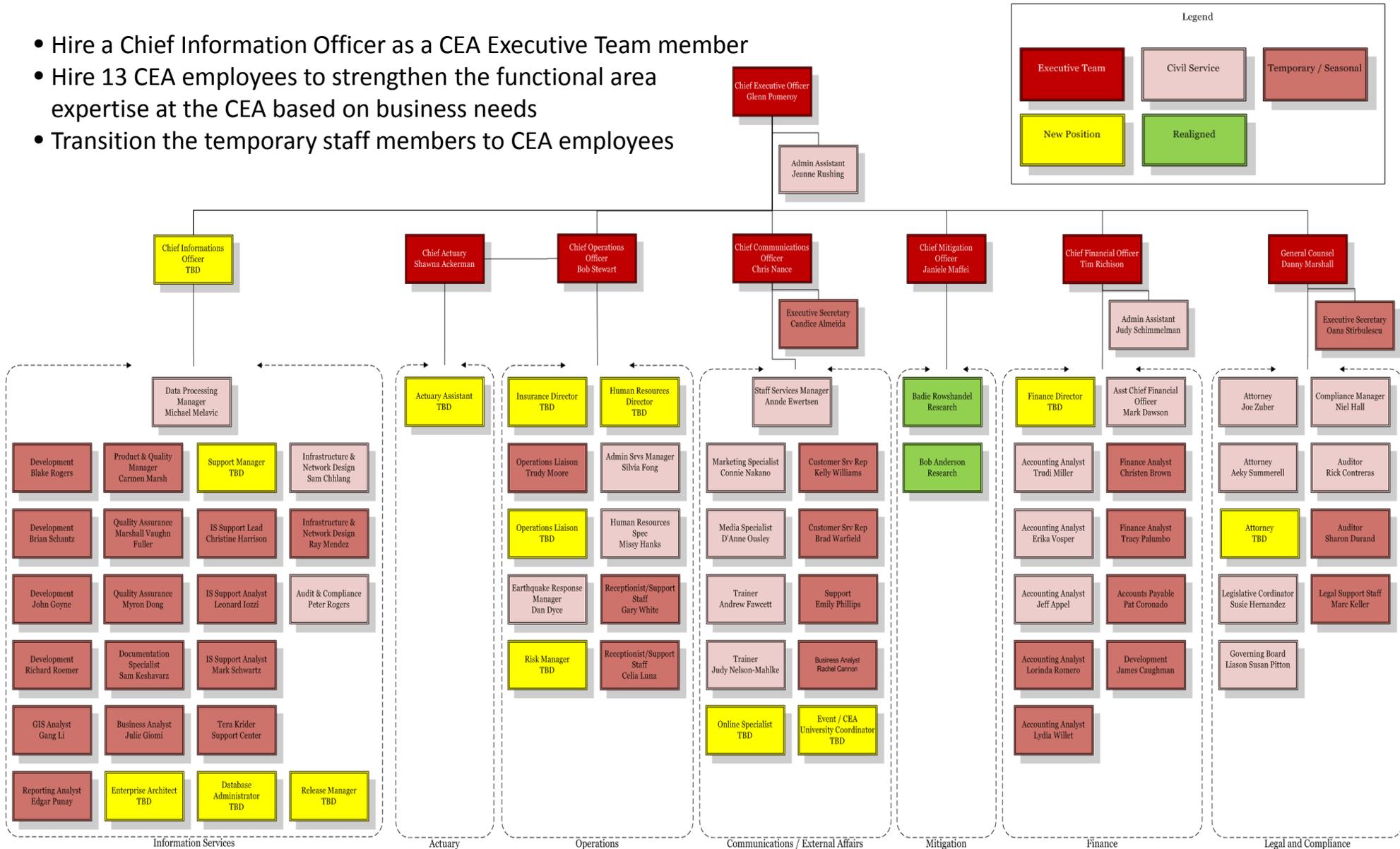


Section 11

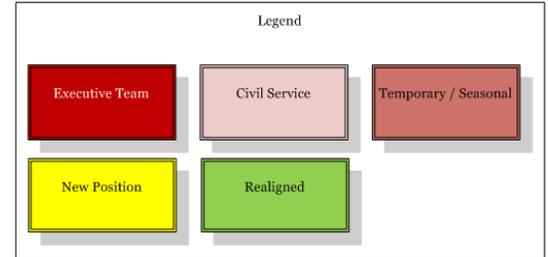
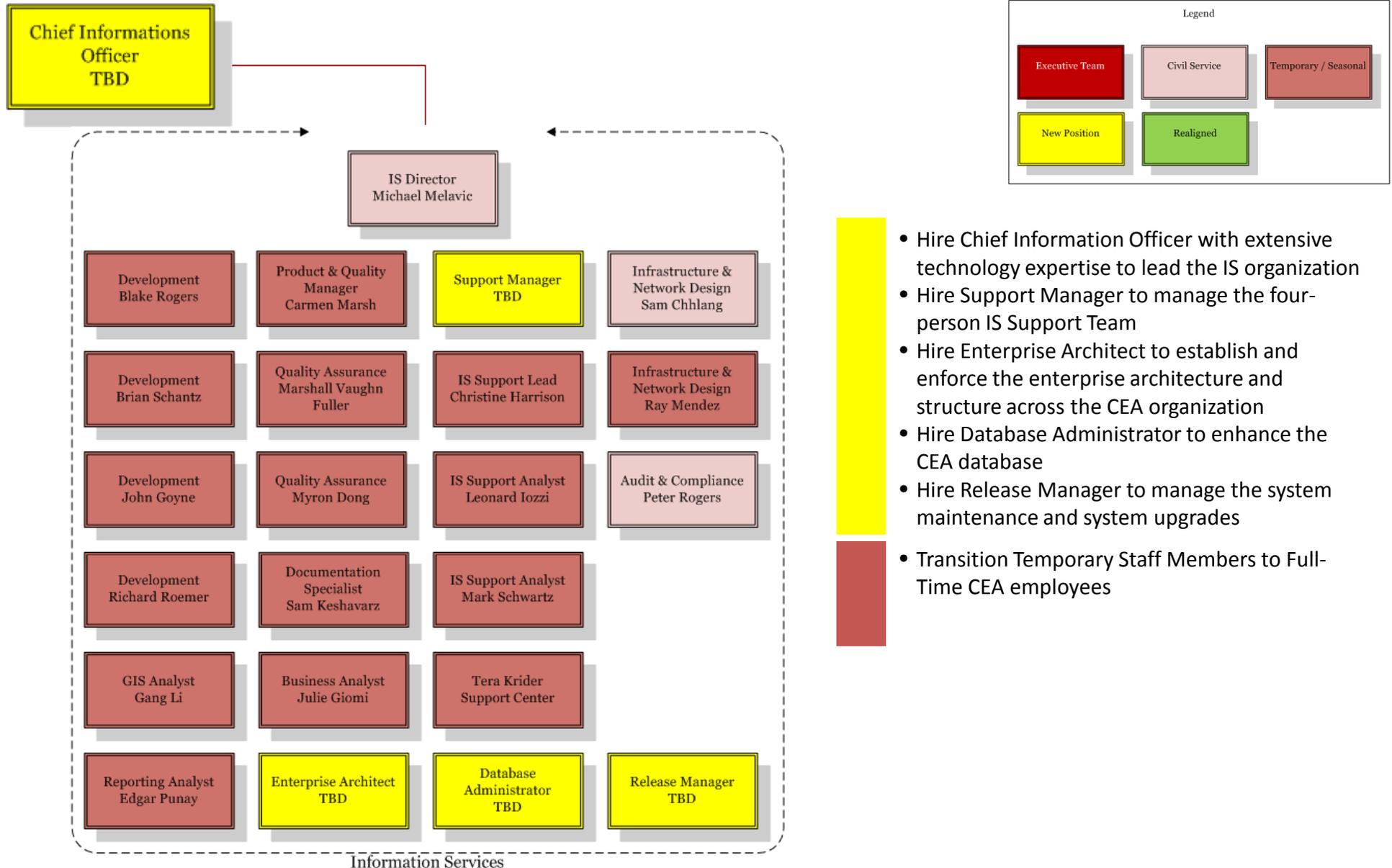
Future-State Organization Environment

Future-State CEA Organization Structure

- Hire a Chief Information Officer as a CEA Executive Team member
- Hire 13 CEA employees to strengthen the functional area expertise at the CEA based on business needs
- Transition the temporary staff members to CEA employees

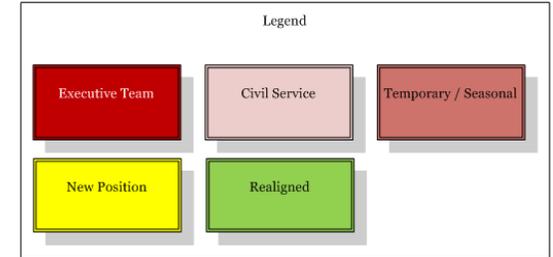
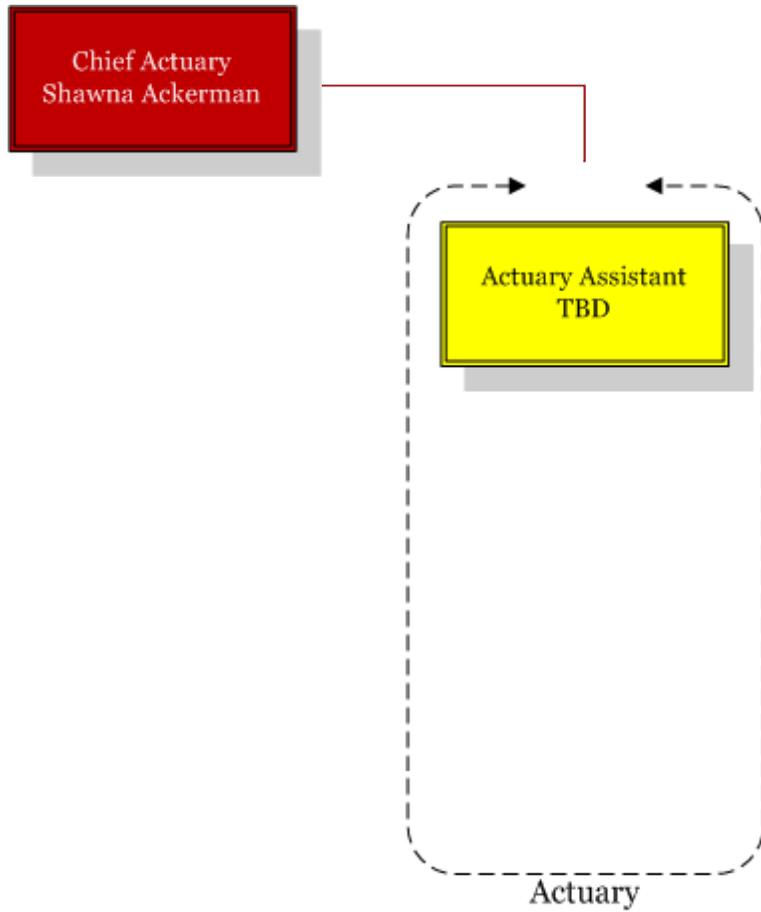


Future-State CEA Organization Structure – Information Services



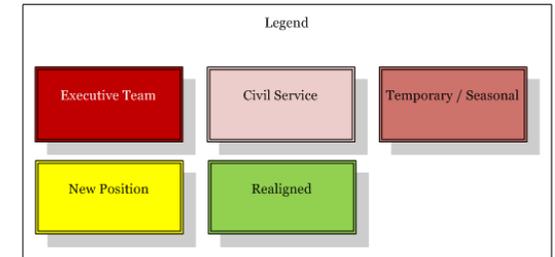
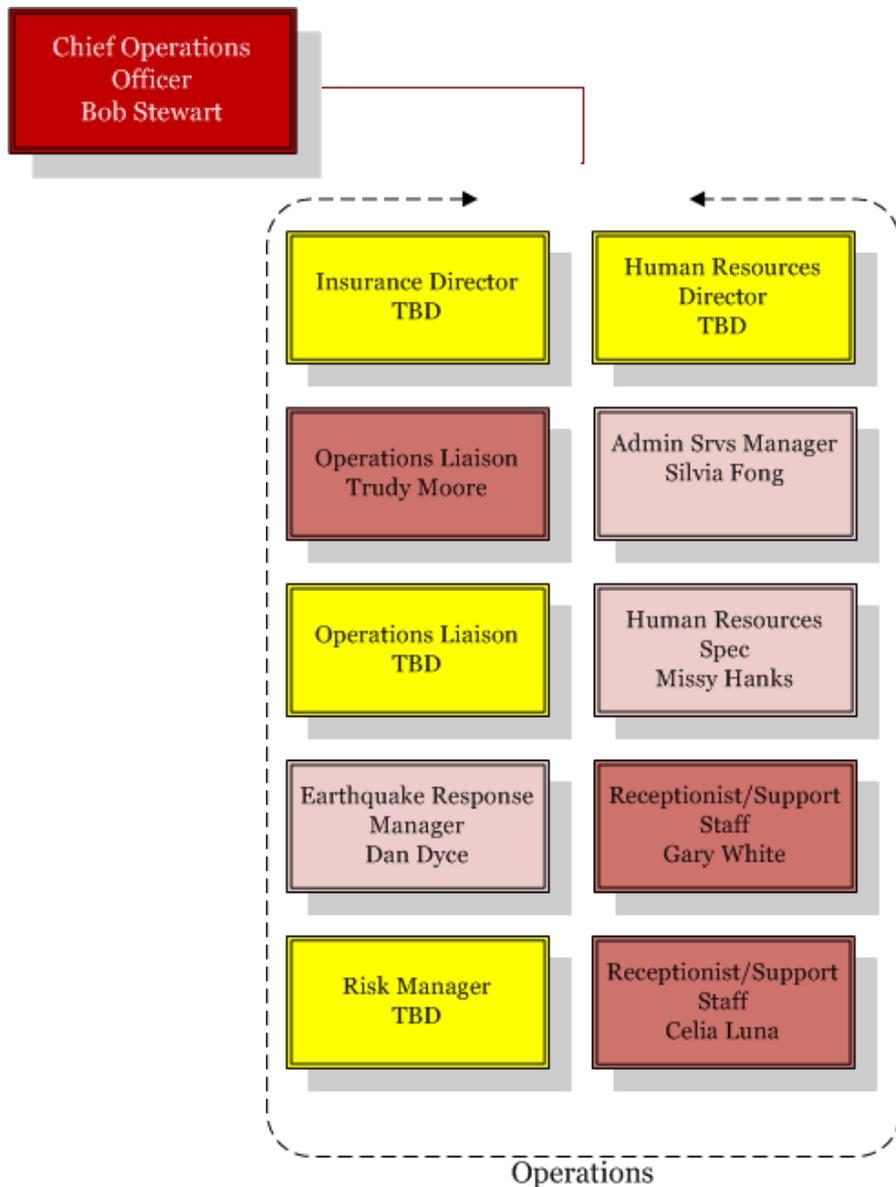
- Hire Chief Information Officer with extensive technology expertise to lead the IS organization
- Hire Support Manager to manage the four-person IS Support Team
- Hire Enterprise Architect to establish and enforce the enterprise architecture and structure across the CEA organization
- Hire Database Administrator to enhance the CEA database
- Hire Release Manager to manage the system maintenance and system upgrades
- Transition Temporary Staff Members to Full-Time CEA employees

Future-State CEA Organization Structure – Actuary



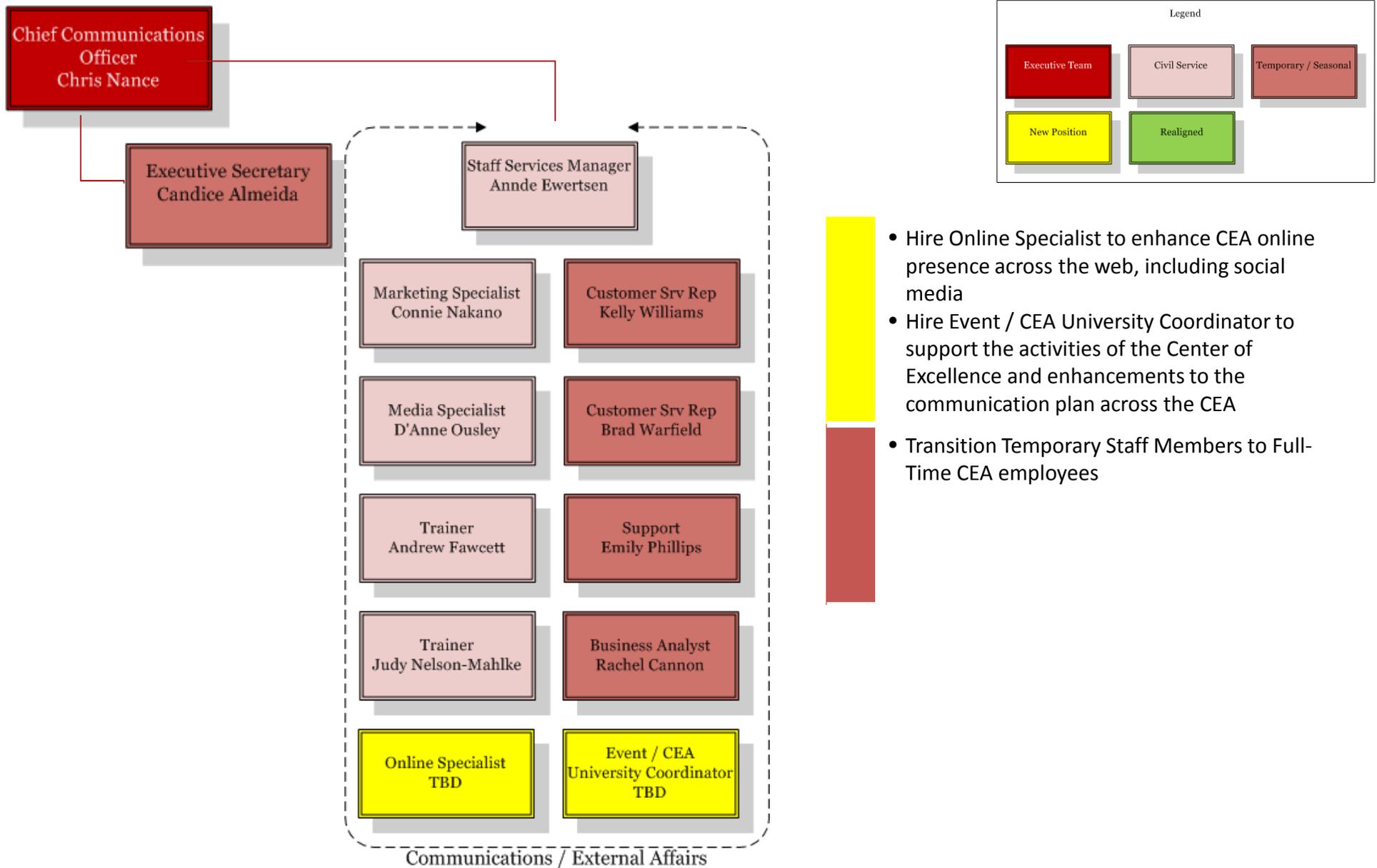
- Hire Actuary Assistant to support the Chief Actuary in analyzing pricing scenarios with the in-house CAT-modeling solution

Future-State CEA Organization Structure – Operations



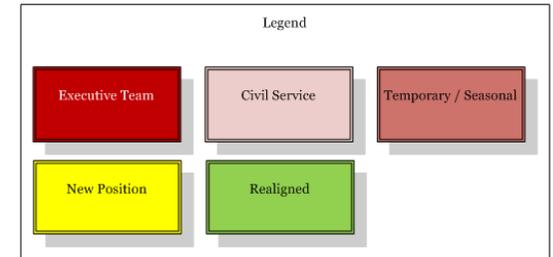
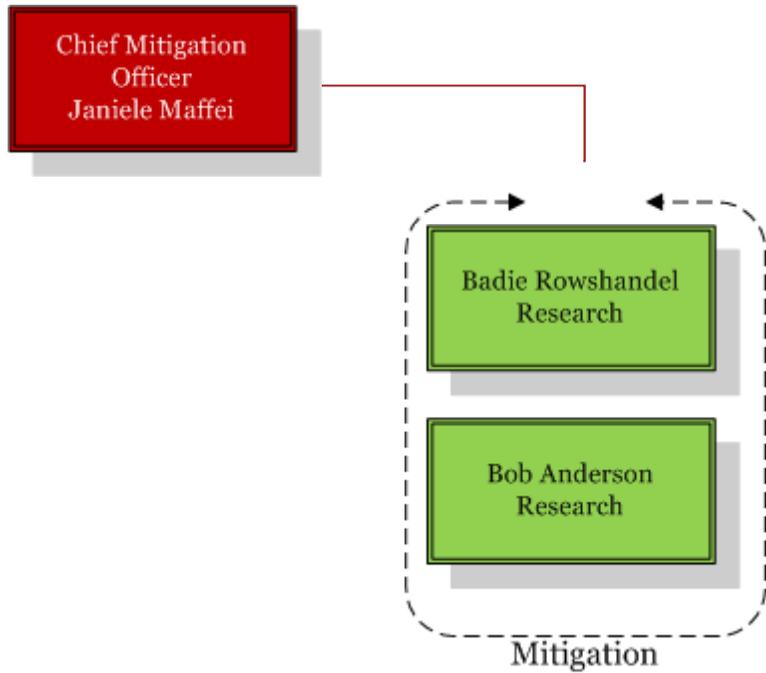
- Hire Insurance Director to enhance the insurance functional expertise in operations
- Hire Human Resources Director to augment HR capabilities across contract executives, civil-service, temporary staff members, and full-time employees
- Hire Operations Liaison to split the PI book of business operational activities between two insurance liaisons
- Hire Risk Manager to enhance succession planning, disaster recovery, continuity planning, and facilities management
- Realign Information Services to Chief Information Officer
- Realign Research staff to Chief Mitigation Officer
- Transition Temporary Staff Members to Full-Time CEA employees

Future-State CEA Organization Structure – Communications / External Affairs



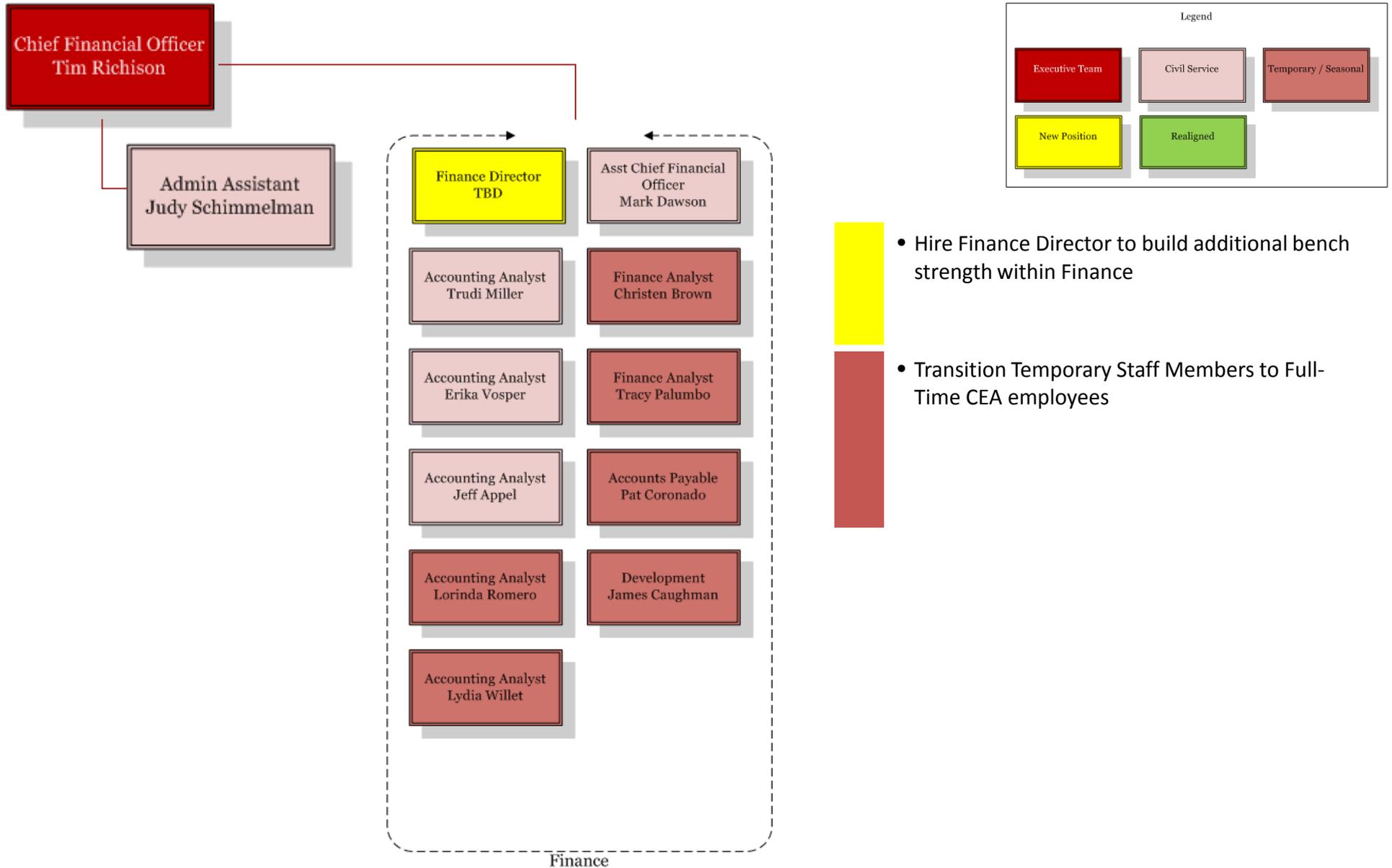
- Hire Online Specialist to enhance CEA online presence across the web, including social media
- Hire Event / CEA University Coordinator to support the activities of the Center of Excellence and enhancements to the communication plan across the CEA
- Transition Temporary Staff Members to Full-Time CEA employees

Future-State CEA Organization Structure – Mitigation

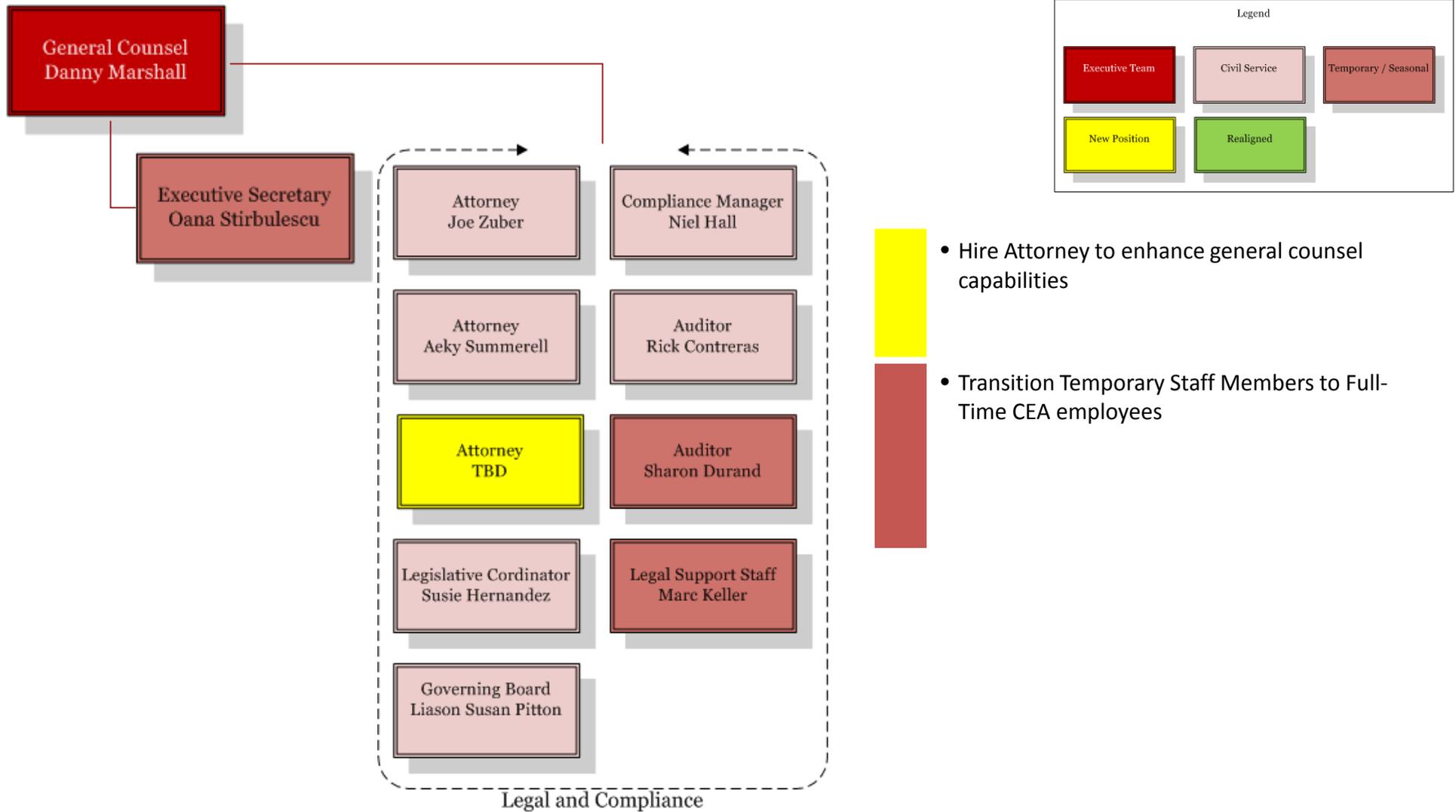


- Realign Research to Chief Mitigation Officer

Future-State CEA Organization Structure – Finance



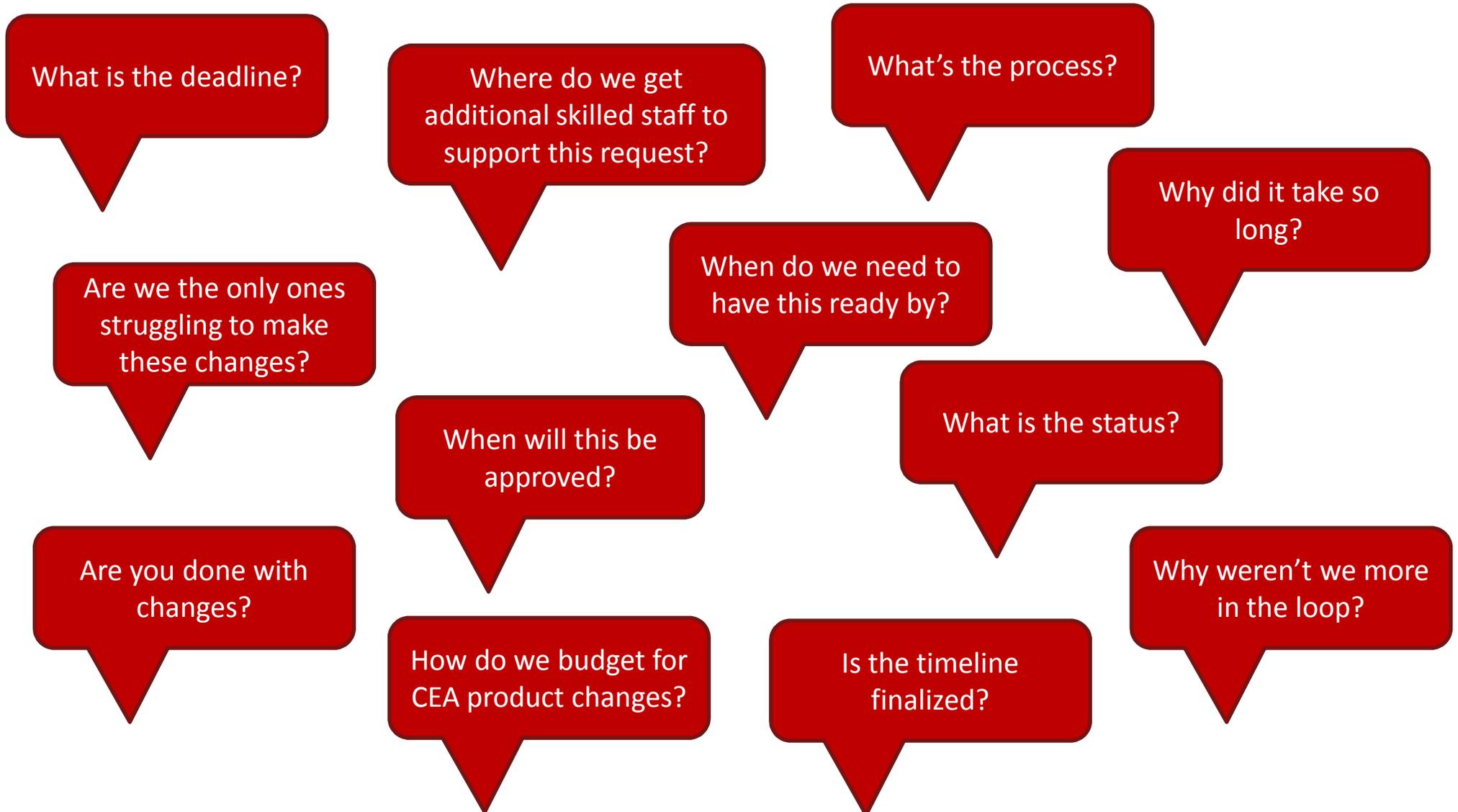
Future-State CEA Organization Structure – Legal and Compliance



Section 12

Appendix: 2012 Rate/Form Filing – A Case Study

With 17 Participating Insurers all making changes to their respective systems, the CEA fielded many questions during the 2012 Rate/Form Filing process

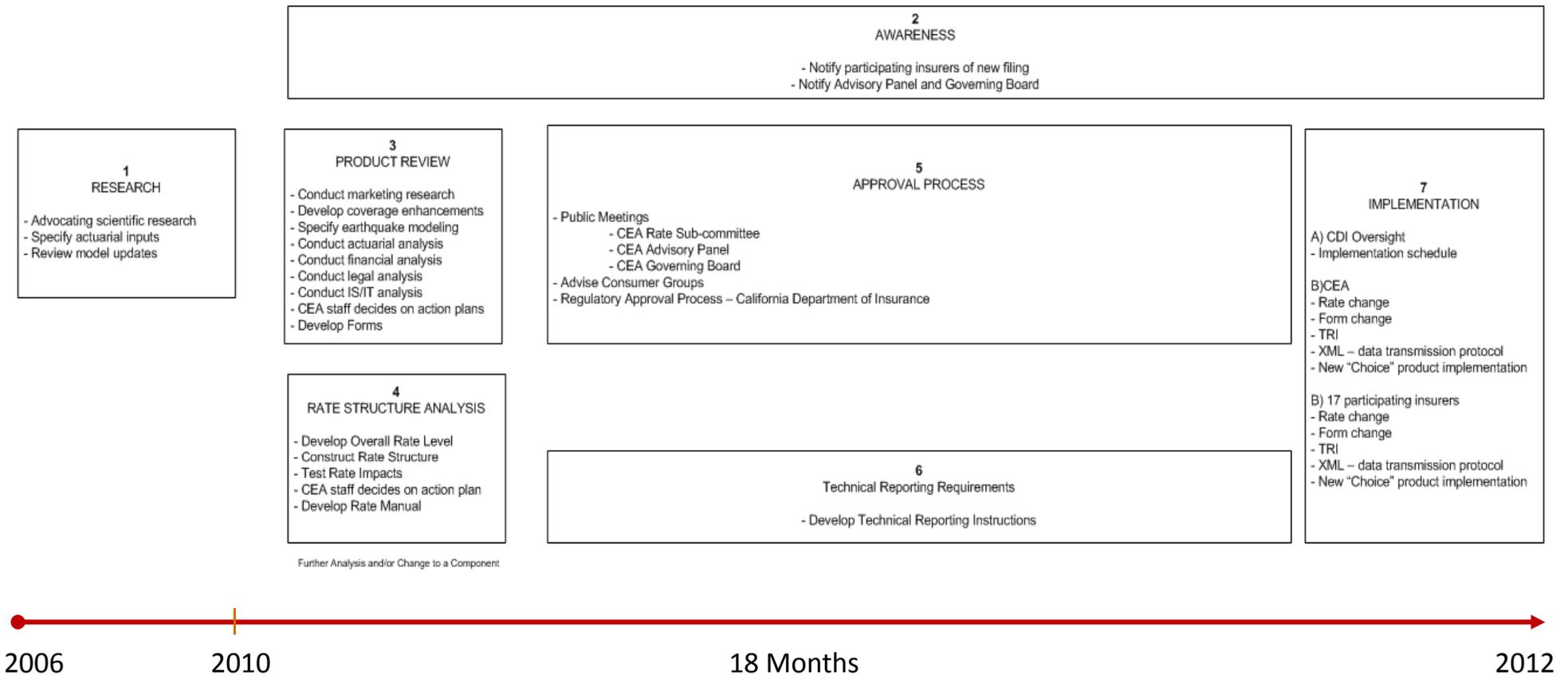


Overview of 2012 Rate, Form, New Product, and Systems Enhancements

- In 2011, the California Department of Insurance approved a 12.5% average statewide rate decrease beginning with new and renewal policies that are effective on and after January 1, 2012
- The rate change is a result of a reduction in the estimated average annual loss derived from new scientific information
- In 2012, policyholders will see their rates increase or decrease depending on their CEA product, location of risk, and other rating factors
- The California Department of Insurance also approved a new edition of each of the CEA's existing policy forms; and, introduction of a new CEA Homeowners product – Homeowners “Choice”
- Concurrently, the CEA required all Participating Insurers implement systems enhancements including new data transmission formats, and other technologies for conducting business with the CEA

Process overview: 2012 CEA Rate, Choice Product and XML Messaging

There are seven high level processes that key stakeholders went through in the submission of the 2012 new choice product. This process view addresses the high level activities that were managed through for the new CEA product.



Further Analysis and/or Change to a Component

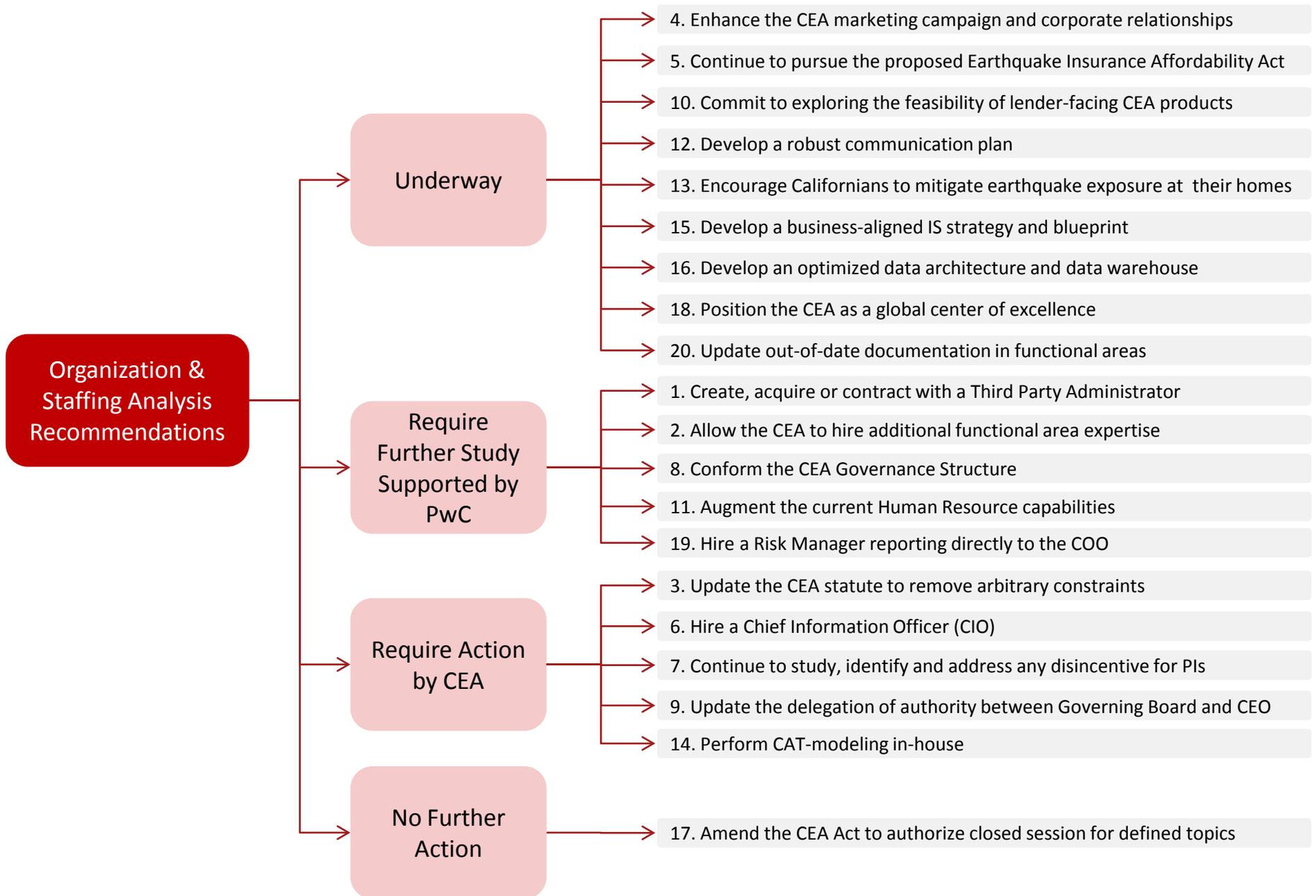
The change process included “pain points” for each of the key stakeholders

Stakeholder Group	Pain Points
<i>Earthquake Loss Modelers</i>	<p>Because of USGS hazard changes, commercial models were updated in 2010. Modelers, RMS and AIR, updated their models in early 2010, while the CEA’s earthquake modeler, EQECAT, finalized their commercial model updates mid-year 2010. Since the CEA uses the EQECAT model for rate-making, the CEA was delayed in completing its rate analysis due to the later implementation of the planned model updates.</p> <p>Relying on vendors for modeling creates a trade-off between timeliness of modeling results and flexibility in testing multiple alternate product structures.</p>
<i>CEA Advisory Panel</i>	<p>Meetings of the CEA Advisory Panel are public meetings requiring public notice and documentation. CEA staff presents rate recommendations to the Advisory Panel and members of the Panel’s Rate Subcommittee provides their recommendation to the Advisory Panel. CEA staff requests the Advisory Panel support the rate proposal and recommend approval to the Governing Board. Additionally, the Advisory Panel is statutorily required to recommend rates for Condominium Loss Assessment coverage to the CEA Governing Board for approval.</p> <p>After the initial review of the proposed rate and form filing with the Rate Subcommittee and Advisory Panel, a decision was made to change plans regarding introduction of the new Homeowner “Choice” product. The re-direction required a second meeting of the Rate Subcommittee and Advisory Panel to review the revised plans.</p>
<i>CEA Rate Subcommittee</i>	<p>The CEA Rate Subcommittee is a subcommittee of the CEA Advisory Panel. Meetings of the Rate Subcommittee are public meetings open to all, including the CEA’s competitors. The Rate Subcommittee is charged with reviewing rate recommendations presented by CEA staff. CEA staff requests the Subcommittee’s feedback and ultimately its support to recommend the proposed changes to the CEA Advisory Panel. The Advisory Panel is statutorily required to recommend rates for Condominium Loss Assessment coverage to the CEA Governing Board for approval.</p> <p>After the initial review of the proposed rate and form filing with the Rate Subcommittee and Advisory Panel, a decision was made to change plans regarding introduction of the new Homeowner “Choice” product. The re-direction required a second meeting of the Rate Subcommittee and Advisory Panel to review the revised plans.</p>
<i>CEA Staff</i>	<p>After the initial review of the proposed rate and form filing with the Rate Subcommittee and Advisory Panel, a decision was made to change plans regarding introduction of the new Homeowner “Choice” product. The re-direction was operationally challenging given the time required to prepare the revised plans in order to conduct public meetings with the Rate Subcommittee and Advisory Panel prior to presenting the proposal to the CEA Governing Board.</p>

The change process included “pain points” for each of the key stakeholders (continued)

Stakeholder Group	Pain Points
<p><i>Governing Board</i></p>	<p>The CEA’s Plan of Operation requires the CEA Governing Board to approve a proposed rate and form application for submission to the California Insurance Commissioner for approval. While a voting member of the Governing Board, the Commissioner chooses to abstain, given his role as the regulator and only votes on the application in the event of a tie.</p>
<p><i>Participating Insurers</i></p>	<p>The CEA rate and form filing impacted the following functional areas within each CEA Participating Insurer, experiencing pain points in the following areas:</p> <ul style="list-style-type: none"> • IT • Policy Administration • Claims Administration • Forms Management • Regulatory/Legislative Affairs • Training • Marketing • Sales <p>Some PIs lacked resources to develop plans to implement CEA approved changes and until a filing was approved by the California Department of Insurance, no PI could plan with certainty.</p>
<p><i>Department of Insurance</i></p>	<p>CEA rate and form filings are subject to California insurance regulations which includes a prescribed timeline for the specific steps which comprise the Department’s review process. Participating insurers expressed opposition to the proposed effective date for the approved changes requiring the Department’s staff to solicit the insurers support on behalf of the Insurance Commissioner - requiring the intervention of the following divisions within the Department:</p> <ul style="list-style-type: none"> • Executive • Rate regulations • Legal • Communications

CEA Staff's Action Plan In Response to PwC Recommendations



Governing Board Memorandum

October 27, 2011

Agenda Item 11: 2012 Governing Board (Proposed) Meeting Schedule

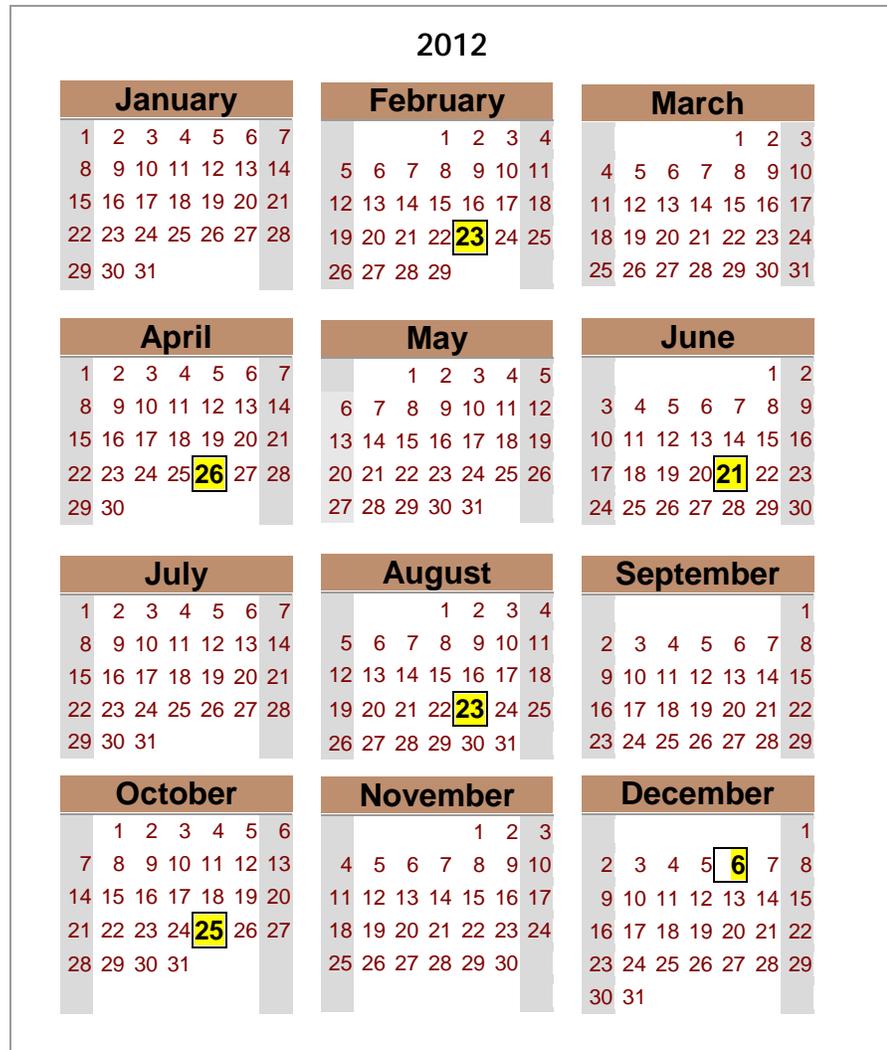
Recommended Action: Approve 2012 Board Meeting Schedule as Proposed

Staff recommends approval of the following dates for the CEA Governing Board’s 2012 regular business meetings:

CEA Governing Board Meeting Dates – 2012

All meetings are on a Thursday and begin at 1:00 p.m.

2012 MEETING DATES
February 23
April 26
June 21
August 23
October 25
December 6



California Earthquake Authority

Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to August 31, 2011

Event Code	Event Name	Date of Event	Magnitude	Location	# of Paid Claims	Losses Paid	LAE Paid	Total Paid Losses & LAE
98010	Chino	1/5/1998	4.3	3 mi. W of Chino	1	\$1,385.72	\$124.71	\$1,510.43
98050	San Juan Bautista	8/12/1998	5.3	7 mi. SSE of San Juan Bautista	1	161,204.93	13,643.13	\$174,848.06
98070	Redding	11/26/1998	5.2	3 mi. NNW of Redding	1	4,029.72	362.67	\$4,392.39
	1998 Minor Quakes				2	4,199.20	377.93	\$4,577.13
99050	Hector Mine	11/16/1999	7.0	28 mi. N of Joshua Tree (near Palm Springs)	25	137,361.81	12,362.47	\$149,724.28
	1999 Minor Quakes				1	4,037.26	363.35	\$4,400.61
00030	Napa	9/3/2000	5.2	17 mi. ESE of Santa Rosa; 6 mi. NNE of Sonoma; 3 mi. WSW of Yountville	15	278,130.07	25,031.71	\$303,161.78
01010	Ferndale	1/13/2001	5.4	53 mi. WNW of Ferndale	1	34,764.54	3,128.79	\$37,893.33
	2001 Minor Quakes				1	52,896.82	4,760.70	\$57,657.52
01040	West Hollywood	9/9/2001	4.2	West Hollywood	10	67,044.15	6,033.94	\$73,078.09
	2002 Minor Quakes				1	8,361.24	752.51	\$9,113.75
03090	San Simeon	12/22/2003	6.4	7 mi. NE of San Simeon	84	2,692,628.02	242,339.74	\$2,934,967.76
04120	Parkfield	9/28/2004	6.0	7 mi SSE of Parkfield	1	7,032.59	632.93	\$7,665.52
07240	Chatsworth	8/9/2007	4.5	4 mi NNW of Chatsworth	1	7,813.88	703.24	\$8,517.12
07250	Alum Rock	10/30/2007	5.6	5 mi NNE of Alum Rock	1	6,149.20	553.42	\$6,702.62
08280	Chino Hills	7/29/2008	5.4	5.5 mi SE of Diamond Bar	8	156,781.38	14,110.29	\$170,891.67
09320	Calexico	12/30/2009	5.9	22.7 mi SE of Calexico	1	275.88	24.83	\$300.71
	2009 Minor Quakes				1	4,839.51	435.56	\$5,275.07
10330	Ferndale	1/9/2010	6.5	27 mi W of Ferndale	2	22,153.62	1,993.83	\$24,147.45
10360	Baja California Mexico	4/4/2010	7.2	16 mi SW from Guadalupe Victoria, Mexico	15	46,166.44	4,109.25	\$50,275.69
	Total				173	\$3,697,255.98	\$331,845.00	\$4,029,100.98

Claims History Report Glossary

Event Code: A 5 digit code that the CEA assigns to all earthquakes expected to produce paid losses. This code is used to track statistics for a particular earthquake.

Event Name: This is generally the name given to the earthquake by the USGS (United States Geological Survey).

Date of Event: Date that the earthquake occurred.

Magnitude: Richter scale magnitude assigned by USGS.

Location: This is assigned by USGS and is usually a city close to the earthquake.

of Paid Claims: A numeric count of the claims that received a payment for damage caused by a particular earthquake.

Losses Paid: Total dollar amount of all claims paid to the policyholders for a particular earthquake.

LAE Paid: "LAE" stands for Loss Adjustment Expense which is always 9% of paid losses. This is the amount paid to the Participating Insurers for handling the claim.

Total Paid Losses and ALE: The sum of Losses Paid and LAE Paid.

Minor Quakes: Losses paid for damage from minor earthquakes that were initially not expected to generate a claim and therefore were not issued a CEA event code.

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 9/23/2011 - Policies in Force on: 8/31/2011

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Homeowner							
15% Total	593,081	72.2 %	251,573,600,284	85.6 %	488,014,756	81.0 %	823
10% Total	61,012	7.4 %	28,604,723,182	9.7 %	63,955,463	10.6 %	1,048
Homeowner Total	654,093	79.7 %	280,178,323,466	95.4 %	551,970,219	91.6 %	844
Manufactured Homes (Mobilehomes)							
15% Total	20,805	2.5 %	2,150,122,081	0.7 %	2,099,739	0.3 %	101
10% Total	3,900	0.5 %	572,525,784	0.2 %	499,215	0.1 %	128
Manufactured Homes (Mobilehomes) Total	24,705	3.0 %	2,722,647,865	0.9 %	2,598,953	0.4 %	105
Condo Total	102,114	12.4 %	9,486,459,000	3.2 %	40,973,718	6.8 %	401
Renter Total	40,115	4.9 %	1,451,712,500	0.5 %	6,996,638	1.2 %	174
Grand Total	821,027	100.0 %	293,839,142,831	100.0 %	602,539,528	100.0 %	734

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 9/23/2011 - Policies in Force on: 8/31/2011

HOMEOWNER	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	593,095	90.7 %	244,142,183,784	87.1 %	450,995,970	81.7 %	760
BCU 20k	60,299	9.2 %	602,990,000	0.2 %	1,616,213	0.3 %	27
Coverage C 25k	30,811	4.7 %	616,220,000	0.2 %	5,336,536	1.0 %	173
Coverage C 50k	21,025	3.2 %	946,125,000	0.3 %	5,241,522	0.9 %	249
Coverage C 75k	10,323	1.6 %	722,610,000	0.3 %	3,244,600	0.6 %	314
Coverage C 100k	33,169	5.1 %	3,151,055,000	1.1 %	13,220,669	2.4 %	399
Coverage D 10k	38,899	5.9 %	330,641,500	0.1 %	2,021,732	0.4 %	52
Coverage D 15k	78,650	12.0 %	1,061,775,000	0.4 %	6,337,515	1.1 %	81
15% Total	593,081	90.7 %	251,573,600,284	89.8 %	488,014,756	88.4 %	823
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	61,013	9.3 %	25,510,049,182	9.1 %	51,157,471	9.3 %	838
BCU 20k	13,067	2.0 %	130,670,000	0.0 %	325,768	0.1 %	25
Coverage C 25k	9,947	1.5 %	198,940,000	0.1 %	1,642,983	0.3 %	165
Coverage C 50k	7,471	1.1 %	336,195,000	0.1 %	1,553,616	0.3 %	208
Coverage C 75k	4,301	0.7 %	301,070,000	0.1 %	1,088,335	0.2 %	253
Coverage C 100k	17,162	2.6 %	1,630,390,000	0.6 %	5,932,931	1.1 %	346
Coverage D 10k	13,551	2.1 %	115,183,500	0.0 %	540,066	0.1 %	40
Coverage D 15k	28,313	4.3 %	382,225,500	0.1 %	1,714,293	0.3 %	61
10% Total	61,012	9.3 %	28,604,723,182	10.2 %	63,955,463	11.6 %	1,048
Homeowner Total	654,093	100.0 %	280,178,323,466	100.0 %	551,970,219	100.0 %	844

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 9/23/2011 - Policies in Force on: 8/31/2011

MANUFACTURED HOMES (MOBILEHOMES)	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	20,805	84.2 %	1,961,117,581	72.0 %	1,987,958	76.5 %	96
Coverage C 25k	1,647	6.7 %	32,940,000	1.2 %	22,172	0.9 %	13
Coverage C 50k	1,124	4.5 %	50,580,000	1.9 %	18,605	0.7 %	17
Coverage C 75k	349	1.4 %	24,430,000	0.9 %	6,669	0.3 %	19
Coverage C 100k	463	1.9 %	43,985,000	1.6 %	10,689	0.4 %	23
Coverage D 10k	1,758	7.1 %	14,943,000	0.5 %	23,504	0.9 %	13
Coverage D 15k	1,639	6.6 %	22,126,500	0.8 %	30,142	1.2 %	18
15% Total	20,805	84.2 %	2,150,122,081	79.0 %	2,099,739	80.8 %	101
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	3,900	15.8 %	410,754,284	15.1 %	433,059	16.7 %	111
Coverage C 25k	1,166	4.7 %	23,320,000	0.9 %	11,528	0.4 %	10
Coverage C 50k	969	3.9 %	43,605,000	1.6 %	12,081	0.5 %	12
Coverage C 75k	326	1.3 %	22,820,000	0.8 %	4,594	0.2 %	14
Coverage C 100k	424	1.7 %	40,280,000	1.5 %	7,256	0.3 %	17
Coverage D 10k	1,262	5.1 %	10,727,000	0.4 %	11,288	0.4 %	9
Coverage D 15k	1,557	6.3 %	21,019,500	0.8 %	19,408	0.7 %	12
10% Total	3,900	15.8 %	572,525,784	21.0 %	499,215	19.2 %	128
Manufactured Homes (Mobilehomes) Total	24,705	100.0 %	2,722,647,865	100.0 %	2,598,953	100.0 %	105

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 9/23/2011 - Policies in Force on: 8/31/2011

CONDO	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage A/BCU 10k	71,981	70.5 %	2,519,335,000	26.6 %	6,371,638	15.6 %	89
Coverage C 5k/D 1.5k	36,187	35.4 %	235,215,500	2.5 %	3,283,912	8.0 %	91
Coverage C 5k ¹	7,609	7.5 %	38,045,000	0.4 %	718,284	1.8 %	94
Coverage C 25k	13,771	13.5 %	344,275,000	3.6 %	2,692,720	6.6 %	196
Coverage C 50k	11,999	11.8 %	599,950,000	6.3 %	2,660,728	6.5 %	222
Coverage C 75k	5,952	5.8 %	446,400,000	4.7 %	1,457,252	3.6 %	245
Coverage C 100k	11,507	11.3 %	1,150,700,000	12.1 %	2,898,485	7.1 %	252
Coverage D 1.5k ²	7,359	7.2 %	11,038,500	0.1 %	24	0.0 %	0
Coverage D 10k	14,952	14.6 %	149,520,000	1.6 %	197,621	0.5 %	13
Coverage D 15k	28,527	27.9 %	427,905,000	4.5 %	453,787	1.1 %	16
Coverage E 25k	2,919	2.9 %	72,975,000	0.8 %	710,283	1.7 %	243
Coverage E 50k	62,283	61.0 %	3,114,150,000	32.8 %	17,586,979	42.9 %	282
Coverage E 75k	5,026	4.9 %	376,950,000	4.0 %	1,942,007	4.7 %	386
Condo Total	102,114	100.0 %	9,486,459,000	100.0 %	40,973,718	100.0 %	401

¹Policies that have a Coverage C limit of 5k and a Coverage D limit >1.5k

²Policies that have a Coverage D limit of 1.5k and a Coverage C limit >5k

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 9/23/2011 - Policies in Force on: 8/31/2011

RENTER	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage C 5k/D 1.5k	15,732	39.2 %	102,258,000	7.0 %	1,517,517	21.7 %	96
Coverage C 5k ¹	3,128	7.8 %	15,640,000	1.1 %	313,670	4.5 %	100
Coverage C 25k	9,208	23.0 %	230,200,000	15.9 %	1,913,462	27.3 %	208
Coverage C 50k	6,334	15.8 %	316,700,000	21.8 %	1,484,488	21.2 %	234
Coverage C 75k	2,021	5.0 %	151,575,000	10.4 %	525,484	7.5 %	260
Coverage C 100k	3,692	9.2 %	369,200,000	25.4 %	934,496	13.4 %	253
Coverage D 1.5k ²	4,783	11.9 %	7,174,500	0.5 %	0	0.0 %	0
Coverage D 10k	7,007	17.5 %	70,070,000	4.8 %	100,264	1.4 %	14
Coverage D 15k	12,593	31.4 %	188,895,000	13.0 %	207,256	3.0 %	16
Renter Total	40,115	100.0 %	1,451,712,500	100.0 %	6,996,638	100.0 %	174

¹Policies that have a Coverage C limit of 5k and a Coverage D limit >1.5k

²Policies that have a Coverage D limit of 1.5k and a Coverage C limit >5k

California Earthquake Authority

Historical Reinsurance Costs

Base & Supplemental Limits

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium
2011	Contract #1	\$200,000,000 xs	\$3,300,000,000	8.1500%	\$16,300,000
	Contract #2	\$1,300,000,000 xs	\$3,500,000,000	7.5000%	\$97,500,000
	Contract #3	\$500,000,000 xs	\$4,500,000,000	6.2000%	\$31,000,000
	Contract #3a	\$200,000,000 xs	\$4,500,000,000	6.0000%	\$12,000,000
	Contract #4 (65% placed)	\$650,000,000 xs	\$5,000,000,000	5.5000%	\$35,750,000
	Contract #4a (5% placed)	\$50,000,000 xs	\$5,000,000,000	5.5000%	\$2,062,500
Total		\$2,900,000,000 xs	\$3,300,000,000	6.7108%	\$194,612,500
Percent Change from Previous Year		-7.13%		-6.24%	-12.92%
2010	Contract #1	\$202,500,000 xs	\$3,300,000,000	9.2500%	\$18,731,250
	Contract #2	\$1,000,000,000 xs	\$3,500,000,000	8.5500%	\$85,500,000
	Contract #3	\$275,000,000 xs	\$4,250,000,000	7.7000%	\$21,175,000
	Contract #4	\$300,000,000 xs	\$4,500,000,000	6.8000%	\$20,400,000
	Contract #5 (97.10% placed)	\$200,000,000 xs	\$4,800,000,000	6.5000%	\$12,623,000
	Contract #6 (94.05% placed)	\$250,000,000 xs	\$5,000,000,000	6.2500%	\$14,695,313
	Contract #7 (79.62619% placed)	\$1,150,000,000 xs	\$5,250,000,000	5.5000%	\$50,363,565
Total		\$3,122,526,185 xs	\$3,300,000,000	7.1573%	\$223,488,128
Percent Change from Previous Year		0.73%		13.96%	14.79%
2009	Contract #1	\$500,000,000 xs	\$3,500,000,000	7.7500%	\$38,749,846
	Contract #2	\$500,000,000 xs	\$4,000,000,000	6.9999%	\$34,999,384
	Contract #3	\$200,000,000 xs	\$4,500,000,000	5.9600%	\$11,920,000
	Contract #4	\$100,000,000 xs	\$4,700,000,000	5.8000%	\$5,800,000
	Contract #5	\$200,000,000 xs	\$4,800,000,000	5.5400%	\$11,080,000
	Contract #6	\$200,000,000 xs	\$5,000,000,000	5.3100%	\$10,620,000
	Contract #7 Backup Reinsurance for Transformer	\$250,000,000 xs	\$5,160,000,000	6.9900%	\$17,475,000
	Contract #8	\$650,000,000 xs	\$5,410,000,000	4.9938%	\$32,460,000
	Contract #9 Backup Reinsurance for Transformer	\$400,000,000 xs	\$6,000,000,000	6.6500%	\$26,600,000
	Contract #10	\$100,000,000 xs	\$6,060,000,000	4.9938%	\$4,993,846
Total		\$3,100,000,000 xs	\$3,500,000,000	6.2806%	\$194,698,076
Percent Change from Previous Year		85.96%		-26.36%	5.71%

(Combined base & Supplemental)

**California Earthquake Authority
Historical Reinsurance Costs**

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium	
Base-Limits						
2008	Combined Reinsurance Contract #1	\$300,000,000	xs	\$3,600,000,000	9.8000%	\$29,400,000
	Combined Reinsurance Contract #2	\$1,367,000,000	xs	\$3,900,000,000	8.2500%	\$112,777,500
	Total	\$1,667,000,000	xs	\$3,600,000,000	8.5289%	\$142,177,500
	Percent Change from Previous Year	-11.58%		5.77%	-6.48%	
2007	Collateralized Reinsurance Contract (2006-2007)	\$350,000,000	xs	\$3,600,000,000	6.9500%	\$24,325,000
	Reinsurance Layer 1	\$150,000,000	xs	\$3,950,000,000	15.0000%	\$22,500,000
	Reinsurance Layer 2	\$50,000,000	xs	\$4,100,000,000	12.5000%	\$6,250,000
	Collateralized Reinsurance Contract (2007)	\$125,000,000	xs	\$4,150,000,000	11.5000%	\$14,375,000
	Reinsurance Layer 3	\$20,000,000	xs	\$4,275,000,000	11.0000%	\$2,200,000
	Reinsurance Layer 4 (79.45953% placed)	\$1,200,000,000	xs	\$4,300,000,000	7.1000%	\$0
	Reinsurance Layer 5 (79.47738% placed)	\$298,000,000	xs	\$5,500,000,000	6.2000%	\$0
	Total	\$1,885,356,952	xs	\$3,600,000,000	8.0639%	\$152,033,760
	Percent Change from Previous Year	7.37%		24.19%	33.33%	
2006	Collateralized Reinsurance Contract (2005-2006)	\$300,000,000	xs	\$3,300,000,000	7.0000%	\$21,000,000
	Collateralized Reinsurance Contract (2006-2007)	\$350,000,000	xs	\$3,600,000,000	6.9500%	\$24,325,000
	Collateralized Reinsurance Contract	\$30,000,000	xs	\$3,950,000,000	6.8000%	\$2,040,000
		\$680,000,000	xs	\$3,300,000,000	6.9654%	\$47,365,000
	Base-Limit Coverage Reinsurance Contract Insurance In Force Adjustment	\$1,076,000,000	xs	\$4,006,000,000	6.0000%	\$64,560,000 \$2,100,000
	Total	\$1,756,000,000	xs	\$3,300,000,000	6.4935%	\$114,025,000
	Percent Change from Previous Year	17.07%		5.83%	23.89%	

**California Earthquake Authority
Historical Reinsurance Costs**

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium		
2005	Collateralized Reinsurance Contract (2005-2006)	\$300,000,000	xs	\$3,300,000,000	7.0000%	\$21,000,000	
	First Transformer Layer (2004-2005)	\$150,000,000	xs	\$3,600,000,000	7.2500%	\$10,875,000	
	MLCRC First Reinsurance Layer	\$550,000,000	xs	\$3,750,000,000	5.7500%	\$31,625,000	
		\$1,000,000,000	xs	\$3,300,000,000	6.3500%	\$63,500,000	
	Second Transformer Layer (2004-2005)	\$200,000,000	xs	\$4,617,000,000	5.5000%	\$11,000,000	
	MLCRC Second Reinsurance Layer	\$300,000,000	xs	\$4,817,000,000	4.3500%	\$13,050,000	
		\$500,000,000	xs	\$4,617,000,000	4.8100%	\$24,050,000	
	Insurance In Force Adjustment ¹					\$4,484,662	
	Total		\$1,500,000,000	xs	\$3,300,000,000	6.1356%	\$92,034,662
	Percent Change from Previous Year		0.00%		-8.51%	-8.51%	
2004	MLCRC First Reinsurance Layer	\$700,000,000	xs	\$2,900,000,000	7.8500%	\$54,950,000	
	First Transformer Layer (2004-2005)	\$150,000,000	xs	\$3,600,000,000	7.2500%	\$10,875,000	
	MLCRC Second Reinsurance Layer	\$150,000,000	xs	\$3,750,000,000	6.3500%	\$9,525,000	
		\$1,000,000,000	xs	\$2,900,000,000	7.5350%	\$75,350,000	
	Second Transformer Layer (2004-2005)	\$200,000,000	xs	\$4,617,000,000	5.5000%	\$11,000,000	
	MLCRC Third Reinsurance Layer	\$300,000,000	xs	\$4,817,000,000	4.7500%	\$14,250,000	
		\$500,000,000	xs	\$4,617,000,000	5.0500%	\$25,250,000	
	Total		\$1,500,000,000	xs	\$2,900,000,000	6.7067%	\$100,600,000
	Percent Change from Previous Year		-2.47%		-6.40%	-8.72%	
	2003	MLCRC Coverage A	\$600,000,000	xs	\$2,900,000,000	8.8000%	\$52,800,000
MLCRC Coverage B		\$400,000,000	xs	\$3,500,000,000	7.2500%	\$29,000,000	
		\$1,000,000,000	xs	\$2,900,000,000	8.1800%	\$81,800,000	
Transformer Layer		\$200,000,000	xs	\$4,617,000,000	5.5000%	\$11,000,000	
MLCRC Coverage C		\$338,000,000	xs	\$4,817,000,000	5.1500%	\$17,407,000	
		\$538,000,000	xs	\$4,617,000,000	5.2801%	\$28,407,000	
Total			\$1,538,000,000	xs	\$2,900,000,000	7.1656%	\$110,207,000
Percent Change from Previous Year			-21.98%		6.99%	-16.53%	

**California Earthquake Authority
Historical Reinsurance Costs**

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium
2002	First Aggregate	\$1,433,620,000 xs	\$3,436,000,000	7.2500%	\$82,187,450
	First Aggregate (\$200M part of)	\$1,433,620,000 xs	\$3,436,000,000	7.1400%	\$14,280,000
	First Aggregate (\$100M part of)	\$1,433,620,000 xs	\$3,436,000,000	5.9900%	\$5,990,000
		\$1,433,620,000 xs	\$3,436,000,000	7.1468%	\$102,457,450
	Second Aggregate	\$537,607,500 xs	\$5,326,000,000	5.5000%	\$29,568,413 ²
	Total	\$1,971,227,500 xs	\$3,436,000,000	6.6976%	\$132,025,863
	Percent Change from Previous Year	0.00%		-13.69%	-13.69%
2001	First Aggregate	\$1,433,620,000 xs	\$3,130,000,000	8.5000%	\$96,357,700
	First Aggregate (\$200M part of)	\$1,433,620,000 xs	\$3,130,000,000	7.5000%	\$15,000,000
	First Aggregate (\$100M part of)	\$1,433,620,000 xs	\$3,130,000,000	5.9900%	\$5,990,000
		\$1,433,620,000 xs	\$3,130,000,000	8.1854%	\$117,347,700
	Second Aggregate	\$537,607,500 xs	\$5,281,000,000	6.6250%	\$35,616,497
	Total	\$1,971,227,500 xs	\$3,130,000,000	7.7598%	\$152,964,197
	Percent Change from Previous Year	-21.43%		-17.31%	-35.03%
2000	First Aggregate	\$1,433,620,000 xs	\$2,843,000,000	8.5000%	\$104,857,697
	First Aggregate (\$200M part of)	\$1,433,620,000 xs	\$2,843,000,000	7.5000%	\$15,000,002
		\$1,433,620,000 xs	\$2,843,000,000	8.3605%	\$119,857,699
	Second Aggregate	\$1,075,215,000 xs	\$4,993,000,000	10.7500%	\$115,585,613
		Total	\$2,508,835,000 xs	\$2,843,000,000	9.3846%
	Percent Change from Previous Year	0.00%		3.02%	3.02%
1999	First Aggregate	\$1,433,620,000 xs	\$2,602,000,000	11.0000%	\$157,698,200
	No Claims Bonus Paid to CEA				(\$28,970,456)
	Exposure Adjustment				(\$15,769,820)
	Revised ROL and Premium	\$1,433,620,000 xs	\$2,602,000,000	7.8792%	\$112,957,924
	Second Aggregate	\$1,075,215,000 xs	\$4,753,000,000	10.7500%	\$115,585,613
	Total	\$2,508,835,000 xs	\$2,602,000,000	9.1095%	\$228,543,537
	Percent Change from Previous Year	0.00%		-23.56%	-23.56%

**California Earthquake Authority
Historical Reinsurance Costs**

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium	
1998	First Aggregate	\$1,433,620,000	xs	\$2,726,000,000	14.3750%	\$206,082,875
	No Claims Bonus Paid to CEA					(\$22,687,734)
	Revised ROL and Premium	\$1,433,620,000	xs	\$2,726,000,000	12.7925%	\$183,395,141
	Second Aggregate	\$1,075,215,000	xs	\$4,877,000,000	10.7500%	\$115,585,613
	Total	\$2,508,835,000	xs	\$2,726,000,000	11.9171%	\$298,980,754
Percent Change from Previous Year		16.13%		-4.19%	11.27%	
1997	First Aggregate	\$1,433,620,000	xs	\$2,850,000,000	14.3750%	\$206,082,875
	No Claims Bonus Paid to CEA					(\$14,430,600)
	Revised ROL and Premium	\$1,433,620,000	xs	\$2,850,000,000	13.3684%	\$191,652,275
	Second Aggregate (1/1/98 - 3/31/98)	\$1,075,215,000	xs	\$4,877,000,000	10.7500%	\$28,896,403
	Second Aggregate (7/1/97 - 12/31/97)	\$716,810,000	xs	\$4,815,000,000	10.7500%	\$38,528,538
	Second Aggregate (4/1/97 - 6/30/97)	\$358,405,000	xs	\$5,001,000,000	10.7500%	\$9,632,134
	Total	\$2,160,430,000³	xs	\$2,850,000,000	12.4378%	\$268,709,350

¹ Based on IIF of \$198,926,424,765 at 12/31/05

² Twelve month annualized amount

³ Includes average limit for Second Aggregate of \$716.810M

Note: Retentions based on CEA Capital and retained earnings calculated at the beginning of the calendar year
Retentions were variable between 1997 - 2002

California Earthquake Authority Historical Reinsurance Costs

Supplemental-Limits

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium
2008	Combined Reinsurance Contract #1	\$150,000,000 xs	\$50,000,000	10.8500%	\$16,275,000
	Combined Reinsurance Contract #2	\$451,300,000 xs	\$200,000,000	5.7000%	\$25,725,000
Total		\$601,300,000 xs	\$50,000,000	6.9849%	\$42,000,000
Percent Change from Previous Year		1.45%		-1.43%	0.00%
2007	Supplemental-Limits Excess (1st Layer)	\$50,000,000 xs	\$50,000,000	14.2500%	\$7,125,000
	Supplemental-Limits Excess (2nd Layer)	\$200,000,000 xs	\$100,000,000	8.7375%	\$17,475,000
	Supplemental-Limits Excess (3rd Layer)	\$342,715,221 xs	\$300,000,000	5.0771%	\$17,400,000
Total		\$592,715,221 xs	\$50,000,000	7.0860%	\$42,000,000
Percent Change from Previous Year		306.36%		66.73%	577.53%
2006 ¹	Supplemental-Limits Excess	\$145,858,362 xs	\$450,000,000	4.2500%	\$6,198,980
Total		\$145,858,362 xs	\$450,000,000	4.2500%	\$6,198,980

¹ 2006 included quota share limit of \$450M

Supplemental Quota Share

Contract Period		Written Premium	Ceding Commission	Ceded Premium	Losses
Begin	End				
1/1/2005	12/31/2006	\$102,946,945	\$18,181,382	\$84,765,563	
7/1/2004	12/31/2004	\$16,102,397	\$2,232,406	\$13,869,991	
7/1/2003	6/30/2004	\$22,980,920	\$4,599,044	\$18,381,876	\$186,801
1/1/2003	6/30/2003	\$18,538,621	\$3,707,724	\$14,830,897	\$50,817
7/1/2002	12/31/2002	\$12,510,357	\$2,502,071	\$10,008,286	
3/1/2001	6/30/2002	\$27,527,388	\$5,505,478	\$22,021,910	
7/1/1999	2/28/2002	\$15,448,110	\$3,089,622	\$12,358,488	
Unearned Premium @ 12/31/2006		-\$24,138,678	-\$4,224,269	-\$19,914,409	
Total		\$191,916,060	\$35,593,458	\$156,322,602	\$237,618