



Date of Notice: Friday, February 15, 2013

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 West 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 Headquarters Building
Boardroom – Lobby, E-124
100 Waterfront Place
West Sacramento, California

DATE: Thursday, February 28, 2013

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 December 13, 2012, and December 31, 2012, 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. Mr. Richison will present to the Board a risk-transfer-program strategy for 2013.
6. Chief Communications Officer Chris Nance will seek Board approval of a Cooperative Marketing Venture, designed to permit the CEA and each of its participating insurers to work together toward the same ends by promoting both the CEA's and the participating insurer's insurance products.
7. Mr. Nance will seek Board authorization to amend the current contract with Natoma Technologies, Inc., to increase the development and quality-assurance resources needed to support CEA programs at the levels approved in the 2013 CEA budget.
8. Mr. Nance will seek Board approval of a 2013 budget augmentation to support the printing of new CEA insurance-policy brochures.
9. CEA Advisory Panel Chair Wayne Coulon will provide a summary of the proceedings of the January 17, 2013, Panel meeting.
10. Assistant Chief Financial Officer Mark Dawson will seek Board authorization to set the CEA participating insurers' respective maximum-earthquake-loss funding-assessment levels, effective April 1, 2013.
11. Chief Mitigation Officer Janiele Maffei will update the Board on the California Residential Mitigation Program (CRMP) incentive program.
12. Ms. Maffei and Director of Policy, Research and Special Projects Bruce Patton will report on the CEA-sponsored Mitigation Research Workshop held on January 24, 2013.
13. Mr. Patton will update the Board on recent developments in the CEA's Research Program.
14. 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.
15. Public comment on items that do not appear on this agenda and public requests that those matters be placed on a future agenda.
16. Adjournment.

For further information about this notice or its contents:

General Information:

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

California Earthquake Authority
801 K Street, Suite 1000
Sacramento, CA 95814-3518
Toll free (877) 797-4300

Media Contact:

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

To view this notice on the CEA Web site or to learn more about the CEA, please visit
www.EarthquakeAuthority.com

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.



Draft Meeting Minutes are not available.

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

Governing Board Memorandum

February 28, 2013

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, February 28, 2013
1:00 PM**

Financial Report Table of Contents

| Chart Title | Page |
|---|------|
| Financial Statements & Budgets | |
| Balance Sheet | 1 |
| Statement of Revenues, Expenses and Changes in Net Assets | 2 |
| Insurance Services Budgeted Expenditures and Actual Expenditures | 3 |
| Insurance Services Budgeted Expenditures and Actual Expenditures | 4 |
| Mitigation Budgeted Expenditures and Actual Expenditures | 5 |
| Investments | |
| Annual Investment Income as of December 31, 2012 | 6 |
| Investment Portfolio Distribution at Market Value as of December 31, 2012 | 7 |
| Investment Portfolio Distribution at Market Value as of December 31, 2012 | 8 |
| 12-Month Rolling Investment Return as of December 31, 2012 | 9 |
| Debt | |
| Schedule of Outstanding Debt as of December 31, 2012 | 10 |
| Claim-Paying Capacity | |
| Available Capital Report | 11 |
| Claim Paying Capacity as of December 31, 2012 | 12 |
| Risk-Transfer Program Summary as of December 31, 2012 | 13 |
| Percent of Reinsurance Program Limits as of December 31, 2012 | 14 |
| Total Claim-Paying Capacity as of December 31, 2012 | 15 |
| Claim Paying Capacity as of January 1, 2013 | 16 |
| Risk-Transfer Program Summary as of January 1, 2013 | 17 |
| Percent of Reinsurance Program Limits as of January 1, 2013 | 18 |
| Risk-Transfer Programs | |
| Annual Risk Transfer Premium and Limit | 19 |
| Annual Risk Transfer Base Premium and Limit | 20 |
| Annual Risk Transfer Premium and Limit last 5 years | 21 |
| Policy, Premiums, and Exposure | |
| Homeowners Policy Count as of December 31, 2012 | 22 |
| Mobilehome Policy Count as of December 31, 2012 | 23 |
| Condominium Policy Count as of December 31, 2012 | 24 |
| Renters Policy Count as of December 31, 2012 | 25 |
| All Policies Total Insured Value (TIV) as of December 31, 2012 | 26 |
| Homeowners Total Insured Value (TIV) as of December 31, 2012 | 27 |
| Mobilehome Total Insured Value (TIV) as of December 31, 2012 | 28 |
| Condominium Total Insured Value (TIV) as of December 31, 2012 | 29 |
| Renters Total Insured Value (TIV) as of December 31, 2012 | 30 |
| Average Homeowners Policy Premium and Insured Value as of December 31, 2013 | 31 |
| Annual Capital Accumulated from Premium | 32 |

Financial Statements & Budgets

California Earthquake Authority
Balance Sheet
As of December 31, 2012

Assets

| | |
|---|--------------------------------|
| Cash and investments: | |
| Cash and cash equivalents | 276,406,016 |
| Restricted cash & equivalents | 52,478,171 |
| Restricted investments | 314,130,654 |
| Investments | <u>4,161,672,966</u> |
| Total cash and investments | 4,804,687,807 |
| Premiums receivable, net of allowance for doubtful accounts of \$6,801,039 | 42,878,950 |
| Capital contributions receivable | - |
| Risk capital surcharge receivable | - |
| Interest receivable | 14,806,316 |
| Securities receivable | - |
| Restricted securities receivable | - |
| Prepaid reinsurance premium | 1,325,001 |
| Transformer reinsurance premium deposit | 14,634,112 |
| Prepaid transformer maintenance premium | 3,365,306 |
| Equipment, net | 458,543 |
| Deferred policy acquisition costs | 39,031,916 |
| Other assets | <u>613,532</u> |
| Total assets | <u><u>\$ 4,921,801,483</u></u> |
| Liabilities and Net Assets | |
| Unearned premiums | \$ 290,632,289 |
| Accounts payable and accrued expenses | 6,000,410 |
| Accrued reinsurance premium expense | 6,068,468 |
| Claim and claim expense reserves | 12,909 |
| Securities payable | - |
| Revenue bond payable | 126,000,000 |
| Revenue bond interest payable | <u>3,886,470</u> |
| Total liabilities | <u>432,600,546</u> |
| Net assets: | |
| Restricted, expendable | 238,418,554 |
| Unrestricted* | <u>4,250,782,383</u> |
| Total net assets | <u>4,489,200,937</u> |
| Total liabilities and net assets | <u><u>\$ 4,921,801,483</u></u> |

* Includes Cumulative Participating Insurer Contributed Capital of \$777,384,796
and State of California Contributed Capital of \$182,170,089

California Earthquake Authority
Statement of Revenues, Expenses and Changes in Net Assets
For the Year-to-Date Ended December 31, 2012

Underwriting income:

| | |
|-----------------------------------|--------------------|
| Premiums written | \$ 569,235,337 |
| Less premiums ceded - reinsurance | (222,817,695) |
| Less risk capital surcharge | - |
| Net premiums written | <u>346,417,642</u> |
| Change in unearned premiums | <u>19,267,042</u> |
| Net unearned premiums | <u>19,267,042</u> |
| Net premiums earned | <u>365,684,684</u> |

Expenses:

| | |
|--|-------------------|
| Claim and claims expense | 649,221 |
| Participating Insurer commissions | 58,867,335 |
| Participating Insurer operating costs | 18,237,966 |
| Reinsurance broker commissions | 4,800,000 |
| Pro forma premium taxes | 13,120,011 |
| Financing expenses, net | 7,274,681 |
| Earthquake Loss Mitigation Fund expenses | 474,086 |
| Other underwriting expenses | <u>25,596,294</u> |

| | |
|---------------------|--------------------|
| Total expenses | <u>129,019,594</u> |
| Underwriting profit | 236,665,090 |

| | |
|--|-------------------|
| Net investment income | 18,435,449 |
| Other income | 444,984 |
| Participating Insurer Contributed Capital | - |
| State of California premium tax contribution | <u>13,120,011</u> |
| Increase in net assets | 268,665,534 |

| | |
|-------------------------------|--------------------------------|
| Net assets, beginning of year | <u>4,220,535,403</u> |
| Net assets, end of year | <u><u>\$ 4,489,200,937</u></u> |

**California Earthquake Authority
Insurance Services
Budgeted Expenditures and Actual Expenditures
2012 Budget Year**

| | (a) | (b) | (c) | (d) (d=a+b+c) | (e) | (f) (f=d-e) | (g) (g=e/d) |
|--|---------------------------------|--|--|--|---|--|---|
| | <u>Approved 2012 Budget</u> | <u>Adjustments thru 12/31/2012</u> | <u>Augmentations thru 12/31/2012</u> | <u>2012 Budget after Augmentations and Adjustments</u> | <u>Actual Expenditures as of 12/31/12</u> | <u>Augmented & Adjusted Approved Budget (d) vs. Actual Expenses (e) as of 12/31/12</u> | <u>Percentage used of Augmented & Adjusted Approved 2012 Budget</u> |
| Salaries & Benefits | \$ 8,015,624 | \$ 3,037,642 | \$ - | \$ 11,053,266 | \$ 11,091,700 | \$ (38,434) | 100.35% |
| Rent | 635,593 | 98,268 | - | 733,861 | 727,529 | 6,332 | 99.14% |
| Travel | 335,402 | 33,433 | - | 368,835 | 345,650 | 23,185 | 93.71% |
| Non-paid Consultant Travel | 8,066 | (6,402) | - | 1,664 | 1,387 | 277 | 83.35% |
| Telecommunications | 232,707 | (17,314) | - | 215,393 | 248,221 | (32,828) | 115.24% |
| Training | 161,668 | 37,219 | - | 198,887 | 174,044 | 24,843 | 87.51% |
| Insurance | 143,078 | 337 | - | 143,415 | 143,415 | - | 100.00% |
| Board/Panel Services | 19,781 | 3,255 | - | 23,036 | 27,562 | (4,526) | 119.65% |
| Administration & Office | 1,037,706 | 185,221 | - | 1,222,927 | 1,234,999 | (12,072) | 100.99% |
| (Software Maint & Support, Printing & Stationery, Postage) | | | | | | - | |
| Administrative Contracted Services | | | | | | - | |
| Data Mgmt Services | 493,170 | 50,521 | - | 543,691 | 576,549 | (32,858) | 106.04% |
| Other Administrative Contracted Services | 37,780 | 11,713 | - | 49,493 | 64,756 | (15,263) | 130.84% |
| Furniture/Equipment | 41,005 | (7,587) | - | 33,418 | 28,718 | 4,700 | 85.94% |
| EDP Hardware/Software | 215,671 | 133,544 | - | 349,215 | 343,334 | 5,881 | 98.32% |
| Dept of Insurance Examination | 28,954 | (63,857) | - | (34,903) | (34,870) | (33) | 99.91% |
| Total Operating Expenses | \$ 11,406,205 | \$ 3,495,993 | \$ - | \$ 14,902,198 | \$ 14,972,994 | \$ (70,796) | 100.48% |
| Consulting Services | | | | | | | |
| Actuarial | 25,000 | (25,000) | - | - | - | - | 0.00% |
| Executive Recruiting | 45,000 | (45,000) | - | - | - | - | 0.00% |
| Financial Consulting | 300,615 | - | - | 300,615 | 287,464 | 13,151 | 95.63% |
| Government Relations | 217,301 | 46,274 | - | 263,575 | 313,205 | (49,630) | 118.83% |
| Information Systems | 1,642,708 | (892,708) | - | 750,000 | 824,110 | (74,110) | 109.88% |
| Information Technology | 6,000 | - | - | 6,000 | 5,000 | 1,000 | 83.33% |
| Internal Audit | 86,843 | (93,659) | - | (6,816) | (8,316) | 1,500 | 122.01% |
| Investment Compliance | 20,000 | (20,000) | - | - | - | - | 0.00% |
| Legal Consulting | 5,395 | (5,395) | - | - | - | - | 0.00% |
| Public Relations | 200,000 | (200,000) | - | - | - | - | 0.00% |
| Other Consulting Services | 296,859 | (101,019) | - | 195,840 | 220,406 | (24,566) | 112.54% |
| Total Consulting Services | \$ 2,845,721 | \$ (1,336,507) | \$ - | \$ 1,509,214 | \$ 1,641,869 | \$ (132,655) | 108.79% |

California Earthquake Authority
Insurance Services
Budgeted Expenditures and Actual Expenditures
2012 Budget Year

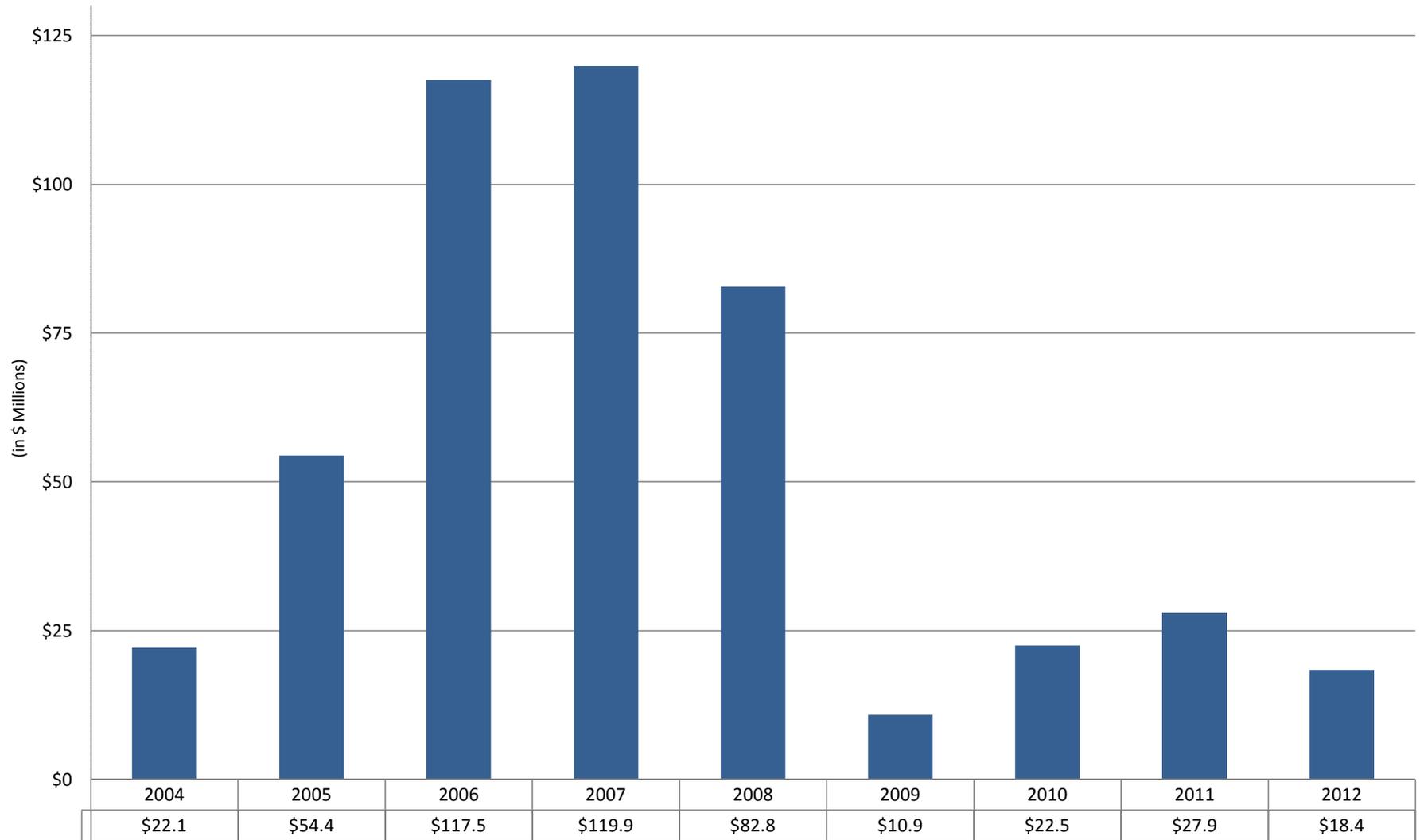
| | (a) | (b) | (c) | (d) | (e) | (f) | (g) |
|---------------------------------------|---------------------------------|--|--|--|---|--|---|
| | | | | (d=a+b+c) | | (f=d-e) | (g=e/d) |
| | <u>Approved 2012 Budget</u> | <u>Adjustments thru 12/31/2012</u> | <u>Augmentations thru 12/31/2012</u> | <u>2012 Budget after Augmentations and Adjustments</u> | <u>Actual Expenditures as of 12/31/12</u> | <u>Augmented & Adjusted Approved Budget (d) vs. Actual Expenses (e) as of 12/31/12</u> | <u>Percentage used of Augmented & Adjusted Approved 2012 Budget</u> |
| Research | \$ 1,018,000 | \$ - | \$ - | \$ 1,018,000 | \$ 559,000 | \$ 459,000 | 54.91% |
| Contracted Services | | | | | | | |
| Audit Services | 160,000 | (30,000) | - | 130,000 | 130,000 | - | 100.00% |
| Brochure/Information Products | 175 | - | - | 175 | - | 175 | 0.00% |
| Consumer Services | - | - | - | - | (1,238) | 1,238 | 0.00% |
| Contracted Marketing & Outreach | 348,065 | (312,000) | - | 36,065 | 20,435 | 15,630 | 56.66% |
| Legal Services-Claims Counsel | 200,000 | 508,876 | - | 708,876 | 588,502 | 120,374 | 83.02% |
| Legal Service - Non-Claims | 2,685,698 | - | - | 2,685,698 | 3,056,381 | (370,683) | 113.80% |
| Marketing Services | 9,239,714 | (425,000) | - | 8,814,714 | 7,763,174 | 1,051,540 | 88.07% |
| Media Services | 137,000 | (137,000) | - | - | - | - | 0.00% |
| Modeling Services | 666,470 | 244,778 | - | 911,248 | 909,768 | 1,480 | 99.84% |
| Web Development/Maintenance | - | - | - | - | - | - | 0.00% |
| Rating Agencies | - | - | - | - | 186,400 | (186,400) | 0.00% |
| Other Contracted Services | 675,758 | (570,000) | - | 105,758 | 70,063 | 35,695 | 66.25% |
| Total Contracted Services | \$ 14,112,880 | \$ (720,346) | \$ - | \$ 13,392,534 | \$ 12,723,485 | \$ 669,049 | 95.00% |
| Participating Insurer Commissions | 68,573,084 | (957,679) | - | 67,615,405 | 56,940,631 | 10,674,774 | 84.21% |
| Participating Insurer Operating Costs | 21,189,083 | - | - | 21,189,083 | 17,577,106 | 3,611,977 | 82.95% |
| Investment Expenses | 2,077,067 | - | - | 2,077,067 | 2,061,926 | 15,141 | 99.27% |
| Financing Expenses | 8,864,057 | 423,383 | - | 9,287,440 | 9,077,731 | 209,709 | 97.74% |
| Reinsurance | 200,453,436 | (904,844) | 27,188,128 | 226,736,720 | 227,617,695 | (880,975) | 100.39% |
| Total Expenditures | \$ 330,539,533 | \$ - | \$ 27,188,128 | \$ 357,727,661 | \$ 343,172,437 | \$ 14,555,224 | 95.93% |

**California Earthquake Authority
Mitigation
Budgeted Expenditures and Actual Expenditures
2012 Budget Year**

| | (a) | (b) | (c) | (d) (d=a+b+c) | (e) | (f) (f=d-e) | (g) (g=e/d) |
|--|---------------------------------|--|--|--|---|--|---|
| | <u>Approved 2012 Budget</u> | <u>Adjustments thru 12/31/2012</u> | <u>Augmentations thru 12/31/2012</u> | <u>2012 Budget after Augmentations and Adjustments</u> | <u>Actual Expenditures as of 12/31/12</u> | <u>Augmented & Adjusted Approved Budget (d) vs. Actual Expenses (e) as of 12/31/12</u> | <u>Percentage used of Augmented & Adjusted Approved 2012 Budget</u> |
| Salaries & Benefits | \$ 271,500 | \$ - | \$ - | \$ 271,500 | \$ 259,449 | \$ 12,051 | 95.56% |
| Rent | 21,000 | - | - | 21,000 | 22,716 | (1,716) | 108.17% |
| Travel | 30,000 | - | - | 30,000 | 25,474 | 4,526 | 84.91% |
| Non-paid Consultant Travel | - | - | - | - | - | - | 0.00% |
| Telecommunications | 7,000 | - | - | 7,000 | 5,700 | 1,300 | 81.43% |
| Training | 15,000 | - | - | 15,000 | 6,336 | 8,664 | 42.24% |
| Insurance | 5,000 | - | - | 5,000 | - | 5,000 | 0.00% |
| Board/Panel Services | - | - | - | - | - | - | 0.00% |
| Administration & Office | 32,000 | - | - | 32,000 | 23,979 | 8,021 | 74.93% |
| (Software Maint & Support, Printing & Stationery, Postage) | | | | | | | |
| Administrative Contracted Services | | | | | | | |
| Data Mgmt Services | - | - | - | - | - | - | 0.00% |
| Other Administrative Contracted Services | - | - | - | - | - | - | 0.00% |
| Furniture/Equipment | 900 | - | - | 900 | 339 | 561 | 37.67% |
| EDP Hardware/Software | - | - | - | - | 605 | (605) | 0.00% |
| Dept of Insurance Examination | - | - | - | - | - | - | 0.00% |
| Total Operating Expenses | \$ 382,400 | \$ - | \$ - | \$ 382,400 | \$ 344,598 | \$ 37,802 | 90.11% |
| Consulting Services | | | | | | | |
| Other Consulting Services | 50,000 | - | - | 50,000 | - | 50,000 | 0.00% |
| Total Consulting Services | \$ 50,000 | \$ - | \$ - | \$ 50,000 | \$ - | \$ 50,000 | 0.00% |
| Contracted Services | | | | | | | |
| Marketing Services | 100,000 | - | - | 100,000 | 100,594 | (594) | 100.59% |
| Total Contracted Services | \$ 100,000 | \$ - | \$ - | \$ 100,000 | \$ 100,594 | (594) | 100.59% |
| Investment Expenses | 25,000 | - | - | 25,000 | 20,808 | 4,192 | 83.23% |
| Total Expenditures | \$ 557,400 | \$ - | \$ - | \$ 557,400 | \$ 466,000 | \$ 91,400 | 83.60% |

Investments

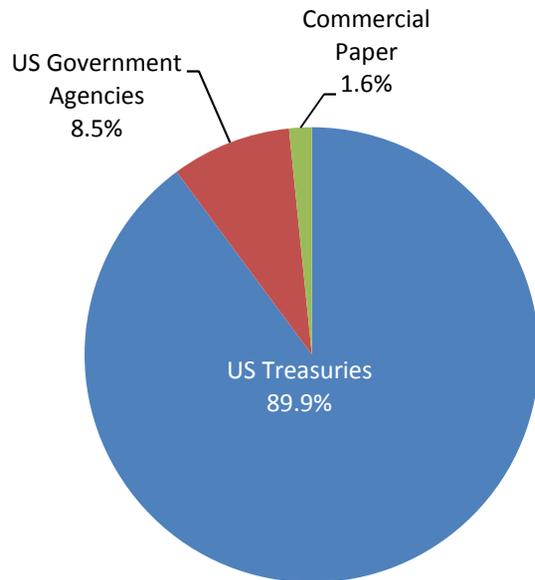
**California Earthquake Authority
Annual Investment Income
as of December 31, 2012**



NOTE: Prior to 2009, investment income was reported from FASB financial statements which did not include unrealized gains or losses and were net of manager fees.

**California Earthquake Authority
Investment Portfolio Distribution at Market Value
as of December 31, 2012**

CEA Liquidity and Primary Fund: \$4,431,037,946
 Claim-paying Fund: \$314,129,302
 Mitigation Fund: \$24,602,714

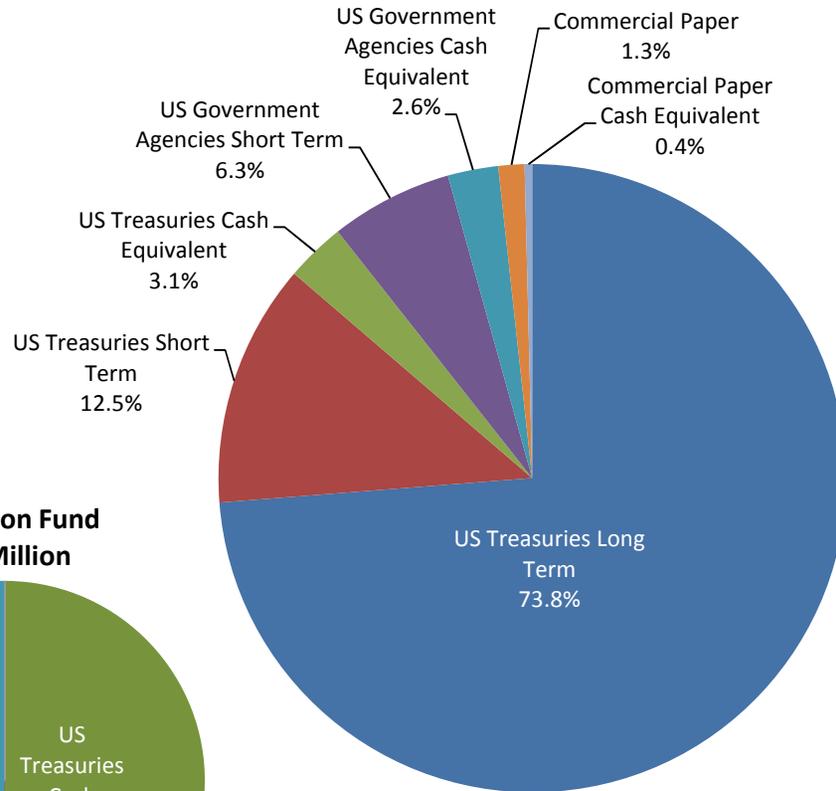


The asset allocation of the three funds are as follows:

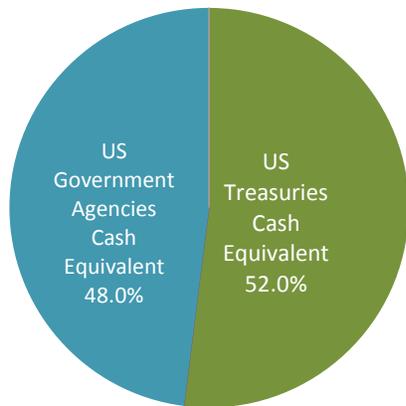
| | CEA Liq. & Prim. Fund | Claim-paying Fund | Mitigation Fund |
|--|-----------------------------|----------------------|--------------------|
| US Treasuries - Long Term | 73.8% | 99.8% | 0.0% |
| US Treasuries - Short Term | 12.5% | 0.2% | 0.0% |
| US Treasuries - Cash Equivalent | 3.1% | 0.0% | 52.0% |
| US Government Agencies - Short Term | 6.3% | 0.0% | 0.0% |
| US Government Agencies - Cash Equivalent | 2.6% | 0.0% | 48.0% |
| Commercial Paper | 1.3% | 0.0% | 0.0% |
| Commercial Paper Cash Equivalent | 0.4% | 0.0% | 0.0% |
| Totals | 100% | 100% | 100% |

**California Earthquake Authority
Investment Portfolio Distribution at Market Value
as of December 31, 2012**

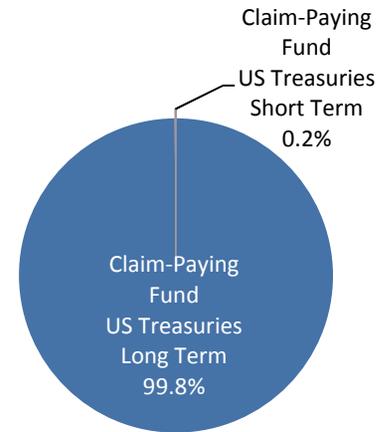
**CEA Liquidity & Primary Fund
\$4,431 Million**



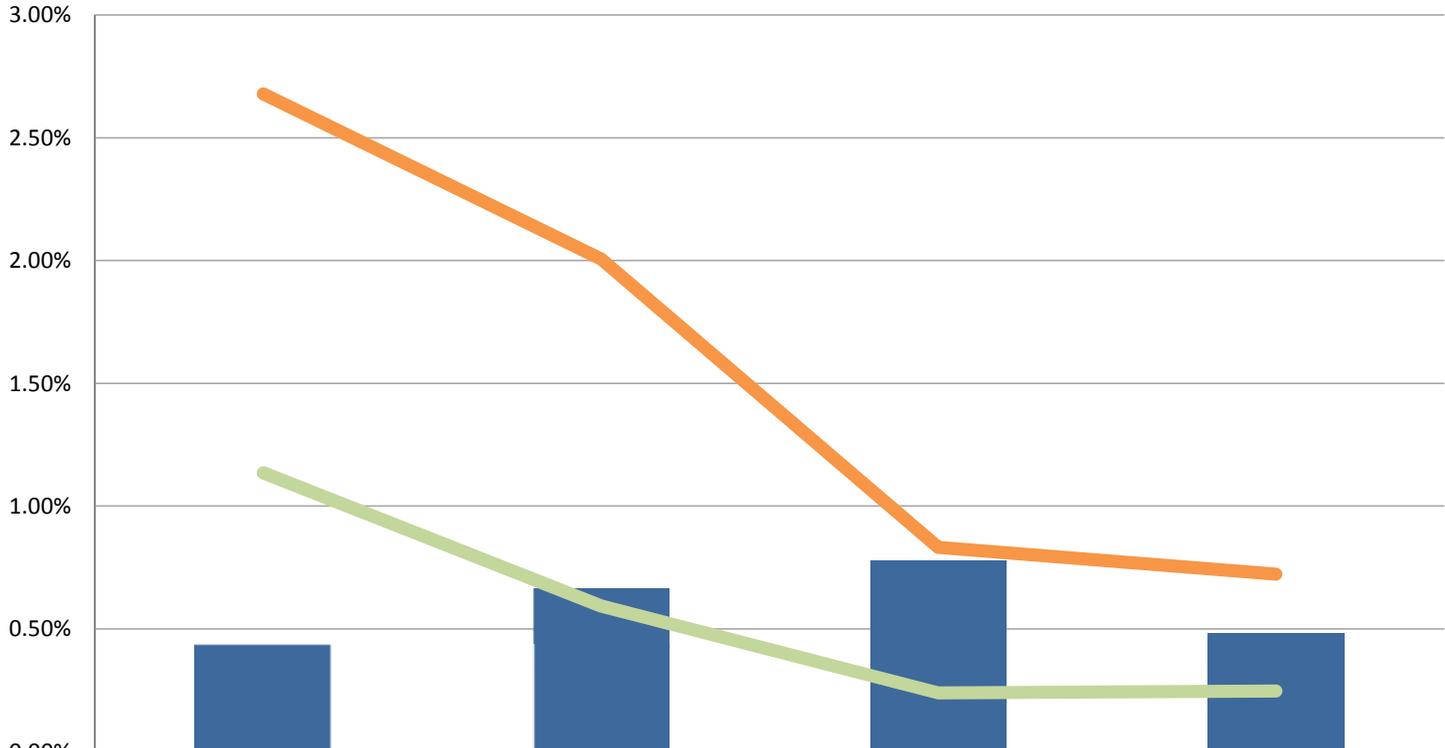
**Mitigation Fund
\$25 Million**



**Claim-Paying Fund
\$314 Million**



**California Earthquake Authority
12-Month Rolling Investment Return
as of December 31, 2012**



| | 2009 | 2010 | 2011 | 2012 |
|-------------------------------|-------|-------|-------|-------|
| CEA Rolling Investment Return | 0.43% | 0.66% | 0.77% | 0.48% |
| 2-yr Treasuries | 1.14% | 0.59% | 0.24% | 0.25% |
| 5-yr Treasuries | 2.68% | 2.01% | 0.83% | 0.72% |

NOTE: Gross of Investment Manager Fees

Debt

**California Earthquake Authority
Schedule of Outstanding Debt**

| DEBT | ISSUANCE AMOUNT | INTEREST RATE | NET PROCEEDS | OUTSTANDING PRINCIPAL | AS OF DATE | MOODY'S RATING* | FITCH RATING* |
|---------------------------|----------------------------|--------------------------|-------------------------|----------------------------------|-------------------|----------------------------|--------------------------|
| Series 2006 Revenue Bonds | \$ 315,000,000 | 6.169% | \$ 310,829,067 | \$ 126,000,000 | 31-Dec-2012 | A3 Outlook Stable | A Outlook Stable |

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-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 |

*Ratings of 'A3' and 'A' since 2006

Claim-Paying Capacity

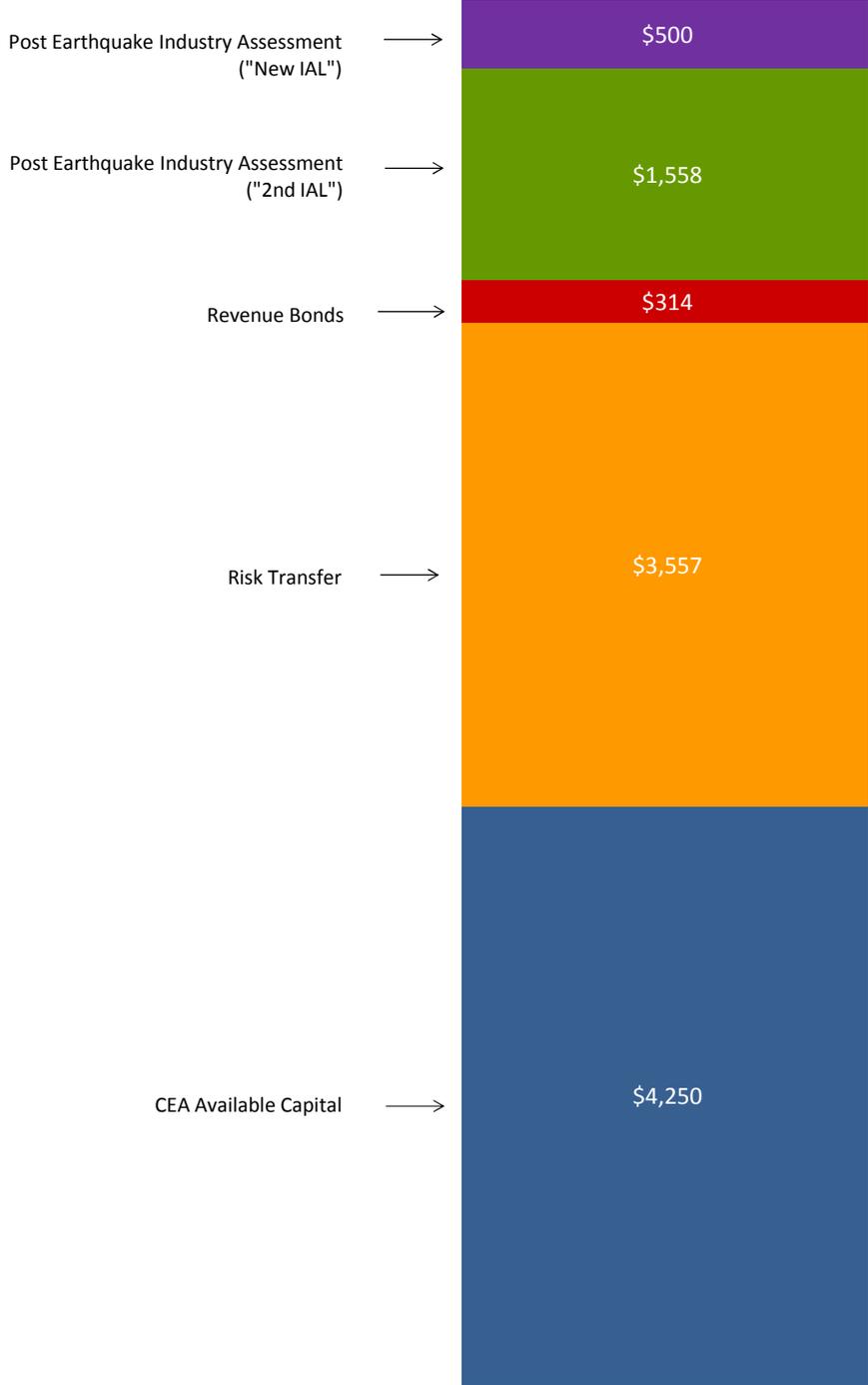
**California Earthquake Authority
Available Capital Report**

Capital as of December 31, 2012

| | |
|--|---------------------------------------|
| Cash & Investments (includes capital contributions and premiums) | \$ 4,780,084,253 * |
| Interest, Securities & Restricted Securities Receivable | \$ 14,806,316 |
| Premium Receivable | \$ 42,878,950 |
| Risk Capital Surcharge & Capital Contributions Receivable | \$ - |
| Other Assets | \$ 613,532 |
| Investments from Revenue Bond Proceeds | \$ (314,129,302) |
| Debt Service (Interest, Principal & Debt Service (Min. Bal.)) | \$ (53,124,662) |
| Unearned Premium Collected | \$ (208,717,229) |
| Accrued Reinsurance Premium Expense | \$ (6,068,468) |
| Accounts and Securities Payable, and Accrued Expenses | \$ (6,000,410) |
| CEA Available Capital | <u><u>\$ 4,250,342,980</u></u> |

* Does not include Earthquake Loss Mitigation Fund cash and investments of \$24,603,554

**California Earthquake Authority
Claim-paying Capacity
as of December 31, 2012**



Total Capacity \$10,179M

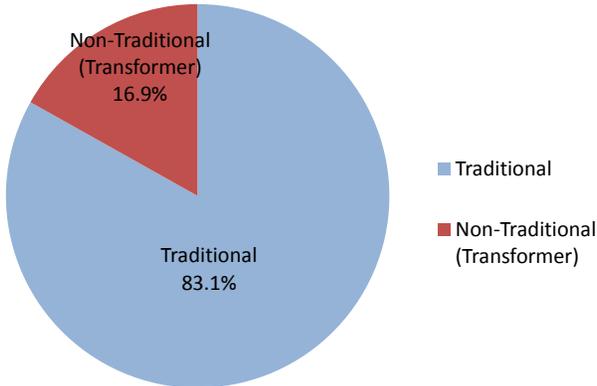
A.M. Best Rating 'A-' since 2002
Outlook Stable

**California Earthquake Authority
Risk-Transfer Program Summary
as of December 31, 2012**

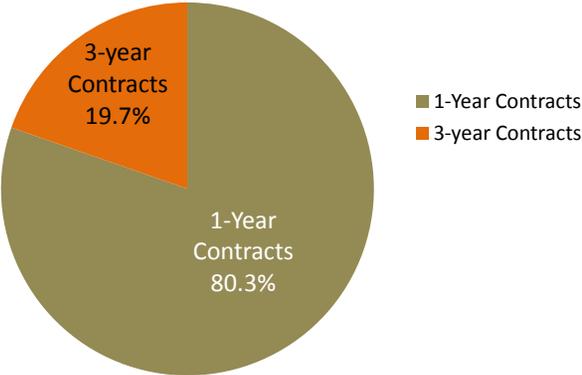
| Traditional Reinsurance Contracts | Contract Period | Reinsurance Limit | 12-Month Rate-on-Line | 12-Month Premium |
|--|-------------------------------------|--------------------------|------------------------------|-------------------------|
| Contract A | January 1, 2012 - December 31, 2012 | 655,220,000 | 7.00% | 45,865,400 |
| Contract A1 | January 1, 2012 - December 31, 2012 | 400,000,000 | 7.30% | 29,200,000 |
| Contract A2 | January 1, 2012 - December 31, 2012 | 200,000,000 | 7.15% | 14,300,000 |
| Contract A3 | January 1, 2012 - December 31, 2012 | 250,000,000 | 7.20% | 18,000,000 |
| Contract B | April 1, 2012 - March 31, 2013 | 1,251,464,950 | 6.20% | 77,590,827 |
| Contract C | May 1, 2012 - April 30, 2013 | 100,000,000 | 4.50% | 4,500,000 |
| September Program Contract #1 | September 1, 2012 - August 31, 2015 | 100,000,000 | 5.70% | 5,700,000 |
| Total Traditional Reinsurance | | 2,956,684,950 | | |
| Transformer Reinsurance Contracts | Contract Period | Reinsurance Limit | 12-Month Rate-on-Line | 12-Month Premium |
| Contract 1 | August 2, 2011 – August 1, 2014 | 150,000,000 | 7.78% | 11,670,000 |
| Contract 2 | February 7, 2012 – February 6, 2015 | 150,000,000 | 8.39% | 12,585,000 |
| Contract 3 | August 1, 2012 – July 31, 2015 | 300,000,000 | 5.64% | 16,923,000 |
| Total Transformer Reinsurance | | 600,000,000 | | |
| Total Risk-Transfer | | 3,556,684,950 | | |

**Risk -Transfer Program Limits
as of December 31, 2012**

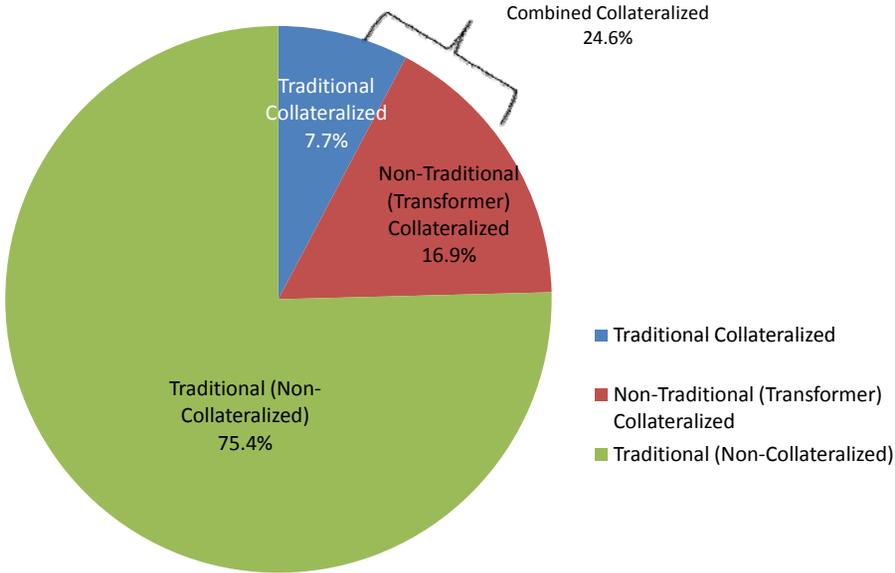
Traditional and Non-Traditional Program Limits



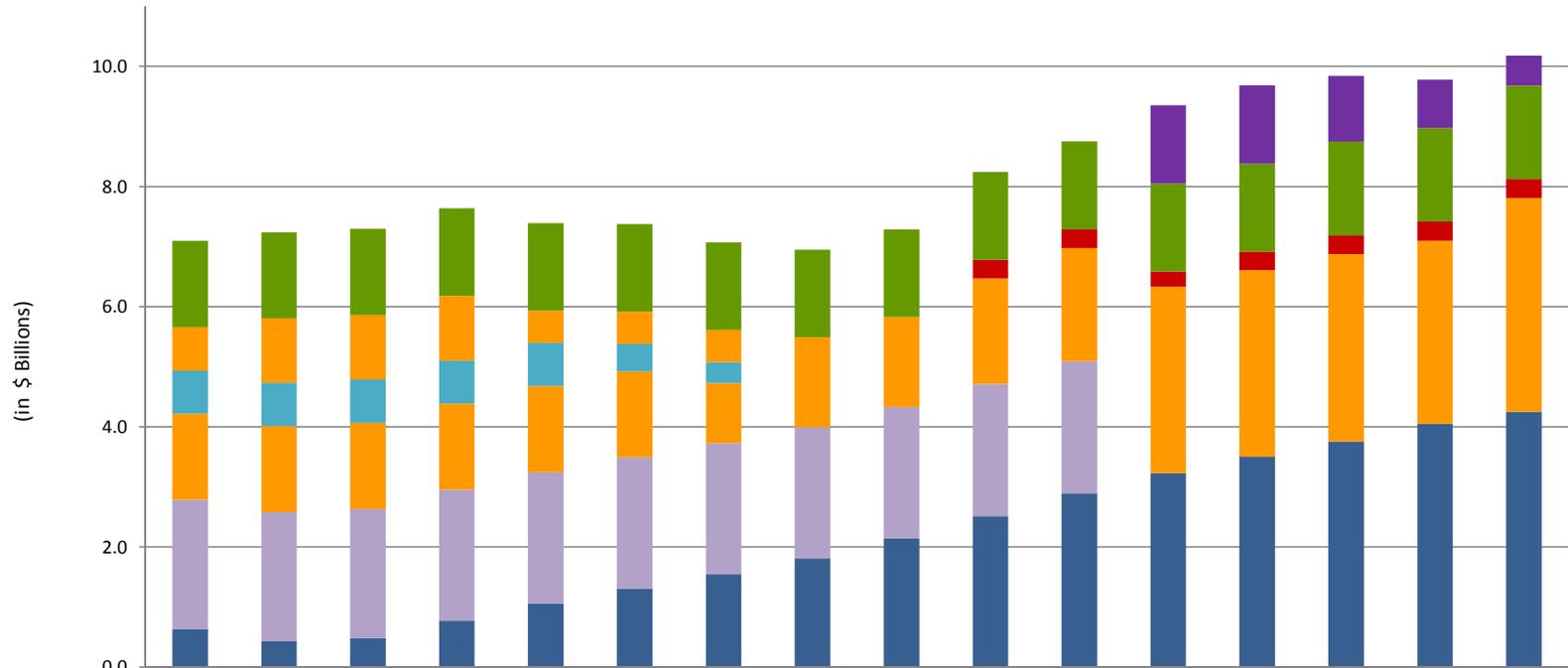
1-Year and 3-Year Contract Program Limits



Non-Collateralized vs. Collateralized



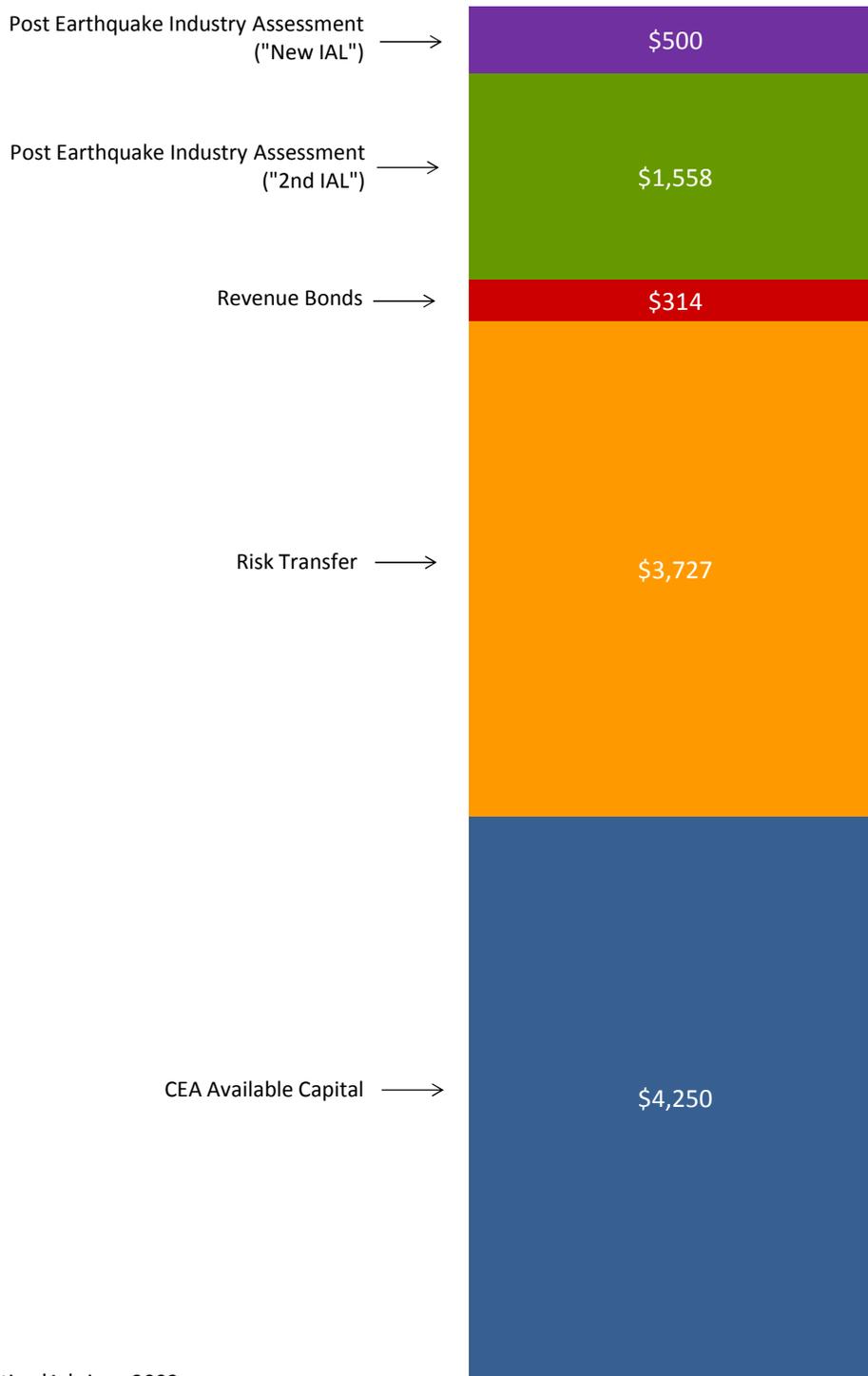
**California Earthquake Authority
Total Claim-Paying Capacity (CPC)
as of December 31, 2012**



| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| Total CPC | \$7.095 | \$7.240 | \$7.293 | \$7.635 | \$7.390 | \$7.373 | \$7.069 | \$6.948 | \$7.284 | \$8.244 | \$8.752 | \$9.354 | \$9.685 | \$9.840 | \$9.777 | \$10.179 |
| 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 | 0.500 |
| 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 | 1.558 |
| Revenue Bonds | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.311 | 0.311 | 0.254 | 0.311 | 0.311 | 0.317 | 0.314 |
| Risk Transfer, 2nd Layer | 0.727 | 1.075 | 1.075 | 1.075 | 0.538 | 0.538 | 0.538 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Line of Credit | 0.716 | 0.716 | 0.716 | 0.716 | 0.716 | 0.456 | 0.348 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Risk Transfer, 1st Layer | 1.433 | 1.433 | 1.433 | 1.433 | 1.433 | 1.433 | 1.000 | 1.500 | 1.500 | 1.756 | 1.885 | 3.100 | 3.100 | 3.123 | 3.050 | 3.557 |
| 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 | 0.000 |
| CEA Available Capital | 0.635 | 0.432 | 0.485 | 0.772 | 1.064 | 1.307 | 1.544 | 1.809 | 2.145 | 2.515 | 2.894 | 3.231 | 3.505 | 3.753 | 4.048 | 4.250 |

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

**California Earthquake Authority
Claim-paying Capacity
as of January 1, 2013**



Total Capacity \$10,349M

A.M. Best Rating 'A-' since 2002
Outlook Stable

**California Earthquake Authority
Risk-Transfer Program Summary
as of January 1, 2013**

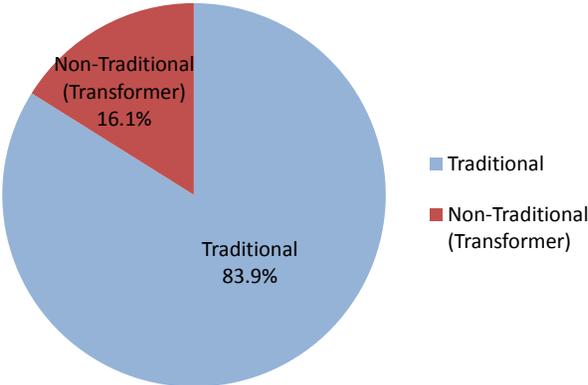
| Traditional Reinsurance Contracts | Contract Period | Reinsurance Limit | 12-Month Rate-on-Line | 12-Month Premium |
|--|-------------------------------------|--------------------------|------------------------------|-------------------------|
| January Program | January 1, 2013 - December 31, 2013 | 725,595,310 | 6.90% | 50,066,076 |
| August Program Contract 1 | January 1, 2012 - July 31, 2013 | 500,000,000 | 7.20% | 36,000,000 |
| August Program Contract 2 | January 1, 2012 - July 31, 2013 | 200,000,000 | 7.15% | 14,300,000 |
| August Program Contract 3 | January 1, 2012 - July 31, 2013 | 250,000,000 | 7.20% | 18,000,000 |
| Contract B | April 1, 2012 - March 31, 2013 | 1,251,464,950 | 6.20% | 77,590,827 |
| Program C | May 1, 2012 - April 30, 2013 | 100,000,000 | 4.50% | 4,500,000 |
| September Program | September 1, 2012 - August 31, 2015 | 100,000,000 | 5.70% | 5,700,000 |
| Total Traditional Reinsurance | | 3,127,060,260 | | |

| Transformer Reinsurance Contracts | Contract Period | Reinsurance Limit | 12-Month Rate-on-Line | 12-Month Premium |
|--|-------------------------------------|--------------------------|------------------------------|-------------------------|
| Contract 1 | August 2, 2011 – August 1, 2014 | 150,000,000 | 7.78% | 11,670,000 |
| Contract 2 | February 7, 2012 – February 6, 2015 | 150,000,000 | 8.39% | 12,585,000 |
| Contract 3 | August 1, 2012 – July 31, 2015 | 300,000,000 | 5.64% | 16,923,000 |
| Total Transformer Reinsurance | | 600,000,000 | | |

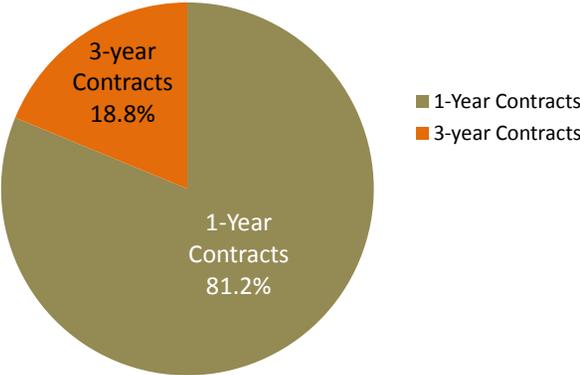
| | |
|----------------------------|----------------------|
| Total Risk-Transfer | 3,727,060,260 |
|----------------------------|----------------------|

Risk -Transfer Program Limits as of January 1, 2013

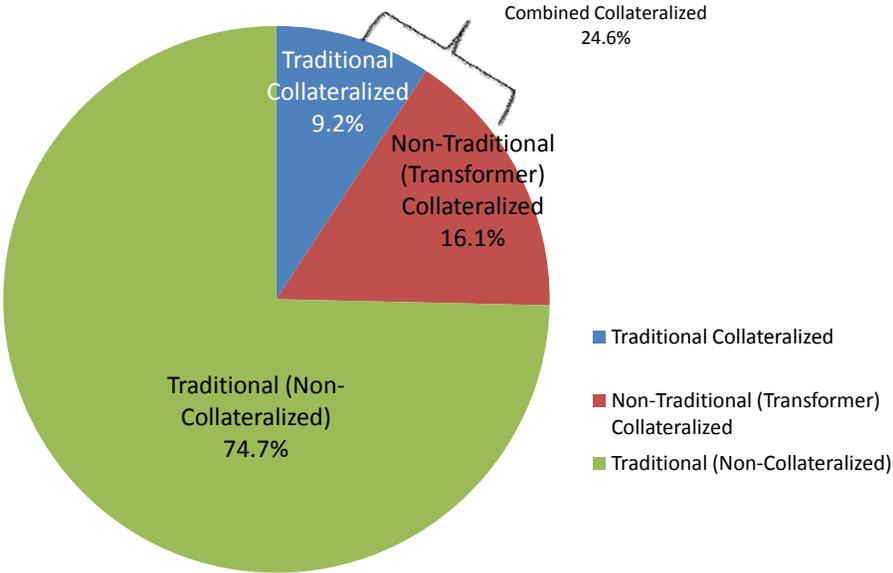
Traditional and Non-Traditional Program Limits



1-Year and 3-Year Contract Program Limits

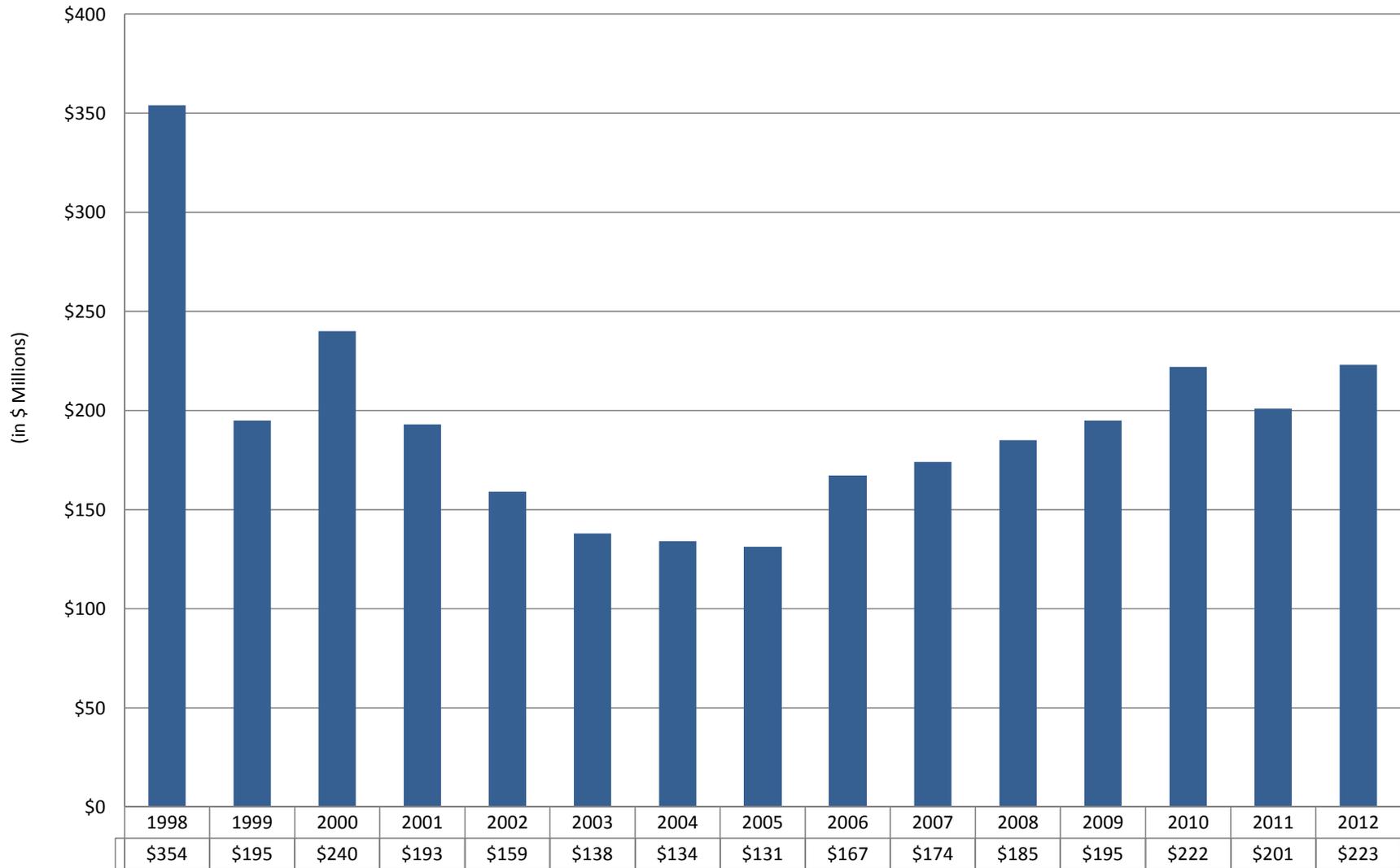


Non-Collateralized vs. Collateralized

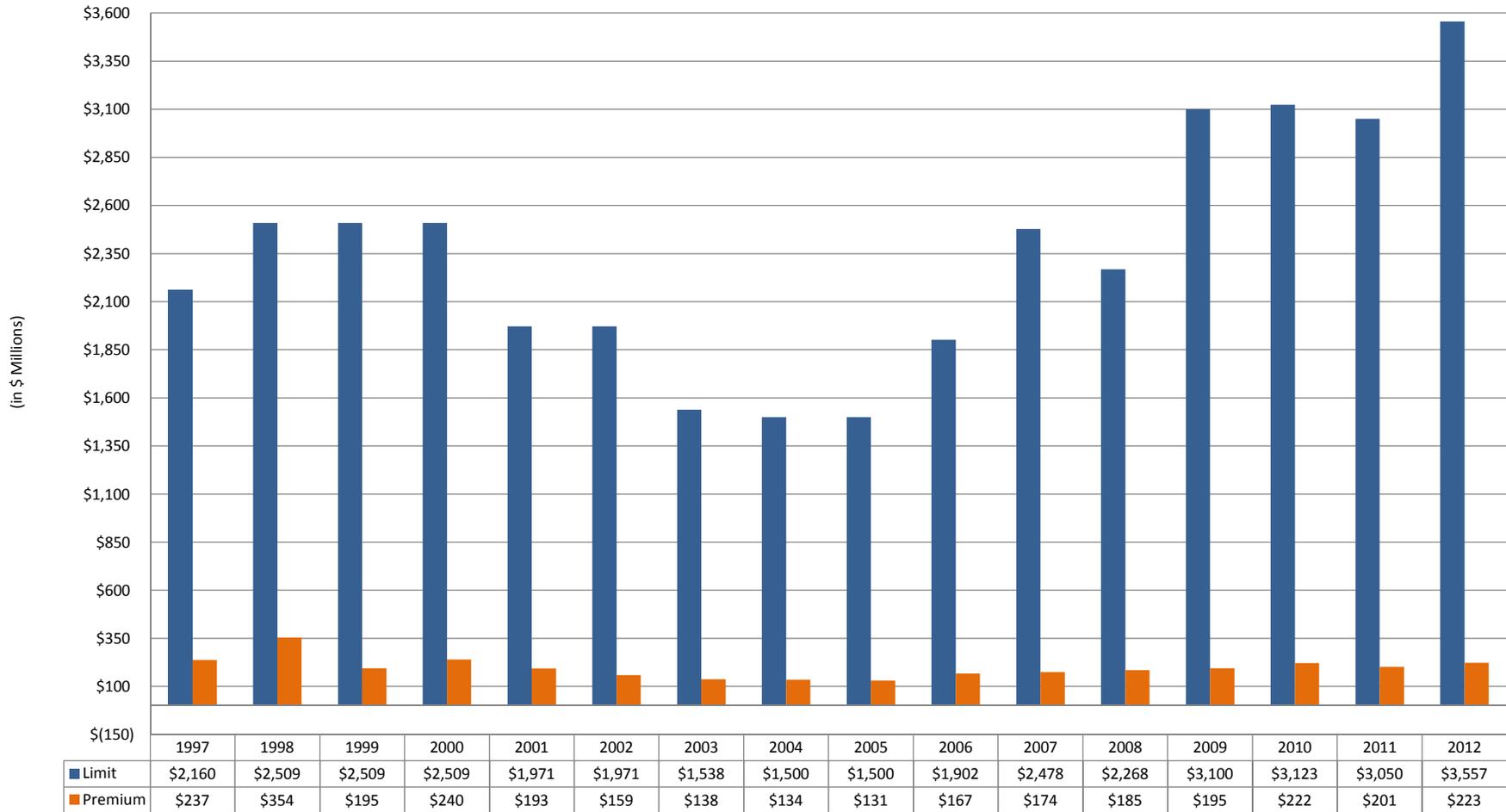


Risk-Transfer Programs

**California Earthquake Authority
Annual Risk Transfer Premium
as of December 31, 2012**

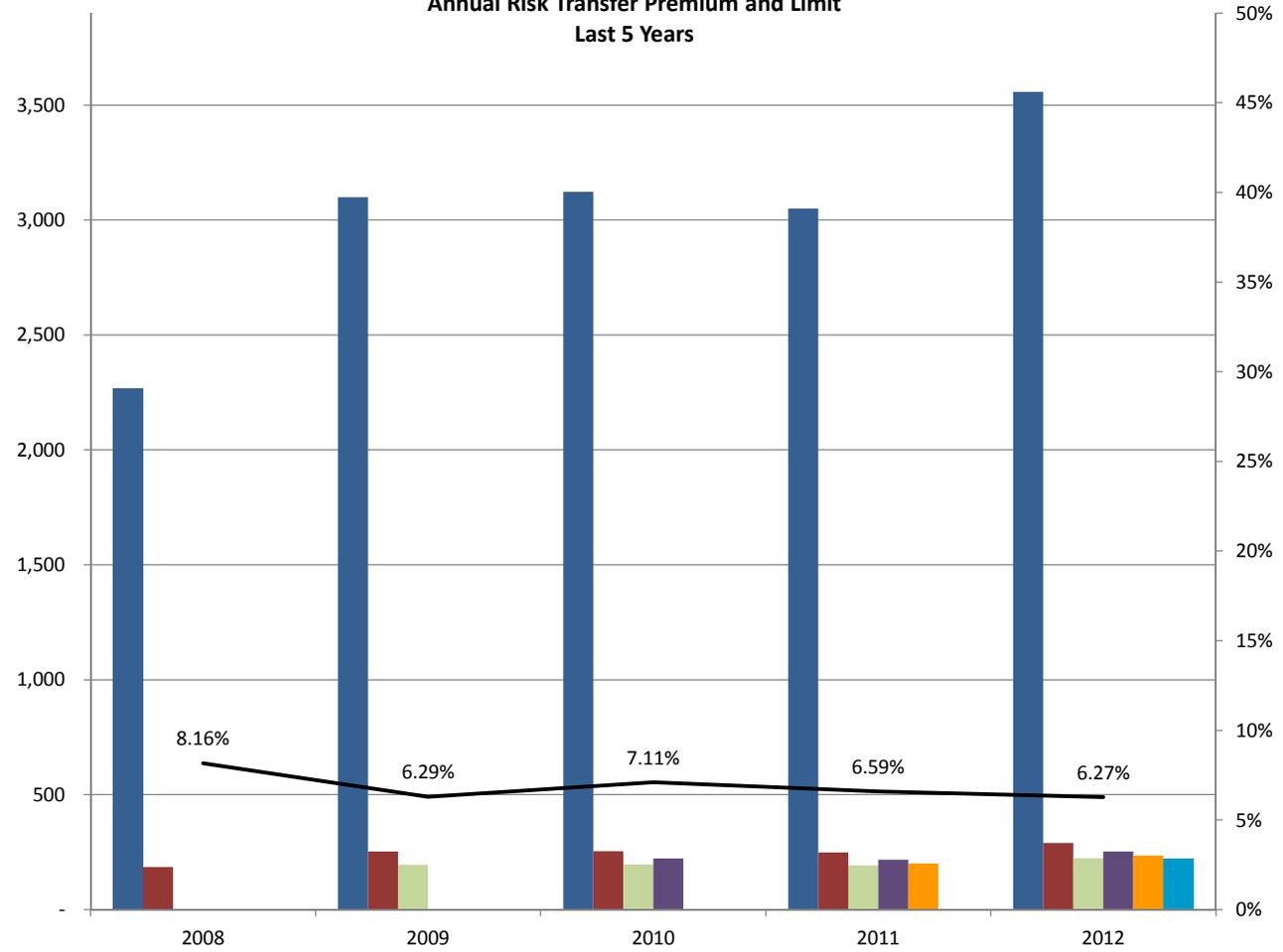


**California Earthquake Authority
Annual Risk Transfer Premium and Limit
as of December 31, 2012**



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

**California Earthquake Authority
Annual Risk Transfer Premium and Limit
Last 5 Years**



| | |
|-----------------------------------|--|
| Limit (in \$ millions) | |
| Annual limit increase/decrease | |
| 2008 ROL Premium (in \$ millions) | |
| 2009 ROL Premium (in \$ millions) | |
| 2010 ROL Premium (in \$ millions) | |
| 2011 ROL Premium (in \$ millions) | |
| 2012 ROL Premium (in \$ millions) | |
| Average Rate-on-Line | |

| |
|-------|
| 2,268 |
| -8.5% |
| 185 |
| - |
| - |
| - |
| 8.16% |

| |
|-------|
| 3,100 |
| 36.7% |
| 253 |
| 195 |
| - |
| - |
| 6.29% |

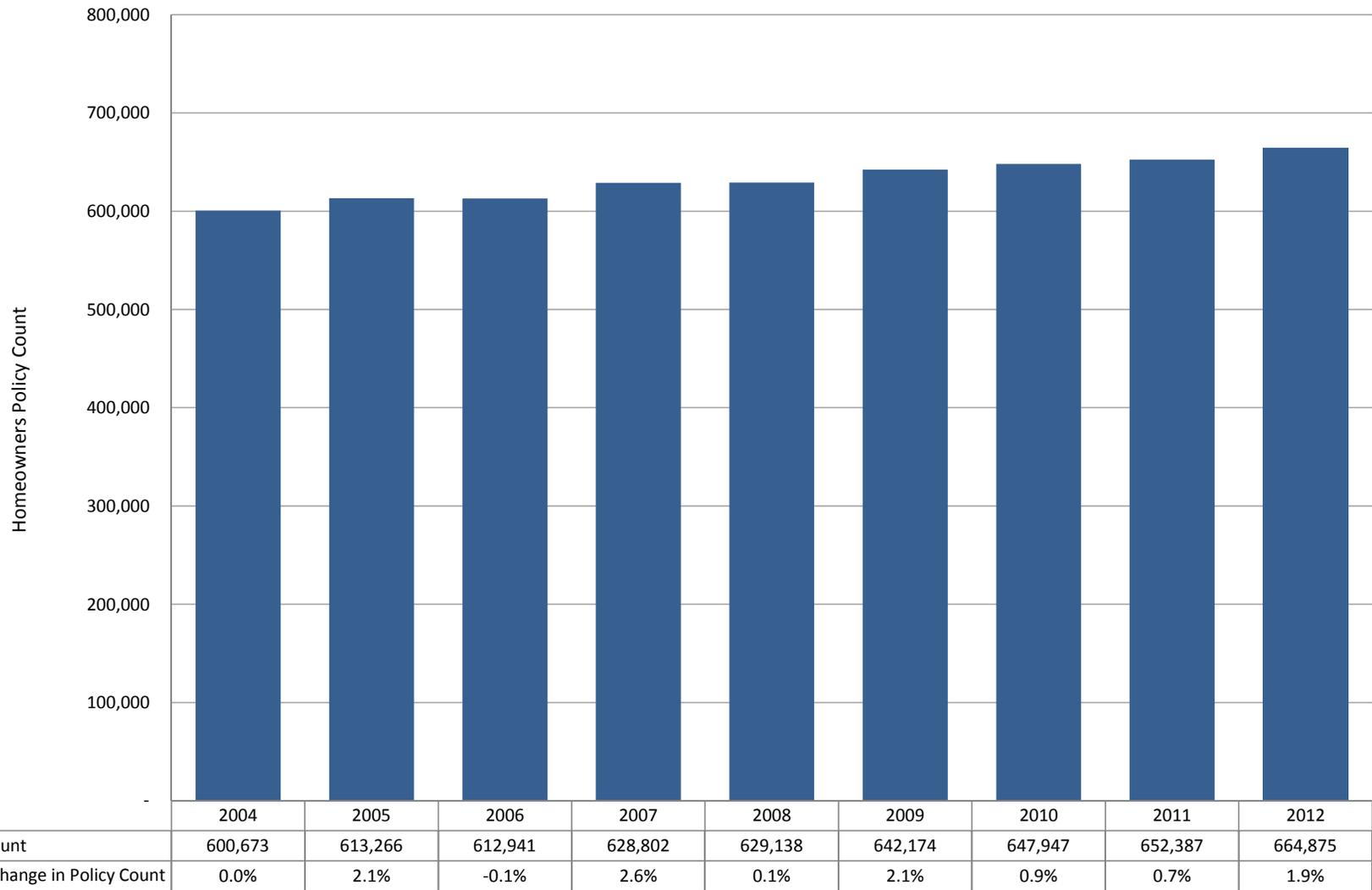
| |
|-------|
| 3,123 |
| 0.7% |
| 255 |
| 196 |
| 222 |
| - |
| 7.11% |

| |
|-------|
| 3,050 |
| -2.3% |
| 249 |
| 192 |
| 217 |
| 201 |
| 6.59% |

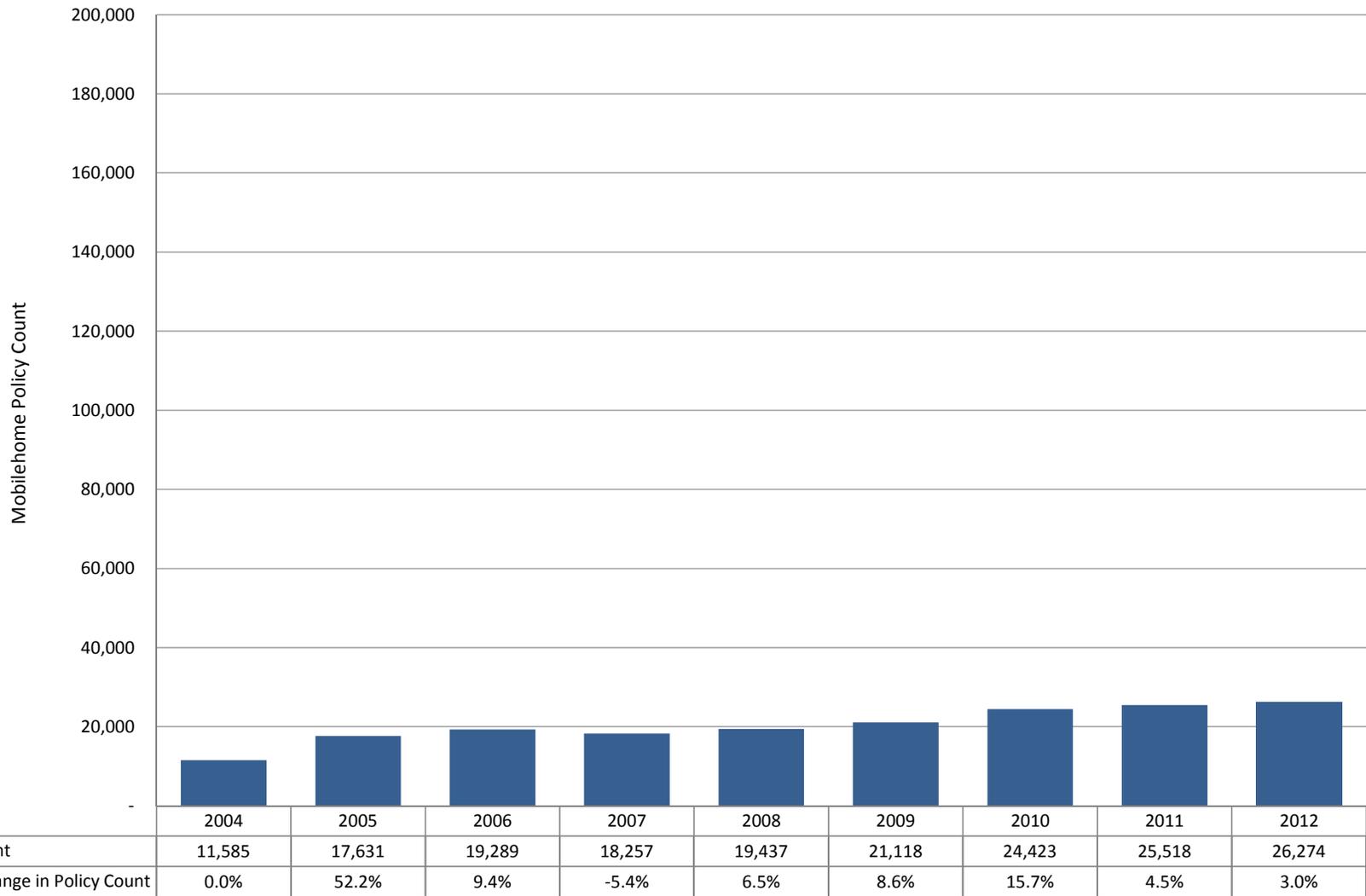
| |
|-------|
| 3,557 |
| 16.6% |
| 290 |
| 224 |
| 253 |
| 234 |
| 223 |
| 6.27% |

Policy, Premium, and Exposure

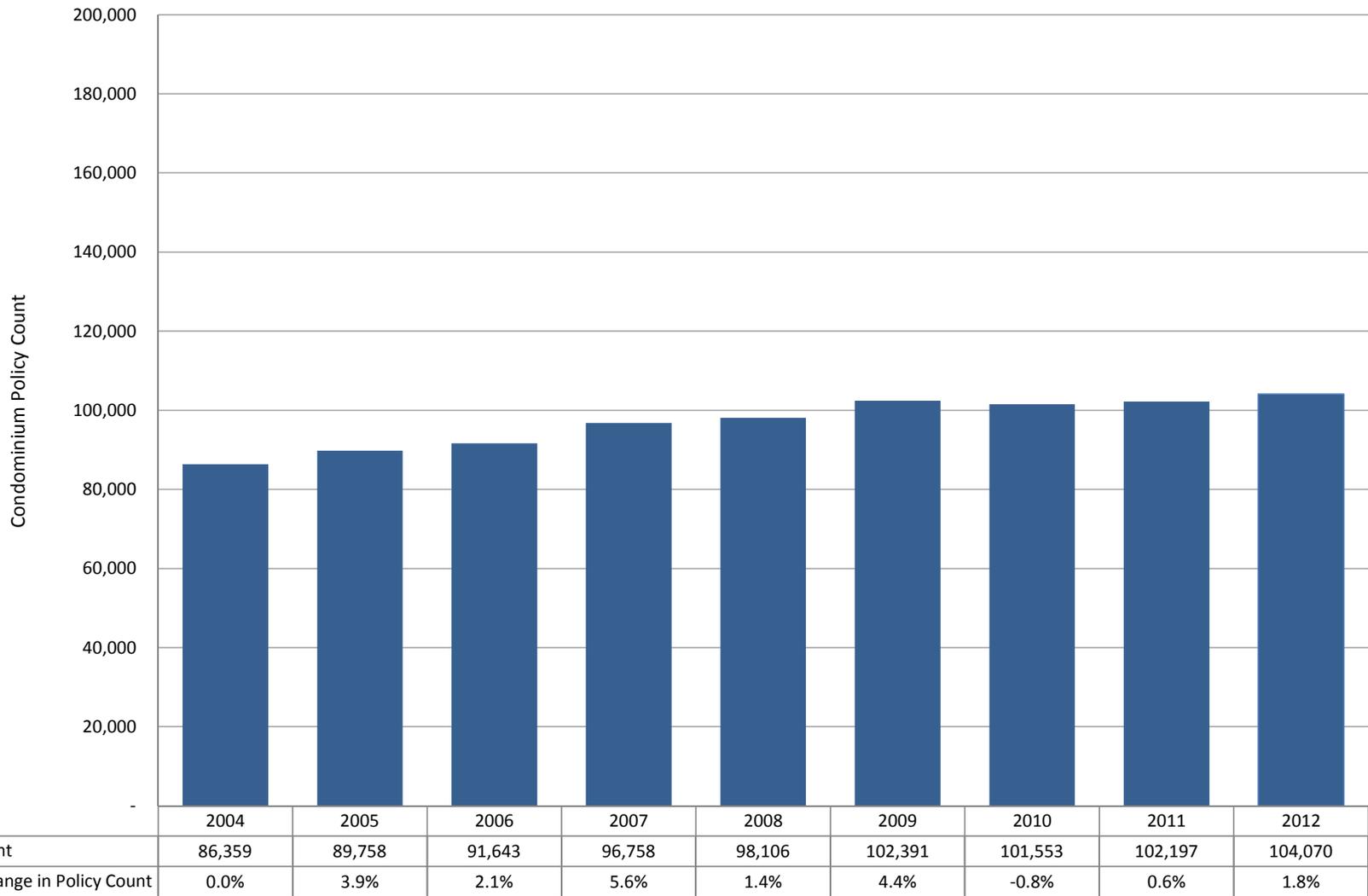
**California Earthquake Authority
Homeowners Policy Count
as of December 31, 2012**



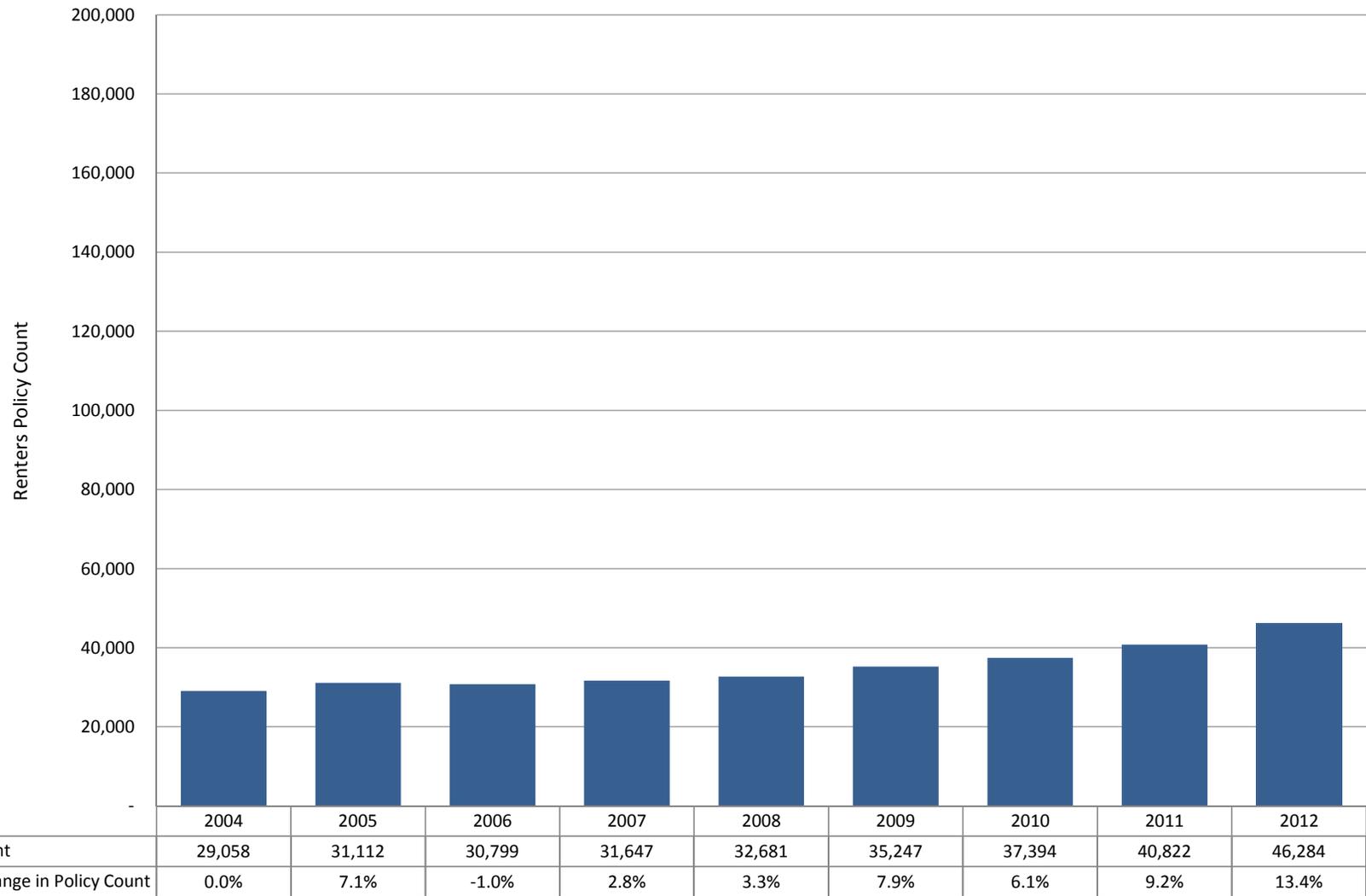
**California Earthquake Authority
Mobilehome Policy Count
as of December 31, 2012**



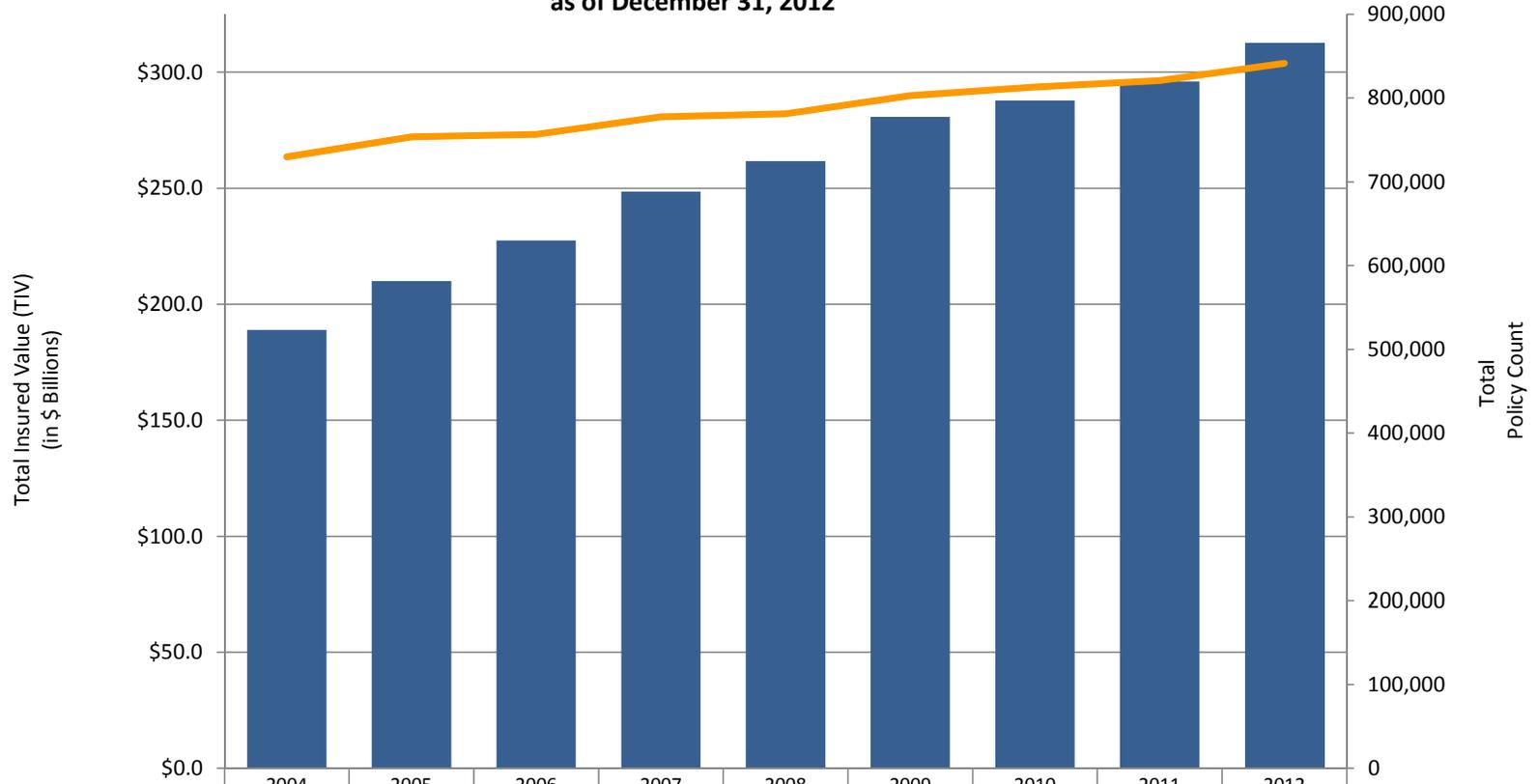
**California Earthquake Authority
Condominium Policy Count
as of December 31, 2012**



**California Earthquake Authority
Renters Policy Count
as of December 31, 2012**

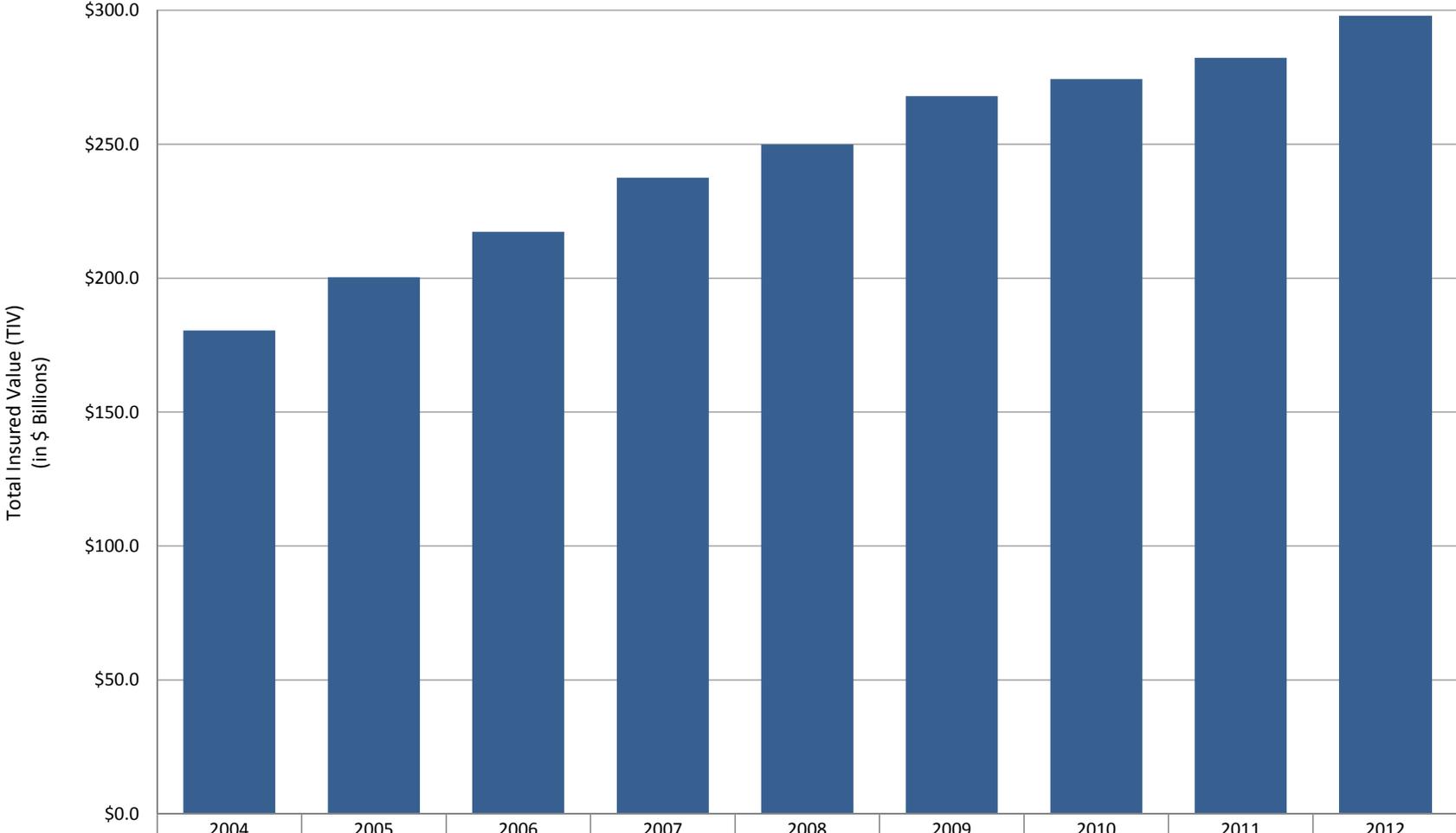


**California Earthquake Authority
Total Policies and Total Insured Value (TIV)
as of December 31, 2012**



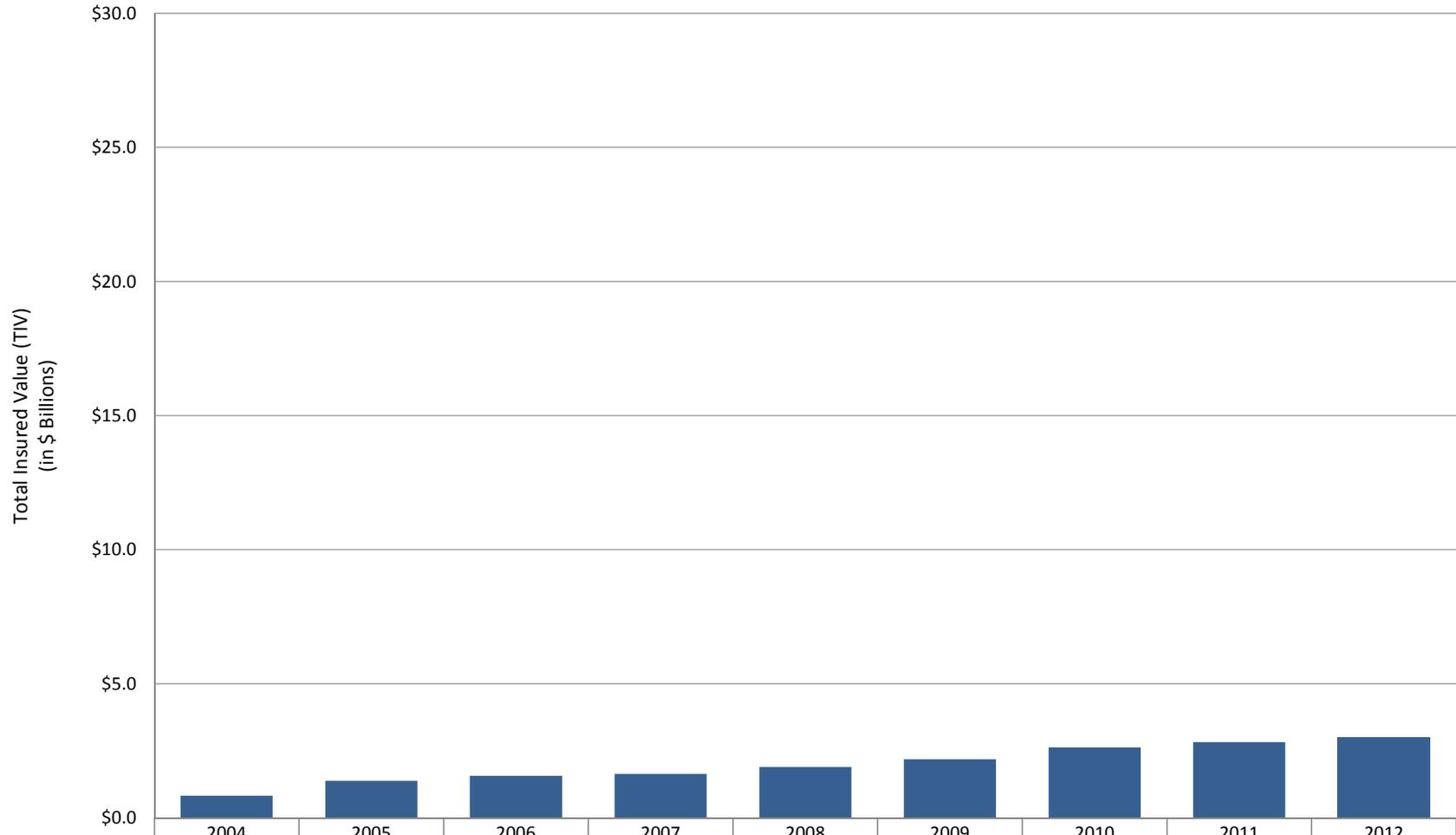
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|-------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| TIV (in \$ Billions) | \$188.9 | \$210.0 | \$227.4 | \$248.6 | \$261.7 | \$280.7 | \$287.7 | \$296.0 | \$312.5 |
| Annual Change in TIV | 9.6% | 11.2% | 8.3% | 9.3% | 5.3% | 7.3% | 2.5% | 2.9% | 5.6% |
| Total Policy Count | 729,679 | 753,772 | 756,678 | 777,471 | 781,370 | 802,939 | 813,327 | 820,924 | 841,503 |
| Annual Change in Policy Count | 0.0% | 3.3% | 0.4% | 2.7% | 0.5% | 2.8% | 1.3% | 0.9% | 2.5% |

**California Earthquake Authority
Homeowners Total Insured Value (TIV)
as of December 31, 2012**



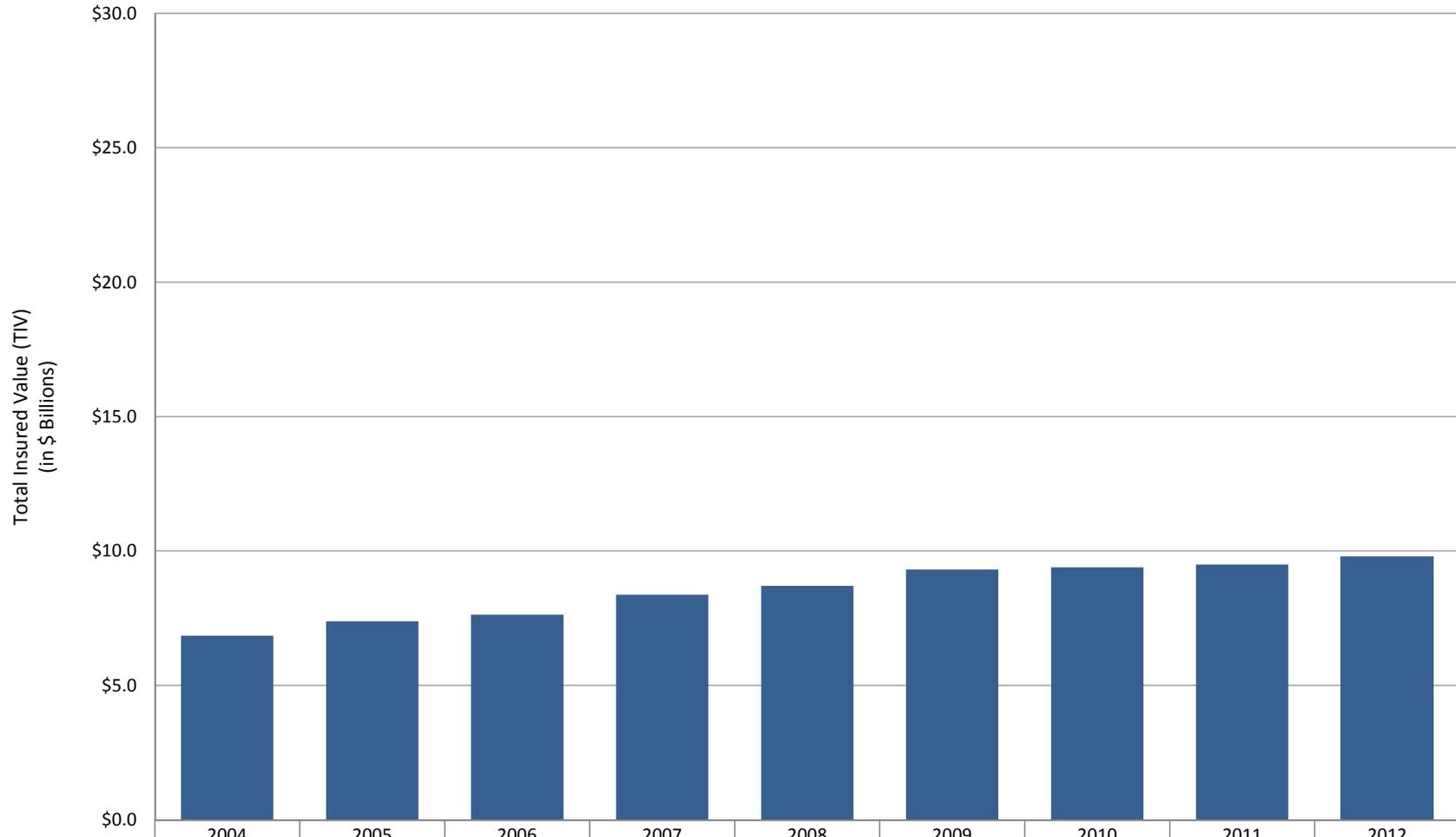
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| TIV (in \$ Billions) | \$180.5 | \$200.3 | \$217.3 | \$237.5 | \$249.9 | \$267.9 | \$274.3 | \$282.2 | \$298.0 |
| Annual Change in TIV | 0.0% | 11.0% | 8.5% | 9.3% | 5.2% | 7.2% | 2.4% | 2.9% | 5.6% |

**California Earthquake Authority
Mobilehome Total Insured Value (TIV)
as of December 31, 2012**



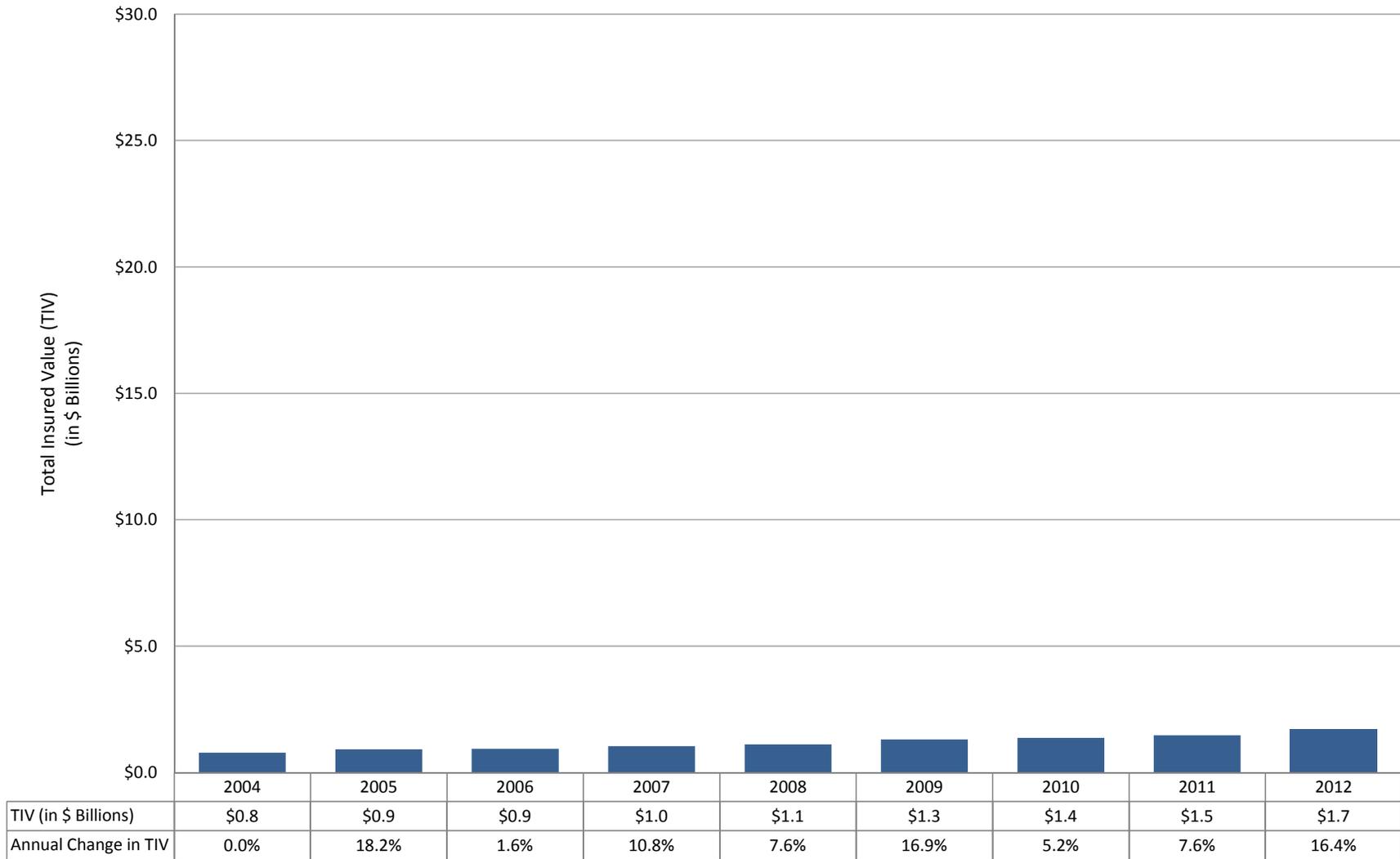
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| TIV (in \$ Billions) | \$0.8 | \$1.4 | \$1.6 | \$1.6 | \$1.9 | \$2.2 | \$2.6 | \$2.8 | \$3.0 |
| Annual Change in TIV | 0.0% | 66.3% | 13.4% | 5.0% | 15.6% | 15.0% | 20.2% | 7.4% | 5.8% |

**California Earthquake Authority
Condominium Total Insured Value (TIV)
as of December 31, 2012**



| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| TIV (in \$ Billions) | \$6.8 | \$7.4 | \$7.6 | \$8.4 | \$8.7 | \$9.3 | \$9.4 | \$9.5 | \$9.8 |
| Annual Change in TIV | 0.0% | 7.9% | 3.3% | 9.7% | 3.9% | 7.0% | 0.9% | 1.1% | 3.2% |

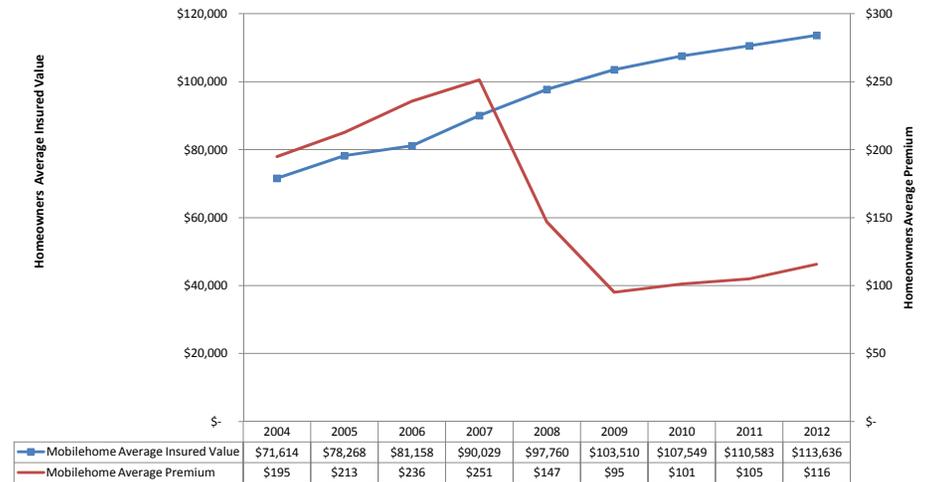
**California Earthquake Authority
Rental Total Insured Value (TIV)
as of December 31, 2012**



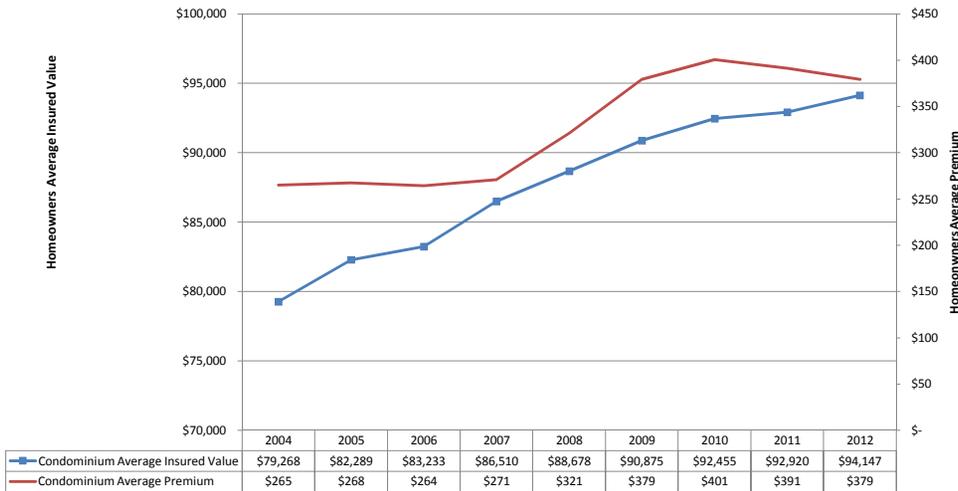
California Earthquake Authority
Homeowners Average Policy Premium and Insured Values
as of December 31, 2012



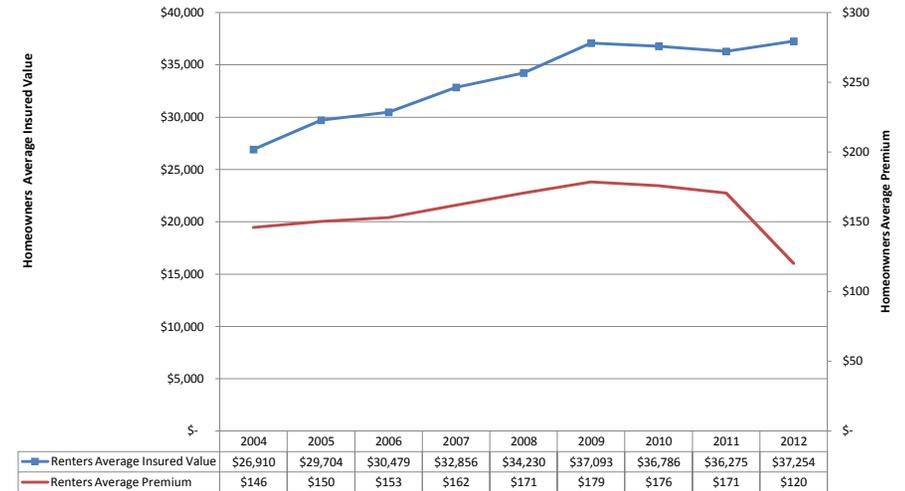
California Earthquake Authority
Mobilehome Average Policy Premium and Insured Values
as of December 31, 2012



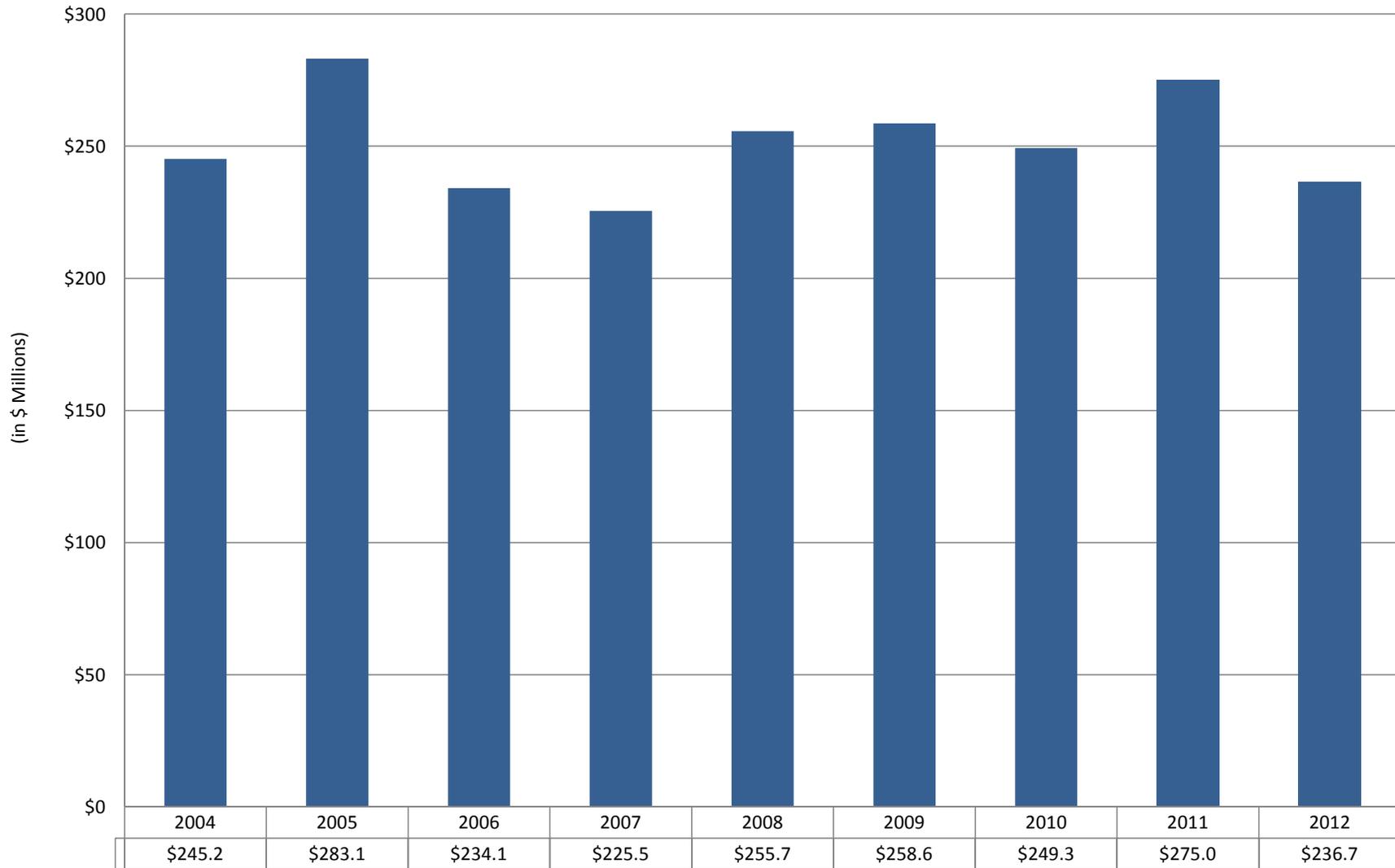
California Earthquake Authority
Condominium Average Policy Premium and Insured Values
as of December 31, 2012



California Earthquake Authority
Renters Average Policy Premium and Insured Values
as of December 31, 2012



**California Earthquake Authority
Annual Capital Accumulated from Premium
as of December 31, 2012**



NOTE: From 2009 forward, figure is GASB underwriting profit. Prior to 2009, figure was FASB net premiums written minus total expenses.

Governing Board Memorandum

February 28, 2013

Agenda Item 5: Proposed 12-month CEA Risk-Transfer Strategy

Recommended Action: Approve Proposed 12-month CEA Risk-Transfer Strategy

Background:

At the December 13, 2012, Governing Board meeting, CEA staff proposed to the Board new guidelines for procuring risk transfer and claim-paying capacity, including traditional reinsurance and alternative risk-transfer methods. The Board approved a resolution adopting the *Guidelines for Securing Risk Transfer: Traditional Reinsurance and Alternative Risk Transfer* (“Guidelines”).

In accordance with the Guidelines, CEA staff is to provide the Board for its review and approval, on at least an annual basis, a comprehensive risk-transfer strategy that sets forth the CEA’s basic risk-transfer goals and benchmarks for the ensuing year.

In its search for optimal sources of claim-paying capacity, staff has balanced the following objectives:

1. The CEA must remain financially sound, by securing and maintaining claim-paying capacity sufficient for policyholder claims in the event of an earthquake while retaining essential financial-strength and credit ratings.
2. The CEA must honor its value proposition with its customers, by establishing a financial structure that makes CEA insurance as affordable as possible and while supporting the claim-paying capacity necessary to provide earthquake coverage to more Californians.
3. Generate stability and longevity for the Authority, through a financial structure that ensures the CEA’s continuation and enhances its ability to serve policyholders after a significant earthquake or series of earthquakes.

The staff analysis and recommendations focus on these priorities.

Analysis:

Historically, the CEA has relied on reinsurance—predominantly, traditional reinsurance—for about a third of its claim-paying capacity. With three highly successful transformer-reinsurance transactions completed in 2011 and 2012, the CEA has established access to the capital markets for risk-transfer, which means additional strong sources of claim-paying capacity and risk-transfer, going forward.

The cost of CEA's risk-transfer purchases (both traditional and transformer reinsurance) required to meet the CEA's capacity needs is, and has been for years, a significant recurring expense. This major expense compels high premium rates for CEA policyholders, while at the same time most of the CEA's risk-transfer premiums pass directly to offshore reinsurers.

And yet risk-transfer itself (whether traditional or transformer reinsurance) is not without uncertainty. Available capacity and price are subject to wide swings on account of market conditions, global catastrophes, and other factors beyond CEA's control. Multi-year reinsurance contracts (such as provided by the recent transformer-reinsurance transactions) relieve CEA of some uncertainty, but there remain significant risks. While staff believes the risk-transfer limits CEA is likely to require for the next 12 months should be obtainable on acceptable terms, there is obviously no guarantee that the capacity required by the CEA in the future will be available at CEA's desired pricing and terms.

Because CEA has a fairly rigid financial structure that depends heavily on risk-transfer, any potential limits on traditional and transformer reinsurance-market capacity will affect and may constrain the overall claim-paying capacity of the CEA—and that can hinder CEA's ability to provide affordable earthquake coverage to more Californians.

As has been discussed frequently and at length in connection with the Board's approvals of past risk-transfer proposals and transactions, the risk-transfer market is dynamic. Coordinating CEA's risk-transfer needs with current market conditions is therefore crucial, meaning the CEA must be positioned to execute risk-transfer transactions efficiently and effectively, when market conditions in the reinsurance and capital markets are, in the judgment of CEA financial staff and CEA's retained professional financial, legal, reinsurance, and risk-transfer experts, likely to be receptive to the CEA's participation and unique requirements.

The Board has recognized these needs and in recent actions: On December 13, 2012, it authorized CEA staff to accomplish these ends in a flexible yet prudent manner, to allow CEA to act quickly when market conditions are favorable to meet the tight time-limits and deadlines inherent in highly time-sensitive risk-transfer transactions, in amounts and at pricing according to the staff's discretion while in full compliance with the Guidelines and under documented conditions.

12-Month Risk-Transfer Strategy

For these reasons, staff proposes a 12-month risk-transfer strategy that will include risk-transfer programs of both traditional and transformer reinsurance and a total claim-paying capacity of, at a minimum, a 1-in-450-year level, and at a maximum, a 1-in-600-year level. All transactions conducted under the strategy will be detailed and reported to the Board at the first Board meeting following the effective date of each transaction.

Recommendations:

Staff recommends the Board approve the 12-month risk-transfer strategy outlined above.

Governing Board Memorandum

February 28, 2013

- Agenda Item 6: Cooperative Marketing Venture designed to permit the CEA and each of its participating insurers to work together promoting both the CEA's and the participating insurer's insurance products.
- Recommended Action: Approve CEA Cooperative Marketing Venture concept for use in developing plans for CEA's 2014 Marketing Value Program.
-

Background:

CEA staff members are preparing final details for implementation of the third year of the Marketing Value Program (MVP) in 2013 based on previous programming successes:

- **2011:** CEA implemented its first-ever annualized MVP based on research results and industry standards for sales and retention; introduced new CEA brand to the marketplace; established relationships with participating-insurer agents through training and sales support; communicated with existing policyholders; aligned with media partners; again co-branded with the ShakeOut™.
- **2012:** CEA increased media-partnership and agent-relationship values; earned high marks from an independent research study for advertising performance; co-branded a preparedness strategy with American Red Cross that promoted a first-time statewide auction, generated \$1.7 million in value-added programming, and earned a PR News Corporate Social Responsibility Award (Honorable Mention – Nonprofit/Corporate Partnership) at the National Press Club; and implemented an online marketing strategy that quadrupled CEA Web-site traffic compared to 2011.

While CEA recently has succeeded in reversing previous cyclical downturns in policy sales, the challenge of strategically increasing the number of residential earthquake insurance policies-in-force remains very real, for many reasons:

- California continues to suffer from difficult economic conditions.
- Many people believe the government will pay to repair residential earthquake damage.
- Many people believe earthquake damage is covered by a homeowners policy.
- Social scientists have confirmed that low earthquake-preparedness levels are caused, in part, by Californians' believing that "earthquake damage will not happen to them."
- Damaging earthquakes occur infrequently—California's last was in 1994 (Northridge).

There are additional factors not within CEA's control—particular to the business relationships between CEA and its participating insurers—that also affect CEA's ability to strategically increase its policies-in-force:

- The statutory “mandatory-offer” is written and delivered to satisfy state law, not as part of marketing strategy.
- CEA-policy sales bring expenses and exposure, not direct net profit, for participating insurers.
- Every purchased and renewed CEA policy is joined by state law to the participating-insurer’s homeowners policy.
- Promotion and sale of a CEA-earthquake-insurance policy by participating insurers competes with limited resources they must make available for their own, profitable products.
- Even though 2012 consumer traffic on CEA’s Web site increased four times compared to 2011, people considering earthquake insurance who complete CEA’s premium calculator are not prompted to purchase a policy through participating-insurer Web sites.

Analysis:

CEA’s MVP advertising already is effective in delivering general awareness and education. And CEA’s MVP training and sales support through direct mail and other tools have attracted increasing interest from participating-insurer agents and producers.

For 2013, MVP implementation is showing early signs of another successful year, with the addition of TV stations joining the statewide radio promotion of the auction in April, and the direct-mail inventory budgeted to support the 2013 MVP may be depleted by late March.

Yet to date, CEA has no ability to establish a direct sales lead from potential policyholders who visit CEA’s Web site—that means the CEA cannot directly link people considering earthquake insurance with an ability to purchase a CEA policy.

As a result, to create marketing resources to support CEA-policy sales transacted by participating insurers and to establish a digital handshake between CEA and participating-insurer Web sites, CEA recommends establishing a Cooperative Marketing Venture (CMV) for 2014. The CMV would be carefully designed to permit the CEA and each of its participating insurers to work together to promote both the CEA’s and the participating insurer’s insurance products.

The CMV concept that CEA is proposing would differ slightly from traditional Cooperative Marketing Agreements in several ways:

- CEA would offer turnkey programming that projects available budgets, plans and places media buys, develops co-branded creative templates and online pages, and works with participating-insurer IT teams to place co-branded marketing assets and links; or
- CEA would provide funding for programming developed and implemented by participating insurers that plan and place media buys, develop co-branded creative templates and online pages, and work with CEA to place co-branded assets and links.
- CEA’s CMV funding would be allocated according to the current percentage of CEA earthquake insurance policies sold by a participating insurer; and therefore

- Current CEA CMV funding would not be allocated according to a pre-determined number of new CEA policies sold for eligibility to receive funds that co-promote insurance products sold by both the CEA and its participating insurers.

Implementation of CEA’s proposed CMV concept under the 2014 MVP for the first time would enable the CEA to share a sales link with people considering earthquake insurance—under a budget developed according to related industry standards—between the CEA and its participating insurers. There are clear benefits for both sides of that transaction:

- CEA’s participating insurers would get—at no cost—targeted and message-specific advertising and promotion that generate active leads for both earthquake and homeowners insurance products for participating insurers to convert into sales:
 - A participating insurer with 10 percent of CEA’s book of earthquake insurance, for example, could get 10 percent of the total CMV budget.
 - All participating insurers would get equal access to their respective percentages of CEA CMV funding; funds not used by participating insurers would be reallocated to marketing budget for earthquake preparedness awareness and education.
- CEA gets co-branded advertising, presence of CEA earthquake insurance on participating insurer Web sites, and an opportunity to push co-branded messaging to names collected through a shared online lead-generation campaign.

It is important to note that private-sector brokers already are using the term “California Earthquake Insurance” to generate direct leads for companies seeking to sell homeowners insurance. As a result, Board approval of the proposed CMV concept simply would enable the CEA to engage in online sales tactics already widely used in today’s insurance marketplace.

Finally, it is necessary that the Board approve the proposed CMV concept before CEA staff can prepare a 2014 marketing budget for Board presentation in May 2013, which, for the first time, could *share* the goal of selling CEA earthquake insurance with the participating insurers that offer it.

Recommendation:

Approve the CEA Cooperative Marketing Venture (CMV) concept, based on three cornerstones for use in further developing plans to support CEA’s 2014 Marketing Value Program:

- Allocate CEA CMV funding according to the current percentage of earthquake insurance policies sold by a participating insurer;
- Share programming between the CEA and its participating insurers that projects available budgets, plans and places media buys, develops co-branded creative templates and online pages, and integrates IT teams to place co-branded marketing assets and links; and
- Enable the CEA to share sales links for its participating insurers to convert people who are considering earthquake insurance into new CEA policyholders, under a budget developed according to industry standards.

Governing Board Memorandum

February 28, 2013

Agenda Item 7: Amend current contract with Natoma Technologies, Inc., to permit expenditure of approved 2013 budgeted funds

Recommended Action: Authorize CEO to execute contract amendment with Natoma Technologies, Inc.

Background:

On January 14, 2013, CEA opened its third annual Marketing Value Program (MVP) for agent registration. Similar to 2012, the 2013 MVP includes two-rounds of direct mail—new for 2013, additional marketing materials will be available for agents who have completed training on CEA’s new Choice insurance product. To participate, agents register online via a Web application hosted on the CEA Web site.

CEA’s current contract with Natoma Technologies, Inc. (“Natoma”), the term of which expires December 31, 2013, was implemented to meet the programming needs of the 2013 MVP and other core projects. Under the CEA’s approved 2013 budget, this contract now is reaching its \$100,000 contractually approved limit.

Analysis:

To complete MVP implementation, CEA must amend the Natoma contract to permit payment by CEA of the remainder of budgeted funds—the Natoma work is necessary to fulfill all technical program requirements. Unless amended, presently authorized Natoma funding will be exhausted by March 1, 2013, which would halt work on the MVP before the project is completed.

The business impacts associated with CEA’s possible loss of Natoma contracting authority include:

- Data needed to deliver more than 1.4 million pieces of marketing materials to about 1,700 agents currently registered in the MVP may not be accessible.
- Round 1 direct-mail registration may be affected, which means that agents may be requesting materials that are no longer available.
- CEA investment in Natoma and other resources tapped to fulfill 2013 MVP support could be lost, and resources would be required to abruptly close the 2013 MVP.

Recommendation:

Authorize CEO Glenn Pomeroy to execute a contract amendment with Natoma to fund the remaining \$220,000 of the approved 2013 budget to allow completion of the MVP and other projects, including the CEA’s Claim-System Stress Test, which simulates both the CEA’s and participating insurers’ ability to manage CEA claims after a damaging earthquake.

Governing Board Memorandum

February 28, 2013

Agenda Item 8: Approval of a 2013-budget augmentation to print new brochures

Recommended Action: Approve 2013-budget augmentation recommendation

Background:

From its inception until 2005, the CEA published a single brochure to represent all four of its residential-earthquake-insurance products. In addition, CEA asked participating insurers to pay for the brochures they distributed, which discouraged broad distribution.

In 2006, the CEA launched four new product brochures, one for each product, and the brochures were provided free-of-charge to consumers and agents. The free-brochure launch was successful, with more than 20,000 brochures distributed to agents within the first six months of release.

The brochures produced in 2006 remained unchanged until mid-2012, when they were rewritten and redesigned to highlight CEA's new branding statement (*The Strength to Rebuild®*), feature the new Homeowners Choice policy, and offer product-comparison charts.

Analysis:

In late 2012, new CEA homeowner and renter product brochures were offered in both English and Spanish. CEA also updated the distribution method for brochures to an electronic ordering system via a Web portal. As a result, consumers and agents can order free brochures online. Later this year, new condo-owner brochures will be offered in Spanish, and all CEA product brochures will be offered in Chinese.

The CEA currently has about 30,000 *Strength to Rebuild®* brochures in stock. To fulfill requests equal to or greater than the 87,000 brochures printed in 2010, the CEA will need to print an additional 60,000 brochures in 2013, at an estimated cost of \$65,000 (cost may vary, depending on the type of brochures printed and quantities ordered).

| 2009–2012 Brochure-Printing History | | |
|-------------------------------------|------------------|----------|
| Year | Quantity Printed | Cost |
| 2009 | 68,850 | \$44,743 |
| 2010 | 87,000 | \$71,568 |
| 2011 | 76,500 | \$61,267 |
| 2012 | 34,000 | \$22,688 |

Recommendation:

Approve a \$65,000 budget augmentation to the CEA insurance operations budget (Administrative & Office: Printing and Stationery) to provide for the anticipated cost of printing CEA product brochures.

Governing Board Memorandum

February 28, 2013

Agenda Item 9: CEA Advisory Panel update—Wayne Coulon

Recommended Action: No action required - information only

CEA Advisory Panel Chair Wayne Coulon will provide a summary of the proceedings from the January 17, 2013, Advisory Panel meeting.

Board Memorandum

February 28, 2013

Agenda Item 10: CEA Participating Insurers – Maximum Earthquake-Loss-Funding-Assessment Levels

Recommended Action: Approve April 1, 2013, CEA Participating Insurer Maximum Earthquake-Loss-Funding-Assessment Levels

Background:

California Insurance Code section 10089.25 states,

“Beginning December 31, 1997, and annually thereafter on the 30th of April, the board shall notify each participating insurer of the maximum earthquake loss funding assessment level that it may be required to meet.”

Insurance Code sections 10089.30 and 10089.31 set forth the calculation for determining the maximum aggregate assessments for the so-called “Second Industry Assessment Layer” and “New Industry Assessment Layer” of the California Earthquake Authority (CEA) financial structure.

Analysis:

Taking legal effect on July 1, 2008, Senate Bill 430 established the CEA’s authority to assess its participating insurers through a vehicle commonly referred to as the New Industry Assessment Layer (“New IAL”).

This assessment authority was made available to the CEA on December 1, 2008, upon the sunset by law of the CEA’s authority to assess its participating insurers in the First Industry Assessment Layer (“1st IAL”). Unlike the 1st IAL, which the CEA could access once it had exhausted its available capital (but before the use of risk-transfer financing), the New IAL sits on top of the Second Industry Assessment Layer (“2nd IAL”) in the CEA’s financial structure.

The 2nd IAL and the New IAL can only be drawn on to pay policyholder claims once CEA’s available capital, proceeds from debt financing actually available and under contract, and other funds actually available and under contract for risk transfer products have been exhausted. CEA participating insurers can be assessed in either or both of the remaining IALs in order to return the CEA’s available capital to the statutory minimum capital level of \$350 million (see California Insurance Code section 10089.31).

Consistent with gradually decreasing the CEA’s dependence on its participating insurers for its claim-paying capacity, CEA’s maximum assessment capability under the New IAL is subject to annual reductions. Under California Insurance Code section 10089.33 (b) (1)—effective April 1, 2010, and on each April 1st thereafter—the maximum aggregate assessment under the New IAL is subject to a 5% annual reduction and a separate reduction, in an amount equal to the “retained earnings differential.” As defined in California Insurance Code section 10089.33(b) (7), the retained earnings differential is calculated as:

“...the positive dollar-amount difference between: (A) the authority's positive one-year retained-earnings growth for the preceding calendar year, minus (B) the authority's capacity growth for the preceding calendar year, both calculated as of December 31. As used in this paragraph, "one-year retained-earnings growth" means the difference between the authority's cumulative retained earnings at December 31 of the preceding calendar year and the authority's cumulative retained earnings at December 31 of the year before the preceding calendar year, calculated in accordance with generally accepted accounting principles as of the preceding December 31. As used in this paragraph, the term "capacity growth" is the one-year amount of purchased risk transfer, such as reinsurance, or borrowed risk transfer such as bonds, put in place in the authority's financial structure to account for the authority's aggregate exposure growth over the preceding year ending December 31. The board shall be authorized and entitled, in its sole discretion, to make all final decisions regarding the authority's level of financial strength and security and the authority's choice and use of financing and risk-transfer mechanisms.”

Attachment A is the calculation of the aggregate assessment reduction, commonly referred to as the “roll-off,” of the New IAL effective April 1, 2013, as well as the resulting New IAL assessment capacity. The calculation includes the addition of Nationwide Group (“Nationwide”), which joined the CEA and started transferring earthquake exposure to the CEA on November 1, 2011.

The assessment capacity for the 2nd IAL is also adjusted when a new company begins participation in the CEA. The adjustment takes into consideration the new participating insurer’s residential property insurance market share at the time it started transferring exposure to the CEA and adds that percentage to the combined percentage of the existing participating insurers when they started transferring exposure to the CEA. *Attachment B* is the calculation of the new 2nd IAL effective April 30, 2013.

Staff has calculated each CEA participating insurer’s respective CEA earthquake market-share percentage, based on the insurer’s written CEA premiums. From this calculation, the CEA determines each insurer’s maximum earthquake loss funding assessment level for 2013. *Attachment C* shows, for each participating insurer, the maximum earthquake loss funding assessment level it may be required to meet, upon appropriate assessment by the CEA.

Recommendations:

Staff recommends that:

- The Governing Board adopt the New IAL aggregate assessment amount in *Attachment A*, effective April 1, 2013.
- The Board adopt the new 2nd IAL aggregate assessment amount in *Attachment B*, effective April 30, 2013.
- The Board adopt the CEA market-share percentages shown in *Attachment C*, which are to be used to determine the maximum earthquake loss funding assessment levels for CEA participating insurers, effective April 30, 2013.
- The Board authorize CEA staff to notify each participating insurer of its respective April 30, 2013, maximum earthquake-loss-funding-assessment level responsibility.

California Earthquake Authority
Calculation of New Industry Assessment Layer Worksheet

| | | | | |
|---|-------------------|---|---------------|------------------------|
| 5% of Initial Maximum Aggregate Assessment (1.780 billion x 5.0%) | | | | \$89,000,000 |
| Retained Earnings Growth | | + | 258,010,327 | |
| Capacity Growth: | | | | |
| 1/1/2013 - New Risk Transfer capacity | \$3,727,060,260 | | | |
| 2006 Revenue Bond proceeds | + \$310,829,067 | | | |
| 12/31/2012 - Previous year Risk Transfer capacity | - \$3,556,684,950 | | | |
| 2006 Revenue Bond proceeds | - \$310,829,067 | | | |
| Capacity Growth Previous Year | = \$7,905,403,344 | - | \$170,375,310 | |
| Retained Earnings Differential | | = | \$87,635,017 | + \$ 87,635,017 |
| April 1, 2013 Aggregate Assessment Reduction | | | | = \$176,635,017 |
| Prior Year Modified Aggregate Assessment Calculation | | | | \$642,008,718 |
| April 1, 2013 Aggregate Assessment Reduction | | | | - \$176,635,017 |
| Modified Aggregate Assessment as of April 1, 2013 | | | | = \$465,373,701 |
| Residential Homeowner Market Share calculated at the time each participating insurer joined the CEA* | | | | X 82.7793% |
| New IAL Assessment Capacity as of April 1, 2013 | | | | = \$385,233,092 |

* Includes a 4.8873% increase due to Nationwide's becoming a participating insurer

**California Earthquake Authority
Calculation of 2nd Industry Assessment Layer Worksheet**

Maximum Industry Assessment Amount \$2,000,000,000

| | | | | | |
|---|------------------|---|-----------------|--|--|
| Current PI Homeowners Market Share % | 77.8920% | | | | |
| Nationwide CA Homeowners Market Share % * | + <u>4.8873%</u> | | | | |
| New PI Homeowners Market Share % | = 82.7793% | x | <u>82.7793%</u> | | |

2nd Industry Assessment Layer as of April 30, 2013** = \$1,655,586,000

* Based on California Department of Insurance 2010 Market-Share Reports, the most recent reports available after Nationwide began participating in the CEA on November 1, 2011.
** The 2nd Industry Assessment level becomes effective on April 30, 2013, after approval by the CEA Governing Board.

CEA Participating Insurers
2013 Maximum Earthquake-Loss-Funding-Assessment Levels
(Based on CEA Written-Premium Market Share as of December 31, 2012)

| <u>Company Name</u> | <u>CEA Market Share</u> | <u>CA Residential Market Share*</u> | <u>Max Assessment 2nd Layer</u> | <u>Max Assessment New Layer</u> | <u>Total Max Assessments</u> | <u>Written Premium</u> |
|-----------------------------|-----------------------------|---|-------------------------------------|-------------------------------------|----------------------------------|------------------------|
| State Farm Group | 33.834075% | 18.458946% | \$ 560,152,207 | \$ 130,340,052 | \$ 690,492,259 | \$ 192,595,510 |
| Allstate Group ¹ | 14.843447% | 7.709667% | \$ 245,746,032 | \$ 57,181,870 | \$ 302,927,902 | \$ 84,494,146 |
| USAA ³ | 12.737147% | 4.517053% | \$ 210,874,426 | \$ 49,067,706 | \$ 259,942,132 | \$ 72,504,343 |
| Farmers | 12.218926% | 14.835829% | \$ 202,294,835 | \$ 47,071,348 | \$ 249,366,183 | \$ 69,554,447 |
| Inter-Ins. Exchange | 6.511738% | 4.391913% | \$ 107,807,415 | \$ 25,085,368 | \$ 132,892,783 | \$ 37,067,111 |
| Safeco | 5.698508% | 2.279509% | \$ 94,343,697 | \$ 21,952,538 | \$ 116,296,235 | \$ 32,437,920 |
| CSAA ² | 4.546632% | 5.938162% | \$ 75,273,397 | \$ 17,515,130 | \$ 92,788,527 | \$ 25,881,034 |
| Mercury | 2.958040% | 2.801355% | \$ 48,972,902 | \$ 11,395,350 | \$ 60,368,252 | \$ 16,838,211 |
| Liberty Mutual | 2.618275% | 3.312905% | \$ 43,347,799 | \$ 10,086,463 | \$ 53,434,262 | \$ 14,904,148 |
| Nationwide | 2.479970% | 4.784686% | \$ 41,058,037 | \$ 9,553,665 | \$ 50,611,702 | \$ 14,116,866 |
| FAIR Plan | 0.795467% | 0.680658% | \$ 13,169,637 | \$ 3,064,401 | \$ 16,234,038 | \$ 4,528,078 |
| Foremost | 0.512860% | 1.419303% | \$ 8,490,834 | \$ 1,975,706 | \$ 10,466,540 | \$ 2,919,379 |
| Homesite | 0.121081% | 0.287191% | \$ 2,004,603 | \$ 466,445 | \$ 2,471,048 | \$ 689,237 |
| Armed Forces | 0.108350% | 0.056991% | \$ 1,793,835 | \$ 417,402 | \$ 2,211,237 | \$ 616,769 |
| Golden Eagle | 0.008814% | 0.002549% | \$ 145,931 | \$ 33,956 | \$ 179,887 | \$ 50,175 |
| Commerce West | 0.006669% | 0.000000% | \$ 110,413 | \$ 25,692 | \$ 136,105 | \$ 37,963 |
| TOTAL | 100.00000% | 71.47672% | \$ 1,655,586,000 | \$385,233,092 | \$ 2,040,819,092 | \$ 569,235,337 |

* Based on California Department of Insurance 2011 California Market-Share Report. The Department's 2012 California Market-Share Report will not be publicly available until May 2013.

¹ Allstate-Encompass was combined with Allstate Group

² ACA was combined with CSAA

³ Garrison was combined with USAA

Governing Board Memorandum

February 28, 2013

Agenda Item 11: Update on the California Residential Mitigation Program

Recommended Action: No action required

Background:

The governing board of the Cal-EMA/CEA joint powers authority (“JPA”) will next meet on March 19, 2013—the JPA manages the California Residential Mitigation Program (“CRMP”), which will provide financial incentives to homeowners who complete seismic-retrofit projects.

- The CRMP will conduct a pilot project of its initial programming in 2013, for which a total of 10 to 20 qualifying single-family dwellings in Oakland and Los Angeles will be identified to participate.
- Contracts for Web-site development and database management, as well as program auditor, are on track for presentation to the JPA board at its March meeting.
- Proposals for services in insurance, special inspections, program evaluation, and marketing for both pilot and statewide programming are currently under review.
- Interviews with prospective vendors will be held in early March with intentions to present proposed contracts to the JPA board later that month.

Recommendation:

No action – information only.

Governing Board Memorandum

February 28, 2013

Agenda Item 12: Report on Seismic Mitigation Workshop in Millbrae on January 24, 2013

Recommended Action: No action required

Background and Analysis:

At the Governing Board's June 21, 2012, meeting, Chief Mitigation Officer Janiele Maffei outlined the three goals on which the CEA's mitigation programming is focusing:

- (1) development of comprehensive guidelines for the seismic retrofit of single-family dwellings;
- (2) development of the California Residential Mitigation Program ("CRMP"); and
- (3) development and sponsorship of a research program.

Seismic Mitigation Workshop:

The CEA invited a variety of stakeholders to a workshop in Millbrae on January 24 and 25 entitled *A Workshop for Development of an Experimental and Numerical Modeling Program to Evaluate the Effectiveness of Selected Seismic-Mitigation Measures for Single-Family Dwellings*.

Workshop participants would discuss the research scope, goals, and deliverables required to quantify the expected reduction in damage for selected mitigation measures.

Leading earthquake-engineering research professionals and practicing engineers attended, and because of CEA's outreach efforts, also attending were insurance professionals and earthquake-loss modeling firms. Four of the CEA's participating insurers sent representatives, and all three of the CEA's contracted modelers attended as well as both of the CEA's Advisory Panel mitigation-subcommittee members, Rod Garcia and Jonathan Leong. The full agenda (Attachment A) and a list of attendees (Attachment B) are attached.

Workshop participants collaborated to develop a roadmap for a multi-year research program to evaluate the effectiveness of selected seismic-mitigation measures for wood-framed single-family dwellings ("SFDs"). The resulting research program will support the guideline-development process and inform other strategic mitigation endeavors, including CEA earthquake insurance premium incentives.

The project's initial goal is to develop damage relationships for two types of retrofits, bolting a foundation and bracing a cripple wall, but the CEA will support investigating other mitigation measures as well.

At the workshop, leading experts in numerical modeling and research made presentations on the following topics:

- Prototype buildings and components for testing
- Full- scale lab and field testing options
- State-wide, national, and international shake table testing capabilities including detailed information on shake tables in California and at the University of California, San Diego (the largest U.S. shake table)
- Computer based, numerical modeling for wood-framed structures

Following initial presentations, workshop attendees broke into three groups to conduct focused discussions on the announced topics. The group was further split into two groups to discuss research-plan elements. And finally, the attendees reconvened for a summary of the day's discussions.

On day two, a smaller group of CEA representatives and the speakers and moderators from the day one convened to discuss next steps. It was generally agreed that the project should most efficiently proceed in phases—the findings from one phase might further refine the development and direction of the next phase, making a complete initial listing of topics impractical.

The group agreed on the following as phases/tasks to be accomplished:

- Simplified numerical modeling and risk analysis of a small number of retrofitted and un-retrofitted wood-framed structures.
- Analytical studies and numerical modeling, as well as testing of building components (such as bare cripple walls, wall finishes, and sheathing).
- More detailed analysis and research, including shake-table testing—this analysis could be the costliest and most time-consuming (e.g., the workshop was told that the shake table at UC San Diego did not have any openings for testing until September 2014).

The group agreed that public review and comment should be conducted at regular intervals.

- The work would be completed by a project team with review by an advisory committee.
- A separate steering committee would be engaged to oversee the program.
- The CEA anticipates sending out an RFP this year for some of this work.

Recommendation:

No action – information only.



CEA Seismic Research Workshop for Single-Family Dwellings

January 24, 2013 • 8:30 a.m. – 5:30 p.m.

The Westin San Francisco Airport • 1 Old Bayshore Highway • Millbrae, CA 94030

Morning Session Agenda

| TIME | TOPIC / SPEAKER | ROOM |
|-----------------|---|-------------------------|
| 08:30 – 09:00am | Registration and Continental Breakfast | Foyer |
| 09:00 – 09:30am | Welcome and Introductions <ul style="list-style-type: none"> • Bruce Patton, Director, Research and Special Projects, California Earthquake Authority • Shawna Ackerman, Chief Actuary, California Earthquake Authority • Glenn Pomeroy, Chief Executive Officer, California Earthquake Authority | Main Ballroom (Plenary) |
| 09:30 – 9:50am | Overview and Objectives <ul style="list-style-type: none"> • John Osteraas, PhD, Professional Engineer, Group Vice President, Exponent Engineering and Scientific Consulting | Plenary |
| 09:50 – 10:10am | Prototypes for Testing <ul style="list-style-type: none"> • Kelly Cobeen, Structural Engineer, Associate Principal, Wiss Janney, Elstner Associates, Inc. | Plenary |
| 10:10 – 10:30am | Break | |
| 10:30 – 10:50am | Full-scale Lab and Field Testing options <ul style="list-style-type: none"> • Stephen Mahin, Professor & Director of the Pacific Earthquake Engineering Research Center (PEER), University of California, Berkeley | Plenary |
| 10:50 – 11:10am | UCSD Shake Table testing capabilities <ul style="list-style-type: none"> • Gilberto Mosqueda, PhD, Associate Professor, UC San Diego | Plenary |
| 11:10 – 11:30am | Numerical Modeling of Woodframe Structures <ul style="list-style-type: none"> • J. Dan Dolan, PhD, Professor & Director of Codes and Standards Department of Civil and Environmental Engineering Washington State University | Plenary |
| 11:30 – 11:50am | Numerical Modeling of Woodframe Structures <ul style="list-style-type: none"> • John Van de Lindt, PhD, George T. Abell Professor in Infrastructure, Colorado State University | Plenary |
| 11:50 – Noon | Remarks and Agenda for the Afternoon <ul style="list-style-type: none"> • John Osteraas | Plenary |
| Noon – 01:00pm | Lunch | Plenary |

PARKING: Event parking is \$6.00. Hotel staff will be available prior to the workshop to collect parking fees and validate parking tickets. There is also a kiosk in the main lobby of the hotel where payment may be made and tickets validated.



CEA Seismic Research Workshop for Single-Family Dwellings

Afternoon Session Agenda

| TIME | TOPIC / SPEAKER | ROOM |
|------------------------|---|--------------------------------|
| 01:00 – 02:30pm | Round 1: Breakout Sessions | |
| | Prototypical Structures / Replica vs. Archaic Structures • Moderator/Facilitator: <ul style="list-style-type: none"> ○ Janiele Maffei, Structural Engineer, Chief Mitigation Officer, California Earthquake Authority ○ Kelly Cobeen | Hickory / Hawthorne |
| | Field / Laboratory Testing • Moderators: <ul style="list-style-type: none"> ○ John Osteraas ○ Patxi Uriz, PhD, Professional Engineer, Managing Engineer, Exponent Engineering and Scientific Consulting | Redwood |
| | Numerical Modeling – • Moderators: <ul style="list-style-type: none"> ○ Brian M. McDonald, PhD, Structural Engineer, Principal Engineer and Practice Director, Exponent Engineering and Scientific Consulting ○ Duane L. Steffey, PhD, Senior Managing Scientist & Practice Director, Exponent Engineering and Scientific Consulting | Maple/Elm/ Sycamore (Ballroom) |
| 02:30 – 02:45am | Break | Plenary |
| 02:45 – 04:15pm | Round 2: Breakout Sessions | |
| | Research Plan Elements: Group 1 • John Osteraas • Duane Steffey | Redwood |
| | Research Plan Elements: Group 2 • Patxi Uriz • Janiele Maffei | Maple/Elm/ Sycamore (Ballroom) |
| 04:15 – 05:15pm | Summary Reports from Breakout Sessions | Plenary |
| 05:15 – 05:30pm | Closing • Bruce Patton • John Osteraas | Plenary |

PARKING: Event parking is \$6.00. Hotel staff will be available prior to the workshop to collect parking fees and validate parking tickets. There is also a kiosk in the main lobby of the hotel where payment may be made and tickets validated.

Attendee List (Total 71)

| | | |
|----------|--------------|------------------------------------|
| Andrew | Kao | AIR Worldwide |
| Evan | Reis | AIR Worldwide |
| Kevin | Galloway | Allstate Insurance Co |
| Guy | Chapman | Allstate Insurance Company |
| Jeff | Thomas | Allstate Insurance Company |
| Phil | Line | American Wood Council |
| Dennis | Richardson | American Wood Council |
| Ayse | Hortacsu | Applied Technology Council |
| Alec | Stone | California Department of Insurance |
| Shawna | Ackerman | California Earthquake Authority |
| Dan | Dyce | California Earthquake Authority |
| Marianne | Knoy | California Earthquake Authority |
| Kevin | Kuei | California Earthquake Authority |
| Janiele | Maffei | California Earthquake Authority |
| Danny | Marshall | California Earthquake Authority |
| Bruce | Patton | California Earthquake Authority |
| Glenn | Pomeroy | California Earthquake Authority |
| Badie | Rowshandel | California Earthquake Authority |
| Aeky | Summerell | California Earthquake Authority |
| Mitch | Zierner | California Earthquake Authority |
| Rodrigo | Garcia | CEA Advisory Panel |
| Jonathan | Leong | CEA Advisory Panel |
| Charlie | Kircher | Charlie Kircher and Associates |
| John W. | Van De Lindt | Colorado State University |

Attendee List (Total 71)

| | | |
|----------|-------------|---|
| Bob | Reitherman | Consortium of Universities for Research in Earthquake Engineering |
| Doreen | Earle | CSAA |
| Steve | Eiden | CSAA |
| Surya | Gunturi | EQECAT |
| Kamban | Parasuraman | EQECAT |
| Youngsuk | Kim | EQECAT |
| Brian | McDonald | Exponent Engineering and Scientific Consulting |
| John | Osteraas | Exponent Engineering and Scientific Consulting |
| Duane | Steffey | Exponent Engineering and Scientific Consulting |
| Patxi | Uriz | Exponent Engineering and Scientific Consulting |
| Scott | Arnold | Fyfe Co. LLC |
| Victor | Reyes | Fyfe Co. LLC |
| Doug | Hohbach | Hohbach-Lewin Structural Engineers |
| William | Graf | ImageCat, Inc. |
| Paul | Thompson | Mercury Insurance |
| Ann | Yan | Mercury Insurance |
| Sarah | Borg | Mercury Insurance Company |
| Keyannta | Hitchens | Nationwide |
| Debbie | Walling | Nationwide |
| Robert | Torbin | Omega Flex, Inc. |
| Rakesh | Gupta | Oregon State University |
| Steve | Mahin | Pacific Earthquake Engineering Research Center |
| Laura | Glaser | Risk Management Solutions, Inc. |
| Patricia | Grossi | Risk Management Solutions, Inc. |
| Petros | Keshishian | Risk Management Solutions, Inc. |
| Nilesh | Shome | Risk Management Solutions, Inc. |

Attendee List (Total 71)

| | | |
|----------|-----------|--|
| Fred | Turner | Seismic Safety Commission |
| Homer | Yim | Simpson Strong Tie |
| Steve | Pryor | Simpson Strong-Tie |
| Louay | Shamroukh | Simpson Strong-Tie Co. |
| Shiling | Pei | South Dakota State University |
| Greg | Deierlein | Stanford University |
| Scott | Swensen, | Stanford University |
| Cheryl | Bocek | State Farm |
| John | Goss | State Farm |
| Rose | Grant | State Farm Insurance |
| Heath | Hawsey | State Farm Insurance |
| David | Tilford | State Farm Insurance |
| Rich | Yamamoto | State Farm Insurance |
| Gary | Mochizuki | Structural Solutions, Inc. |
| Gilberto | Mosqueda | University of San Diego |
| Dan | Dolan | Washington State University |
| Craig | Tillman | WeatherPredict Consulting, Inc. |
| Kelly | Cobeen | Wiss, Janney, Elstner Associates, Inc. |
| Colin | Blaney | ZFA Structural Engineers |
| Thor | Matteson | |

Governing Board Memorandum

February 28, 2013

Agenda Item 13: Update on recent developments in CEA's Research Program

Recommended Action: No action required

Background on NGA-West 2 research:

In October 2009 the Governing Board approved CEA staff's recommendation to enter into a consulting services agreement ("NGA-West 2") with UC Berkeley and the Pacific Earthquake Engineering Research center to update ground-motion prediction equations ("GMPEs") that are key to the accurate outputs of commercial loss models used by the CEA.

Stated most simply, a GMPE calculates ground movement at various locations, given a certain magnitude earthquake and certain distances from the fault rupture. The details of that research are in *Attachment A* to Agenda item 10 of the October 29th Board meeting.

NGA-West 2 continued work that was completed in 2008 ("NGA"), which had been funded by Caltrans, the California Energy Commission, and Pacific Gas & Electric. This research, coupled with the CEA – supported UCERF 2 project, ultimately allowed the CEA to take a 12.5% rate decrease effective January 1, 2012.

Funding for NGA-West 2 is being provided by CEA, Caltrans, PG&E, the Nuclear Regulatory Commission, BC Hydro and the United States Geological Survey ("USGS"). Of a total \$4.2 million budget, CEA is providing 37% (\$1.554 million), Caltrans is funding a similar amount, and the other major funder, PG&E, is contributing \$600,000.

Current status of NGA-West 2 research

There are 27 different tasks in the overall scope of work for NGA-West 2, eight of them partially funded by the CEA. Originally, all eight tasks were to be completed by August 31, 2012, however, it is now clear that more time is required.

The needed delay should not affect the GMPEs being included in the USGS National Seismic Hazard Maps (the "USGS maps"), which are updated every six years to coincide with the International Building Code revision cycle. When adopted, commercial modelers use these maps to update their earthquake-loss models.

As now planned, the horizontal GMPEs will be released by May 15, 2013, once the internal review and comment period has been completed, the time period indicated will allow the GMPEs to be used in the 2014 USGS maps.

As of May 15th, seven of the eight tasks will have been completed, leaving only the vertical ground motion component to be completed—by July 31, 2013 (vertical ground motion is not used in the USGS maps).

When the final tasks are complete, the CEA Research Department will report to the Board on the hazard and loss implications to the CEA of the NGA-West 2 research.

Background on UCERF3 research:

In October 2009 the Governing Board also approved CEA staff's recommendation to fund an update of the Uniform California Earthquake Rupture Forecast model (the update is called "UCERF3").

The CEA helped fund the first UCERF model (actually called "UCERF2"), which was designed, in part, to address the lack of a statewide, uniform methodology to model "time-dependent" faults.¹

The UCERF2 model was released in April 2008 and incorporated into the USGS maps and into all three major commercial loss models.

The total cost for the UCERF3 update is \$8.7 million, with most of the funding coming from the National Science Fund. CEA is contributing \$2 million to this project, or 23% of the total cost.

UCERF3 is addressing several issues raised by UCERF2:

- Assessing whether multi-segment fault rupturing needs to be more extensively modeled
- Allowing the model to be adjusted after a large earthquake, when probabilities change. For example, the recent earthquake series in Christchurch, New Zealand underscores the importance of being able to forecast aftershocks or later triggered earthquakes.
- In addition, the model for the first time will incorporate geodetic (e.g., GPS recordings) information in determining earthquake probabilities.

The UCERF3 contract commenced January 1, 2010 and was to be completed June 30, 2012.

Current status of UCERF3 research

The complexity of UCERF3 means that it is an ambitious project. For example:

- The UCERF2 logic tree has 480 branches—UCERF3 currently has 20,000 branches.
- UCERF2 had 7,000–8,000 fault ruptures—UCERF3 has over 200,000.
- For the first time, geodetic (GPS) information may be incorporated into the probabilistic model.

¹ "Time-dependent" fault modeling assumes the probability of the earthquake is small shortly after the past earthquake but then increases with time. "Time-independent" fault modeling assumes that a future earthquake is equally probable immediately after the past earthquake or much later.

This increased but necessary complexity is uncovering the need for further study and work, and as a result, UCERF3 is behind schedule.

The revised schedule calls for the time-*independent* portion of UCERF3 to be completed in time for its adoption into the USGS 2014 maps.

The time-*dependent* portion of UCERF3 is scheduled for completion on June 30, 2013. The USGS maps do not use time-dependency, but the CEA's commercial loss modelers must incorporate the UCERF3 time-dependency features before those models can be considered for use in CEA's rate-setting and financial modeling.

With respect to both NGA-West 2 and UCERF3, CEA staff has completed contractual modifications to allow for the needed additional time and is closely monitoring progress.

Recommendation:

No action – information only.

California Earthquake Authority

Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to December 31, 2012

| 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 | | | | 2 | 8,627.67 | 776.49 | \$9,404.16 |
| 10330 | Ferndale | 1/9/2010 | 6.5 | 27 mi W of Ferndale | 3 | 23,901.50 | 2,151.13 | \$26,052.63 |
| 10360 | Baja California Mexico | 4/4/2010 | 7.2 | 16 mi SW from Guadalupe Victoria, Mexico | 17 | 81,066.58 | 7,296.00 | \$88,362.58 |
| | 2012 Minor Quakes | | | | 2 | 7,819.09 | 703.72 | \$8,522.81 |
| 12410 | Brawley | | 5.3 | 4 mi North of Brawley, CA | 2 | 23,833.24 | 2,145.00 | \$25,978.24 |
| Total | | | | | 181 | \$3,769,344.49 | \$338,378.70 | \$4,107,723.19 |

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 1/23/2013 - Policies in Force on: 12/31/2012

| TOTALS | Policies In Force | % Total | Exposure | % Total | Written Premium | % Total | Avg Written Premium |
|--|-------------------|---------------|------------------------|---------------|--------------------|---------------|---------------------|
| Homeowners | | | | | | | |
| 15% Total | 591,921 | 70.34% | 262,360,807,919 | 83.96% | 447,965,575 | 80.51% | 757 |
| 10% Total | 67,188 | 7.98% | 32,371,979,541 | 10.36% | 55,197,309 | 9.92% | 822 |
| Homeowners Total | 659,109 | 78.33% | 294,732,787,460 | 94.31% | 503,162,884 | 90.43% | 763 |
| Homeowners Choice | | | | | | | |
| 15% Total | 3,473 | 0.41% | 1,951,017,627 | 0.62% | 3,262,189 | 0.59% | 939 |
| 10% Total | 2,293 | 0.27% | 1,309,933,510 | 0.42% | 1,957,604 | 0.35% | 854 |
| Homeowners Choice Total | 5,766 | 0.69% | 3,260,951,137 | 1.04% | 5,219,793 | 0.94% | 905 |
| Manufactured Homes (Mobilehomes)- Homeowners | | | | | | | |
| 15% Total | 21,837 | 2.59% | 2,322,802,346 | 0.74% | 2,426,968 | 0.44% | 111 |
| 10% Total | 4,301 | 0.51% | 640,177,772 | 0.2% | 569,581 | 0.1% | 132 |
| Manufactured Homes (Mobilehomes)- Homeowners Total | 26,138 | 3.11% | 2,962,980,118 | 0.95% | 2,996,549 | 0.54% | 115 |
| Manufactured Homes (Mobilehomes)- Homeowners Choice | | | | | | | |
| 15% Total | 60 | 0.01% | 9,106,412 | 0.0% | 10,386 | 0.0% | 173 |
| 10% Total | 76 | 0.01% | 13,596,868 | 0.0% | 9,895 | 0.0% | 130 |
| Manufactured Homes (Mobilehomes)- Homeowners Choice Total | 136 | 0.02% | 22,703,280 | 0.01% | 20,281 | 0.0% | 149 |
| Condo Total | 104,070 | 12.37% | 9,797,914,000 | 3.14% | 39,433,473 | 7.09% | 379 |
| Renters Total | 46,284 | 5.5% | 1,724,244,500 | 0.55% | 5,555,558 | 1.0% | 120 |
| Grand Total | 841,503 | 100.0% | 312,501,580,495 | 100.0% | 556,388,537 | 100.0% | 661 |

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 1/23/2013 - Policies in Force on: 12/31/2012

| HOMEOWNERS | Policies In Force | % Total | Exposure | % Total | Written Premium | % Total | Avg Written Premium |
|-------------------------|-------------------|---------------|------------------------|---------------|--------------------|---------------|---------------------|
| Deductible - 15% | | | | | | | |
| CovA/C5k/D1.5k/BCU10k | 591,921 | 89.81% | 254,608,354,419 | 86.39% | 419,464,713 | 83.37% | 709 |
| BCU 20k | 66,760 | 10.13% | 667,600,000 | 0.23% | 1,118,162 | 0.22% | 17 |
| Coverage C 25k | 32,229 | 4.89% | 644,580,000 | 0.22% | 4,297,574 | 0.85% | 133 |
| Coverage C 50k | 21,203 | 3.22% | 954,135,000 | 0.32% | 4,632,726 | 0.92% | 218 |
| Coverage C 75k | 9,761 | 1.48% | 683,270,000 | 0.23% | 2,704,890 | 0.54% | 277 |
| Coverage C 100k | 33,767 | 5.12% | 3,207,865,000 | 1.09% | 11,563,604 | 2.3% | 342 |
| Coverage D 10k | 38,762 | 5.88% | 329,477,000 | 0.11% | 963,927 | 0.19% | 25 |
| Coverage D 15k | 73,759 | 11.19% | 995,746,500 | 0.34% | 2,724,458 | 0.54% | 37 |
| Coverage D 25k | 11,480 | 1.74% | 269,780,000 | 0.09% | 495,521 | 0.1% | 43 |
| 15% Total | 591,921 | 89.81% | 262,360,807,919 | 89.02% | 447,965,575 | 89.03% | 757 |
| Deductible - 10% | | | | | | | |
| CovA/C5k/D1.5k/BCU10k | 67,188 | 10.19% | 28,981,858,041 | 9.83% | 44,190,486 | 8.78% | 658 |
| BCU 20k | 17,025 | 2.58% | 170,250,000 | 0.06% | 240,057 | 0.05% | 14 |
| Coverage C 25k | 10,832 | 1.64% | 216,640,000 | 0.07% | 1,540,730 | 0.31% | 142 |
| Coverage C 50k | 7,955 | 1.21% | 357,975,000 | 0.12% | 1,518,606 | 0.3% | 191 |
| Coverage C 75k | 4,151 | 0.63% | 290,570,000 | 0.1% | 997,307 | 0.2% | 240 |
| Coverage C 100k | 18,332 | 2.78% | 1,741,540,000 | 0.59% | 5,594,409 | 1.11% | 305 |
| Coverage D 10k | 13,598 | 2.06% | 115,583,000 | 0.04% | 247,018 | 0.05% | 18 |
| Coverage D 15k | 26,151 | 3.97% | 353,038,500 | 0.12% | 692,482 | 0.14% | 26 |
| Coverage D 25k | 6,150 | 0.93% | 144,525,000 | 0.05% | 176,214 | 0.04% | 29 |
| 10% Total | 67,188 | 10.19% | 32,371,979,541 | 10.98% | 55,197,309 | 10.97% | 822 |
| Homeowners Total | 659,109 | 100.0% | 294,732,787,460 | 100.0% | 503,162,884 | 100.0% | 763 |

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 1/23/2013 - Policies in Force on: 12/31/2012

| HOMEOWNERS CHOICE | Policies In Force | % Total | Exposure | % Total | Written Premium | % Total | Avg Written Premium |
|------------------------------------|-------------------|---------------|----------------------|---------------|------------------|---------------|---------------------|
| Deductible - 15% | | | | | | | |
| CovA/C5k/D1.5k/BCU10k ¹ | 3,473 | 60.23% | 1,830,655,127 | 56.14% | 2,756,816 | 52.81% | 794 |
| BCU 20k | 1,074 | 18.63% | 10,740,000 | 0.33% | 18,249 | 0.35% | 17 |
| Coverage C 25k | 430 | 7.46% | 8,600,000 | 0.26% | 89,540 | 1.72% | 208 |
| Coverage C 50k | 378 | 6.56% | 17,010,000 | 0.52% | 97,166 | 1.86% | 257 |
| Coverage C 75k | 130 | 2.25% | 9,100,000 | 0.28% | 37,856 | 0.73% | 291 |
| Coverage C 100k | 452 | 7.84% | 42,940,000 | 1.32% | 166,891 | 3.2% | 369 |
| Coverage D 10k | 432 | 7.49% | 3,672,000 | 0.11% | 17,319 | 0.33% | 40 |
| Coverage D 15k | 279 | 4.84% | 3,766,500 | 0.12% | 14,527 | 0.28% | 52 |
| Coverage D 25k | 1,044 | 18.11% | 24,534,000 | 0.75% | 63,825 | 1.22% | 61 |
| 15% Total | 3,473 | 60.23% | 1,951,017,627 | 59.83% | 3,262,189 | 62.5% | 939 |
| Deductible - 10% | | | | | | | |
| CovA/C5k/D1.5k/BCU10k ¹ | 2,293 | 39.77% | 1,182,499,010 | 36.26% | 1,532,109 | 29.35% | 668 |
| BCU 20k | 909 | 15.76% | 9,090,000 | 0.28% | 12,342 | 0.24% | 14 |
| Coverage C 25k | 461 | 8.0% | 9,220,000 | 0.28% | 79,564 | 1.52% | 173 |
| Coverage C 50k | 341 | 5.91% | 15,345,000 | 0.47% | 71,041 | 1.36% | 208 |
| Coverage C 75k | 146 | 2.53% | 10,220,000 | 0.31% | 35,514 | 0.68% | 243 |
| Coverage C 100k | 574 | 9.95% | 54,530,000 | 1.67% | 167,705 | 3.21% | 292 |
| Coverage D 10k | 395 | 6.85% | 3,357,500 | 0.1% | 10,877 | 0.21% | 28 |
| Coverage D 15k | 234 | 4.06% | 3,159,000 | 0.1% | 8,302 | 0.16% | 35 |
| Coverage D 25k | 958 | 16.61% | 22,513,000 | 0.69% | 40,149 | 0.77% | 42 |
| 10% Total | 2,293 | 39.77% | 1,309,933,510 | 40.17% | 1,957,604 | 37.5% | 854 |
| Homeowners Choice Total | 5,766 | 100.0% | 3,260,951,137 | 100.0% | 5,219,793 | 100.0% | 905 |

¹Includes policies with Coverage A, C and D, Coverage A and C, Coverage A and D, and Coverage A only

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 1/23/2013 - Policies in Force on: 12/31/2012

| MANUFACTURED HOMES (MOBILEHOMES)- HOMEOWNERS | Policies In Force | % Total | Exposure | % Total | Written Premium | % Total | Avg Written Premium |
|--|----------------------|---------------|----------------------|---------------|--------------------|---------------|------------------------|
| Deductible - 15% | | | | | | | |
| CovA/C5k/D1.5k/BCU10k | 21,837 | 83.55% | 2,127,469,846 | 71.8% | 2,304,750 | 76.91% | 106 |
| Coverage C 25k | 1,670 | 6.39% | 33,400,000 | 1.13% | 36,092 | 1.2% | 22 |
| Coverage C 50k | 1,101 | 4.21% | 49,545,000 | 1.67% | 36,822 | 1.23% | 33 |
| Coverage C 75k | 345 | 1.32% | 24,150,000 | 0.82% | 13,272 | 0.44% | 38 |
| Coverage C 100k | 495 | 1.89% | 47,025,000 | 1.59% | 21,293 | 0.71% | 43 |
| Coverage D 10k | 1,650 | 6.31% | 14,025,000 | 0.47% | 6,125 | 0.2% | 4 |
| Coverage D 15k | 1,523 | 5.83% | 20,560,500 | 0.69% | 7,095 | 0.24% | 5 |
| Coverage D 25k | 282 | 1.08% | 6,627,000 | 0.22% | 1,521 | 0.05% | 5 |
| 15% Total | 21,837 | 83.55% | 2,322,802,346 | 78.39% | 2,426,968 | 80.99% | 111 |
| Deductible - 10% | | | | | | | |
| CovA/C5k/D1.5k/BCU10k | 4,301 | 16.45% | 459,113,272 | 15.49% | 490,706 | 16.38% | 114 |
| Coverage C 25k | 1,336 | 5.11% | 26,720,000 | 0.9% | 20,899 | 0.7% | 16 |
| Coverage C 50k | 1,034 | 3.96% | 46,530,000 | 1.57% | 23,845 | 0.8% | 23 |
| Coverage C 75k | 335 | 1.28% | 23,450,000 | 0.79% | 8,980 | 0.3% | 27 |
| Coverage C 100k | 475 | 1.82% | 45,125,000 | 1.52% | 14,928 | 0.5% | 31 |
| Coverage D 10k | 1,315 | 5.03% | 11,177,500 | 0.38% | 3,139 | 0.1% | 2 |
| Coverage D 15k | 1,499 | 5.73% | 20,236,500 | 0.68% | 5,744 | 0.19% | 4 |
| Coverage D 25k | 333 | 1.27% | 7,825,500 | 0.26% | 1,339 | 0.04% | 4 |
| 10% Total | 4,301 | 16.45% | 640,177,772 | 21.61% | 569,581 | 19.01% | 132 |
| Manufactured Homes (Mobilehomes)-Homeowners Total | 26,138 | 100.0% | 2,962,980,118 | 100.0% | 2,996,549 | 100.0% | 115 |

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 1/23/2013 - Policies in Force on: 12/31/2012

| MANUFACTURED HOMES (MOBILEHOMES)- HOMEOWNERS CHOICE | Policies In Force | % Total | Exposure | % Total | Written Premium | % Total | Avg Written Premium |
|---|----------------------|---------------|-------------------|---------------|--------------------|---------------|------------------------|
| Deductible - 15% | | | | | | | |
| CovA/C5k/D1.5k/BCU10k ¹ | 60 | 44.12% | 7,297,912 | 32.14% | 8,732 | 43.06% | 146 |
| Coverage C 25k | 17 | 12.5% | 340,000 | 1.5% | 582 | 2.87% | 34 |
| Coverage C 50k | 7 | 5.15% | 315,000 | 1.39% | 365 | 1.8% | 52 |
| Coverage C 75k | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | N/A |
| Coverage C 100k | 6 | 4.41% | 570,000 | 2.51% | 366 | 1.8% | 61 |
| Coverage D 10k | 5 | 3.68% | 42,500 | 0.19% | 53 | 0.26% | 11 |
| Coverage D 15k | 7 | 5.15% | 94,500 | 0.42% | 62 | 0.3% | 9 |
| Coverage D 25k | 19 | 13.97% | 446,500 | 1.97% | 225 | 1.11% | 12 |
| 15% Total | 60 | 44.12% | 9,106,412 | 40.11% | 10,386 | 51.21% | 173 |
| Deductible - 10% | | | | | | | |
| CovA/C5k/D1.5k/BCU10k ¹ | 76 | 55.88% | 9,093,868 | 40.06% | 7,694 | 37.94% | 101 |
| Coverage C 25k | 24 | 17.65% | 480,000 | 2.11% | 520 | 2.56% | 22 |
| Coverage C 50k | 21 | 15.44% | 945,000 | 4.16% | 589 | 2.91% | 28 |
| Coverage C 75k | 10 | 7.35% | 700,000 | 3.08% | 187 | 0.92% | 19 |
| Coverage C 100k | 12 | 8.82% | 1,140,000 | 5.02% | 447 | 2.2% | 37 |
| Coverage D 10k | 16 | 11.76% | 136,000 | 0.6% | 95 | 0.47% | 6 |
| Coverage D 15k | 12 | 8.82% | 162,000 | 0.71% | 85 | 0.42% | 7 |
| Coverage D 25k | 40 | 29.41% | 940,000 | 4.14% | 279 | 1.38% | 7 |
| 10% Total | 76 | 55.88% | 13,596,868 | 59.89% | 9,895 | 48.79% | 130 |
| Manufactured Homes (Mobilehomes)-Homeowners Choice Total | 136 | 100.0% | 22,703,280 | 100.0% | 20,281 | 100.0% | 149 |

¹Includes policies with Coverage A, C and D, Coverage A and C, Coverage A and D, and Coverage A only

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 1/23/2013 - Policies in Force on: 12/31/2012

| CONDO | Policies In Force | % Total | Exposure | % Total | Written Premium | % Total | Avg Written Premium |
|------------------------------|-------------------|---------------|----------------------|---------------|-------------------|---------------|---------------------|
| Coverage A/BCU 10k | 75,766 | 72.8% | 2,651,810,000 | 27.07% | 8,028,972 | 20.36% | 106 |
| Coverage C 5k/D 1.5k | 35,795 | 34.4% | 232,667,500 | 2.37% | 2,561,114 | 6.49% | 72 |
| Coverage C 5k ¹ | 9,150 | 8.79% | 45,750,000 | 0.47% | 569,294 | 1.44% | 62 |
| Coverage C 25k | 14,670 | 14.1% | 366,750,000 | 3.74% | 1,663,273 | 4.22% | 113 |
| Coverage C 50k | 12,301 | 11.82% | 615,050,000 | 6.28% | 1,536,727 | 3.9% | 125 |
| Coverage C 75k | 5,706 | 5.48% | 427,950,000 | 4.37% | 768,813 | 1.95% | 135 |
| Coverage C 100k | 11,721 | 11.26% | 1,172,100,000 | 11.96% | 1,627,892 | 4.13% | 139 |
| Coverage D 1.5k ² | 7,291 | 7.01% | 10,936,500 | 0.11% | 95,702 | 0.24% | 13 |
| Coverage D 10k | 14,641 | 14.07% | 146,410,000 | 1.49% | 374,565 | 0.95% | 26 |
| Coverage D 15k | 26,471 | 25.44% | 397,065,000 | 4.05% | 724,906 | 1.84% | 27 |
| Coverage D 25k | 5,145 | 4.94% | 128,625,000 | 1.31% | 137,557 | 0.35% | 27 |
| Coverage E 25k | 3,170 | 3.05% | 79,250,000 | 0.81% | 710,420 | 1.8% | 224 |
| Coverage E 50k | 60,298 | 57.94% | 3,014,900,000 | 30.77% | 18,049,829 | 45.77% | 299 |
| Coverage E 75k | 6,782 | 6.52% | 508,650,000 | 5.19% | 2,584,408 | 6.55% | 381 |
| Condo Total | 104,070 | 100.0% | 9,797,914,000 | 100.0% | 39,433,473 | 100.0% | 379 |

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 1/23/2013 - Policies in Force on: 12/31/2012

| RENTERS | Policies In Force | % Total | Exposure | % Total | Written Premium | % Total | Avg Written Premium |
|------------------------------|-------------------|---------------|----------------------|---------------|------------------|---------------|---------------------|
| Coverage C 5k/D 1.5k | 17,877 | 38.62% | 116,200,500 | 6.74% | 1,346,373 | 24.23% | 75 |
| Coverage C 5k ¹ | 3,555 | 7.68% | 17,775,000 | 1.03% | 241,394 | 4.35% | 68 |
| Coverage C 25k | 11,351 | 24.52% | 283,775,000 | 16.46% | 1,386,417 | 24.96% | 122 |
| Coverage C 50k | 7,037 | 15.2% | 351,850,000 | 20.41% | 936,772 | 16.86% | 133 |
| Coverage C 75k | 2,135 | 4.61% | 160,125,000 | 9.29% | 307,515 | 5.54% | 144 |
| Coverage C 100k | 4,329 | 9.35% | 432,900,000 | 25.11% | 606,959 | 10.93% | 140 |
| Coverage D 1.5k ² | 5,196 | 11.23% | 7,794,000 | 0.45% | 70,035 | 1.26% | 13 |
| Coverage D 10k | 7,850 | 16.96% | 78,500,000 | 4.55% | 218,910 | 3.94% | 28 |
| Coverage D 15k | 10,870 | 23.49% | 163,050,000 | 9.46% | 314,231 | 5.66% | 29 |
| Coverage D 25k | 4,491 | 9.7% | 112,275,000 | 6.51% | 126,951 | 2.29% | 28 |
| Renters Total | 46,284 | 100.0% | 1,724,244,500 | 100.0% | 5,555,558 | 100.0% | 120 |

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