

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Thursday, April 28, 2011
1:00 P.M.**

Location: Joe Serna, Jr., Cal/EPA Headquarters Building
1001 I Street (Sierra Hearing Room)
Sacramento, California

Members of the Governing Board in attendance:

Dave Jones, Insurance Commissioner
Pedro Reyes, designee of Governor Jerry Brown
Grant Boyken, designee of State Treasurer Bill Lockyer
Bruce Patton, designee of Insurance Commissioner Dave Jones
Deborah Doty, designee of Speaker of the Assembly John Pérez
Dietrich Stroeh, designee of Chair of the Senate Rules Committee Darrell Steinberg

Members of the CEA staff in attendance:

Glenn Pomeroy, Chief Executive Officer
Tim Richison, Chief Financial Officer
Bob Stewart, Chief Operations Officer
Chris Nance, Chief Communications Officer
Shawna Ackerman, Chief Actuary
Susan Pitton, Governing Board and Advisory Panel Liaison
Danny Marshall, General Counsel

- 1. The meeting was called to order at 1:03 p.m. A quorum was established.**
- 2. Consideration and approval of the minutes of the February 24, 2011, Governing Board meeting.**

MOTION: Mr. Boyken moved approval of the February 24, 2011, Governing Board minutes; seconded by Commissioner Jones. Motion passed unanimously.

- 3. Chief Executive Officer Glenn Pomeroy will present his executive report; 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. Mr. Pomeroy will request Board support of S.637, the "Earthquake Insurance Affordability Act", recently introduced in the U.S. Congress by Senators Dianne Feinstein and Barbara Boxer.**

- Mr. Pomeroy welcomed Mr. Reyes as the Governor's new designee to the CEA Governing Board.
- Mr. Pomeroy spoke about the risk and impacts of earthquakes, calling particular attention to the earthquake and tsunami tragedy still unfolding in Japan. At

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Magnitude 9.0, that earthquake was one of the five strongest quakes in recorded history. The fatality count is high and growing, and the estimated economic losses, including that portion that is insured loss, are staggering.

- In Japan, about half of the households have earthquake insurance (which, in Japan (unlike in the U.S.), covers tsunamis). On a per-risk basis, the coverage limits are less than 100% of a structure's value, but at least financial protection is in place for citizens of Japan in a larger percentage than for California.
- Within a couple of days after the Japan earthquake and tsunami, the CEA had produced a radio spot and an online video presentation to remind Californians that these earthquakes are as unstoppable as they are unpredictable, and all Californians must be ready. The CEA paid \$350,000 for the advertising; with this ad-placement package, however, came additional media spots, which raised the total value to \$500,000.
- In March a record 8,400 new CEA earthquake policies were purchased.
- The Board has authorized the filing with the Department of Insurance of a rate and form application that, if approved by the Insurance Commissioner, will result in an overall rate reduction to consumers of 12.5% statewide (on average).
- That filing also included requests for new coverage enhancements, including \$1,500 for emergency repairs that policyholders can access without first having to meet a deductible; new coverage enhancements would also give policyholders more control over how much they spend for insurance and what they want to cover. The Department of Insurance is now performing its regulatory review. CEA staff hopes the new coverage options will be available to policyholders early next year.
- Mr. Pomeroy noted that the CEA's 17 "partner" insurance companies will need to make some adjustments to their systems to accommodate the policy enhancements.
- The Chief Mitigation Officer selection process has progressed well. The CEA hired an excellent search firm, which presented six outstanding candidates. Staff has narrowed the field to its preferred candidate and is in process of negotiating an employment contract.
- The search is underway for an Insurance Director who will report to Chief Operations Officer Bob Stewart. The new position will bring additional insurance expertise and provide additional leadership for our claim-paying operation.
- CEA's independent auditors have identified a need to refocus the CEA's information systems program using new, more sophisticated procedures, governance, and controls. The CEA is working with Protiviti to help accomplish these aims. First-quarter tasks have been completed and second-quarter tasks are underway.
- Legislative developments: Senators Dianne Feinstein and Barbara Boxer have introduced in Congress their Senate Bill 637, known as the Earthquake Insurance Affordability Act or EIAA. Unlike past CEA federal-legislation efforts, this bill focuses solely on federal guarantees for the post-event debt of public programs that deal with earthquake risk. The bill would allow the CEA to rely less on reinsurance,

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which can be expensive, replacing it with a defined federally guaranteed capability to borrow in the private debt markets.

If this legislation is enacted, it would help other states form CEA-like programs.

Commissioner Jones acknowledged the leadership of Senators Feinstein and Boxer in introducing the legislation and pledged his support and that of his department.

Mr. Marshall pointed out to the Board that the resolution of endorsement presented today for Board consideration is patterned after a similar one that the Board had adopted in regard to prior legislation.

MOTION: Commissioner Jones moved approval of the resolution to support and endorse S.637; seconded by Mr. Boyken. Motion passed unanimously.

- Mr. Pomeroy said that because the CEA was established 15 years ago and has operated in a consistent, as-formed manner ever since, staff is looking for ways to reform the CEA business-operations model, putting together an RFQ to secure the services of a consulting firm that has a specialty in insurance operations.
- Commissioner Jones commented that he had been watching carefully to try to ascertain what, if any, impact the tragic events in Japan will have on the international market for reinsurance. He felt that it wouldn't be much; he asked Mr. Pomeroy for his thoughts.

Mr. Pomeroy responded that although the earthquake was a devastating event and the magnitude of losses is still unfolding, the Japan event doesn't appear to be an event that insurance and reinsurance mechanisms can't handle. The event will cause pressure on prices for the CEA, but the impact to CEA earthquake-insurance policyholders does not yet appear that it will be significant.

- Mr. Richison continued on the same topic:
 - The CEA considers the devastating Japan event an "earnings event" for the reinsurance marketplace, not a loss of surplus, as occurred on account of the financial crisis of 2008.
 - This year the CEA moved its reinsurance placement later in the year. CEA usually does most of its reinsurance negotiation and placement in the July timeframe, but after the second New Zealand earthquake in February, staff decided that the marketplace was a little too uncertain since it didn't know all the losses it was going to have to absorb. So the reinsurance placement will start in September. We have learned over the years that when there's uncertainty in the reinsurance marketplace about anything, there is upward pressure on prices.
 - Currently we believe our rates will not be affected by Japan—the CEA deals with strong, well capitalized reinsurers.
 - When a major earthquake strikes California, reinsurers will sustain further financial losses. That's another reason for the CEA to deal principally with the strongest [financial] participants in the reinsurance

marketplace, so that CEA can rely on the payment promises reinsurers have made when we want to recover under our reinsurance contracts.

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

- Mr. Richison stated that CEA's available capital at the end of February 2011 was almost \$3.8 billion. Actual cash and investments are approximately \$4.3 billion
- There was a significant roll off of the New Industry Assessment Layer in April, and the CEA purchased some additional reinsurance to offset that loss of capacity.
- Mr. Richison highlighted the CEA's investment portfolio, which consists of three funds. The CEA tracks its investment yield against the Treasurer's pooled money investment fund (PMIF); the CEA and the PMIF operate under the same investment-related restrictions.

5. Chief Communications Officer Chris Nance will provide the Board with an update on the progress of the 2011 CEA Marketing Value Program.

- Mr. Nance identified three areas of the CEA marketing program that staff has focused on:
 1. Establish with consumers the new Marketing Value Program (MVP) in the name of "The Strength to Rebuild."
 2. Show a "return on investment" for new CEA policies sold. Participating insurers have indicated that, in doing so, CEA should demonstrate that this CEA programming shows an after-expense capital return.
 3. Deliver new-policy sales incentives for up to 5,000 CEA trained agents.
- The Insurance Journal ran a featured story on the CEA that highlighted the details of the program rollout. Staff complemented the story with advertising—not only in the Insurance Journal, but throughout the insurance trade press—that sought to recruit agents to the MVP.
- Staff mailed letters and distributed emails through all available networks.
- Staff assisted participating insurance companies in supporting what those companies would be sending to their agents through their internal systems.
- 3,200 agents are currently participating.
- More than 2,000 policies have already been sold through the MVP.
- Agent training is up 500% compared to this date last year.

Commissioner Jones offered to talk about and encourage participation in the program when he visits insurance companies and agent groups.

5. Mr. Nance will update the Board on the status of the CEA's mitigation program.

- After listening carefully to stakeholders throughout the state, staff has developed a straw-man program based on FEMA's "Project Impact."
- Staff has also established a reference to new CEA residential seismic retrofit programming in the State Hazard Mitigation Plan. This reference is important for the CEA to be eligible for funding beyond the resources it already has available.
- One of the greatest accomplishments during the last 18 months has been facilitation of the emergency adoption of a new California building code for the seismic retrofitting of certain residential structures.
- Staff completed an RFQ to identify an administrator for the statewide program.
- Staff is very near completion of the Joint Powers Authority with the California Emergency Management Agency.
- CEA is in the final stages of its recruitment process for the chief mitigation officer.
- The CEA mitigation program is part of, though not exclusively, the Board's mitigation program. The Board can determine whether there are other things it would like to see happen in the name of mitigation.

6. 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.

The Board entered closed session at 1:54 p.m. and resumed its proceedings in open session at 2:30 p.m. Mr. Reyes reported that the Board had discussed personnel matters and was briefed by counsel.

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

There was no public comment.

8. Adjournment.

The meeting was adjourned at 2:31 p.m.