

**CALIFORNIA EARTHQUAKE AUTHORITY  
GOVERNING BOARD MEETING  
MINUTES**

**Thursday, May 23, 2013  
1:00 P.M.**

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

Members of the Governing Board in attendance:

Todd Jerue, designee of Governor Jerry Brown  
Grant Boyken, designee of State Treasurer Bill Lockyer  
Chris Shultz, designee of Insurance Commissioner Dave Jones  
Dietrich Stroeh, designee of Senator Darrell Steinberg

Members of the CEA staff in attendance:

Glenn Pomeroy, Chief Executive Officer  
Tim Richison, Chief Financial Officer  
Bob Stewart, Chief Operations Officer  
Shawna Ackerman, Chief Actuary  
Janiele Maffei, Chief Mitigation Officer  
Chris Nance, Chief Communications Officer  
Susan Pitton, Governing Board and Advisory Panel Liaison  
Marc Keller, Legal Office Assistant  
Danny Marshall, General Counsel

Also present:

Wayne Coulon  
Henry Williams, Vice-Chairperson, CEA Advisory Panel

- 1. The meeting was called to order at 1:00 p.m. A quorum was achieved.**
- 2. Consideration and approval of the minutes of the February 28, 2013, Governing Board meeting.**

**MOTION:** Mr. Boyken moved approval of the February 28, 2013, Governing Board meeting minutes; seconded by Mr. Shultz. Motion passed unanimously.

- 3. Executive Report by Chief Executive Officer Glenn Pomeroy; assisted by CEA executive staff, Mr. Pomeroy's report will include an update for the**

**Board on federal and state legislative activities of interest to the CEA, a process to develop an updated CEA Strategic Plan, and a hiring update on the new CEA Chief Information Officer.**

- Mr. Pomeroy welcomed new Governor’s designee Todd Jerue to the meeting.
- Mr. Pomeroy reported that the CEA had reached an agreement with Todd Coombes, to begin work as the CEA’s first Chief Information Officer on June 1. He is an accomplished IT leader in the private insurance sector.
- Mr. Pomeroy thanked Pedro Reyes for his service to the Board. Mr. Reyes had worked with the CEA for many years, most recently as the designee of the Governor, who is Chair of the Board.
- Mr. Pomeroy thanked Wayne Coulon for his service as an Advisory Panel member, having served as the Insurance Commissioner’s designee for essentially two four-year terms. Mr. Shultz honored Mr. Coulon by describing his work and presenting a certificate of appreciation. Mr. Pomeroy added to the accolades and presented an inscribed globe.
  - Mr. Coulon stated that the CEA is doing and achieving things it had never envisioned even a few years ago. He reviewed the accomplishments of the staff and expressed appreciation for his relationships with them.
- Mr. Pomeroy announced the retirement of Board Liaison Susan Pitton. He voiced appreciation for her professionalism and organizational skills. Mr. Marshall added that having Ms. Pitton as a part of his and the CEA’s staff had made everyone on the whole CEA team better.
- Mr. Pomeroy turned to the CEA’s joined-forces campaign with the American Red Cross (“ARC”). The ARC had sent a letter of thanks to the Board. In it, they stated that by joining forces around the common objective of getting Californians prepared for natural disasters (including earthquakes), the two organizations had been able to create more impact than either could have done separately.
- Mr. Pomeroy announced that the CEA’s second fundraising auction for the benefit of the Red Cross had netted \$160,000—a check for all those proceeds was recently presented at the Wango Tango concert event near Los Angeles.
- Mr. Pomeroy stated that the CEA/ARC “Traveling Red Table” was about to go on the road again, as the CEA begins to gear up to promote the “Great California ShakeOut” statewide earthquake drill.

- The CEA held its annual claim-manager meeting, to brief and educate those representatives of CEA participating insurers. PI claim adjusters will be responsible for adjusting earthquake losses of CEA policyholders according to the CEA Claim Manual. The meeting is an important part of preparedness.
- On the federal-legislation front, Senator Dianne Feinstein (and others) are interested in re-introducing a new version of the Earthquake Insurance Affordability Act, which would provide a committed federal guarantee to back a defined portion of the CEA's post-earthquake debt. The CEA has vigorously worked for the bill's passage for several years.
- On the state legislation front, the measure through which the Board is seeking relief from the statutory CEA staffing cap continues moving through the legislative process in a budget "trailer bill"; if the bill becomes law, the arbitrary 25-person cap on CEA civil-service employees will be lifted.
- The executive staff is working on re-energizing the CEA's Strategic Plan in a manner that will capture the following themes and components:
  1. Financial strength.
    - Mr. Pomeroy reviewed the development of the CEA's financial strength. Today the CEA's claim-paying capacity is 30% more—standing at about \$10 billion—than at the CEA's inception in 1996. He pointed out that capital now makes up more than 40% of total capacity, while the participating-insurer-assessment layer is down to 20% of capacity, with a very much higher attachment point for any earthquake-claim risk, which is a whole different level of exposure for participating insurers.
    - The CEA still buys a good deal of reinsurance and still heavily depends on risk-transfer mechanisms and facilities. But CFO Tim Richison's recent accomplishments in the capital markets have taken some pressure off the effects of pricing fluctuations that are a part of traditional reinsurance.
    - Mr. Pomeroy presented an example: If two earthquakes comparable to the 1994 Northridge earthquake were to occur on the same day or in the same year, the CEA would now be able to pay all of its claims, an impressive feat because the CEA was formed just 16 years ago.
  2. Commitment to policyholders.
    - The estimated *increase* in residential reconstruction costs in California since CEA inception is 137%, but the CEA, as a nonprofit organization, has still worked and succeeded in bringing a 47% rate *decrease* to its policyholders.
    - And with the Homeowners Choice product, the Board has enabled policyholders to choose the coverages that are right for them.

3. Reaching for the next level.
  - The CEA will hold a series of stakeholder meetings, beginning with the Advisory Panel meeting in late July. In the strategic-planning process, the CEA wants involvement of the PIs, the insurer trade associations, and consumer groups, as well as the Board itself. Stakeholder meetings will be posted as open, public meetings.
- The new, reenergized CEA Strategic Plan will represent three important objectives for the CEA:
  - To educate consumers about the risk and the need to consider insurance.
  - To promote retrofitting homes to mitigate earthquake damage and loss.
  - To function as a nonprofit public enterprise, formed with the mission of making residential earthquake insurance available to Californians.

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

- At March 31, the CEA's total cash and investments stood at \$4.8 billion.
- Premiums to date this year are \$117 million, and the CEA is on target to earn over \$500 million in written premium again this year.
- Staff will be in a position at the August 2013 meeting to inform the Board how the budget will unfold through the remainder of 2013.
- The CEA completed two reinsurance programs.
  - A one-year contract (from April 1, 2013, through March 31, 2014).
  - A three-year contract (from May 1, 2013, through April 30, 2016).
  - The CEA is continuing its declared goal of driving down the rate-on-line for its overall risk-transfer program.

**5. Mr. Richison will ask for Board approval of the purchase by the CEA of new software to provide the CEA with enhanced internal investment accounting and related compliance functions.**

- The CEA's existing investment accounting system has been in use since 2002 to account for the CEA's now \$4.8 billion in investments. But investment-related information provided by CEA's multiple outside investment managers must be manually entered.

- Staff currently uses an additional system to perform analytics on CEA investments, but this system is not coordinated with the accounting system, requiring manual data entry to perform investment analytics.
- There is an RFP pending to find a single solution to handle accounting and analytics. The single platform will receive the investment managers' daily investment information electronically, whereupon the platform will complete the accounting and perform analytics and compliance steps.
- The CEA received four proposals, but only one met appeared able to provide all the features the CEA desired (for example, the CEA desires a system where input received from investment managers can be analyzed within an hour or two of receipt so the investment portfolio can be quickly analyzed for compliance with CEA policies and the applicable law.
- The proposed system is called SunGard iWorks and will come at a cost lower than the combined cost of the CEA's two existing systems.

Mr. Richison gave the following recommendation:

- That the Board approve the selection of SunGard iWorks to provide the CEA with the desired, integral investment accounting, analytics, and compliance solution.
- For the Board to authorize staff to negotiate a contract with SunGard iWorks consistent with the terms stated in the Board memorandum and under the advice and counsel of the CEA General Counsel.
- For the Board to authorize CEO Glenn Pomeroy to execute the negotiated contract on behalf of the CEA.

Chair Jerue asked about staff-related costs for setup and maintenance of the new system.

Mr. Richison said that initially there would be additional costs to begin operating the system, but that after a learning period, staff time should be reduced because information input is automated. In addition, there should be a major benefit from more timely compliance checks and the additional portfolio analytics.

**MOTION:** Mr. Boyken moved to approve the selection of SunGard iWorks, to authorize staff to negotiate the contract, and to authorize Mr. Pomeroy to

execute the contract on behalf of the CEA; seconded by Mr. Shultz. Motion passed unanimously.

**6. Chief Communications Officer Chris Nance will seek Board approval for an augmentation to the 2013 CEA budget (marketing services item), and present and seek Board approval of the 2014 CEA marketing budget.**

- In 2011, with a return-on-investment scenario satisfactory to the Board, the approved CEA marketing-services budget was \$5 million.
- In 2012, with new and renewal policy data available, the CEA based its marketing-services budget on homeowners policies then in force averaging \$836 per policy; the approved budget was \$7.7 million, with a rollover of \$1.7 million in unused funds from 2011.
- In 2013, after further programming refinement, staff looked at all policies in force (instead of homeowners only), which reduced the average premium under consideration to \$715, and ended with an approved marketing budget of \$7.1 million.
- The budget for any of those three years did not exceed 1.66% of the CEA's total premium.
- For 2014, new marketing programming should be aligned more precisely with the CEA's unique policy-purchase process:
  - Buying a CEA policy requires the purchase of a PI's homeowners policy.
  - A CEA policy is always voluntarily purchased.
  - Just one-third of new CEA policies sold comes with an agent recommendation.
  - The purchase of a PI homeowners policy has no digital link with the purchase of a CEA policy.
- Staff has used the Ostrow model to look at the advertising portion of the marketing budget to help determine appropriate spending levels. The Ostrow model looks at factors in these three categories:
  1. Market factors consist of new brand, low brand share, low brand loyalty, and a long purchase cycle, among other factors.
  2. Message factors include high message complexity, high message uniqueness, and the CEA's new campaign.
  3. Media factors address high clutter and low audience attentiveness.

- Mr. Nance showed a two-year-old ad that addresses all the criteria and described the CEA's TV advertising, public-service announcement programming, and radio advertising, as well as the CEA's online marketing (including ads known as House of Cards, Blueprint, Lifelines, and What Moves You).
- Through the CEA's new Cooperative Marketing Venture ("CMV") initiative, staff will be looking to co-brand online ads with PIs. A pilot version of that program, for implementation in 2014, already has commitments from insurers representing sales of 70% of CEA's book of business. New-policy leads for both the CEA and the PIs will ideally be converted into new CEA-policy sales through a "digital handshake," where people considering earthquake insurance will move easily from the CEA's co-branded landing pages to corresponding pages on PI Web sites, which provide consistent earthquake-related information and facilitate CEA policy sales.
- CMV implementation would complement CEA training and marketing support for agents through the existing Marketing Value Program (MVP).
- One way to set the size of the CEA's marketing budget would be to compare it to the average of all insurance companies selling homeowners policies: 3.4% of premium. Using that standard, the CEA's annual marketing budget would be set at about \$13.2 million.
- If that standard were adjusted to only those companies selling homeowners policies and offering CEA policies, the marketing budget would drop to 2.24% of premium. Using that adjusted standard, the CEA's marketing budget would be set at about \$9.58 million.
- Mr. Nance noted that the CEA employs a unique policy-purchasing process. He advocated a conservative expansion of CEA marketing capabilities, proposing a 2014 marketing budget set at about 1.34% of CEA's annual premium, broken up as follows: television, \$2.2 million; radio, \$1.8 million; trade, \$230,000; online, \$1.9 million; direct mail, \$1.8 million. In addition, in a complementary expenditure and to implement the 2014 CMV, the CEA must develop protocols, conduct media planning, and implement technology in 2013, at an estimated cost of about \$144,000.

Mr. Nance gave the following staff recommendation:

- That the Board approve up to \$7,930,000 to implement the CEA's 2014 marketing program.

- That the Board approve the proposed augmentation of the CEA's 2013 marketing services budget for up to \$144,000 to support finalizing the 2014 marketing-program details.

Mr. Stroeh asked about social media. Mr. Nance explained that the use by CEA of social media must await the establishment of appropriate infrastructure.

**MOTION:** Mr. Shultz moved approval of the proposal for \$7.93 million for the 2014 marketing program and the augmentation of \$144,000 in the current year for the marketing services budget; seconded by Mr. Boyken. Motion passed unanimously.

**7. CEA Advisory Panel Vice-Chair Henry Williams will provide a summary of the proceedings of the April 25, 2013 Panel meeting.**

Mr. Williams reported on the April 25, 2013, Advisory Panel meeting. He noted that he was the newest Panel member and described his background.

Mr. Boyken commented that because the CEA has a small Board, Bagley-Keene rules make it hard to determine how to interact and participate with the Panel. But he added that, although the Panel's work is not always visible, the Board does appreciate Panel members' efforts.

**8. Chief Actuary Shawna Ackerman will seek Board approval for the first annual risk-capital surcharge to be imposed on Nationwide Mutual Insurance Company.**

- Ms. Ackerman noted that the Board had approved Nationwide's CEA participation in April 2010, conditioned on Nationwide's paying up to five annual risk-capital surcharges, in addition to its required capital contribution and any required loss assessments.
- She noted that in 2010, the Board approved the method by which the CEA calculates that risk-capital surcharge, which potentially applies to any new CEA participating insurer. The calculation method is described in law and is designed to account for any risk-financing costs attributable to a new PI's book of business which is determined to bring the CEA an increased likelihood of loss or increased losses.
- In applying the approved method to Nationwide's earthquake-insurance risk profile as of the end of 2011, staff has concluded that Nationwide's earthquake-insurance risk profile is substantially similar to the CEA's average risk profile for a similar size of business. Therefore, staff recommends that (1) the Board accept the calculation of Nationwide's first annual risk capital surcharge as zero, and (2) that the Board relieve

Nationwide of further obligation to pay annual risk-capital surcharges and direct staff to take any and all steps necessary to accomplish this action.

Mr. Marshall led the Board through the draft written resolution to effect the staff recommendation.

**MOTION:** Mr. Boyken moved approval of the resolution; seconded by Mr. Shultz. Motion passed unanimously.

**9. Chief Mitigation Officer Janiele Maffei will seek Board approval of the CEA's Mitigation Program Guidelines Project.**

Ms. Maffei began with a reminder that an important CEA mitigation goal is to reduce earthquake damage to single-family dwellings, but there are three significant impediments to that mitigation effort:

1. A lack of guidelines for the seismic strengthening of single-family dwellings—there is a gap in building codes for existing buildings, especially in residential construction.
2. Gaps in research-supported information on how a retrofitted dwelling might perform in an earthquake.
3. A need for incentives to assist and encourage people in retrofitting their houses.

Accordingly, CEA mitigation staff has developed three objectives:

1. Retrofit-guideline development.
2. Mitigation-related research.
3. The development of incentive programs.

Ms. Maffei explained retrofit-guideline development.

- Chapter A3 of the International Existing Building Code addressed retrofitting of pre-1940s bungalow houses, but other vulnerable single-family-dwelling types exist in California that are not addressed by a similarly purposed building code.
- Ms. Maffei is overseeing a process under which the CEA and FEMA join forces to create comprehensive guidelines for evaluation and retrofitting of multiple, additional types of single-family dwellings (the guidelines would specify structure type, not occupancy type).
- The federal National Earthquake Hazards Reduction Program (NEHRP) strives to help reduce hazard throughout the USA. FEMA's charge, in terms of NEHRP, is to provide model building codes and associated design standards.
- Existing FEMA/Applied Technology Council (ATC) guidelines are predecessors to the guidelines CEA staff is proposing, and because of ATC's intimate involvement with those direct predecessors, staff recommends contracting with ATC to manage the guidelines process.

- Because the contract would be sole-sourced, Ms. Maffei carefully identified the unique and important/relevant characteristics of ATC in connection with earthquake-hazard-reduction programs.
- She proposed that CEA pay ATC directly and that the overall guidelines-development program be co-managed by Mike Mahoney of FEMA and Ms. Maffei.

Ms. Maffei gave the following staff recommendation:

- That the Governing Board authorize CEA mitigation staff (assisted by CEA legal and compliance staff) to negotiate with ATC to secure a suitable contract to support ATC's management of the CEA/FEMA comprehensive single-family-dwelling seismic-retrofit-guidelines-development project.

In response to a question from Mr. Boyken, Ms. Maffei clarified that the term of the ATC agreement would not be indefinite. She explained that the CEA mitigation budget for 2013 includes \$225,000 to support the project for this year, and that staff plans to budget a similar amount for three additional years, with the intent of providing a guidelines document that could be accepted by the State of California as part of the California Building Code.

In response to a question from Mr. Stroeh, Ms. Maffei noted that ATC had been chosen because, over the years and through development of other programs, it had shown the means and the method to create this kind of guideline.

Mr. Shultz ascertained from Mr. Marshall that the Governing Board's meeting agenda had been noticed publicly, which would permit any additional interested parties to come forward during the public-comment period.

Chair Jerue asked how many different organizations had been considered for the recommended ATC role. Ms. Maffei explained that NEHRP was formed in the 1970s to develop model codes that could be adopted by states that lacked them.

At that time, FEMA got into the business of writing model codes and funding their development, and at the same time, the Structural Engineers Association jointly created the ATC. Ms. Maffei explained that while several organizations manage research programs, none is comparable to ATC in the direct experience of developing guidelines such as those under consideration.

**MOTION:** Mr. Boyken moved to accept Ms. Maffei's recommendation; seconded by Mr. Shultz. Motion passed unanimously.

**10. Ms. Maffei will update the Board on proposed programming and infrastructure for the California Residential Mitigation Program (CRMP), operated under a joint powers authority between the California Emergency Management Agency and the CEA.**

- Ms. Maffei is the executive director of the California Residential Mitigation Program (CRMP), a program operated by a joint powers authority managed jointly by the California Emergency Management Agency (CalEMA) and the CEA.
- The CRMP is putting together an incentive program that will educate homeowners about earthquake risk to their dwellings and introduce a retrofitting solution—the program will offer payments to homeowners to encourage retrofits.
- At a recent CRMP board meeting, contract awards were approved for an independent financial auditor, an insurance provider, a Web-site developer, and site-inspection firm. A separate procurement is ongoing for a pilot-program evaluator, and also under consideration is a marketing and public relations firm.
- The pilot program launch is anticipated for fall 2013 to assist in retrofits of a small number of houses in northern and southern California, followed by thorough evaluation.

**11. Ms. Maffei will seek Board approval for a transfer of funds from the CEA Mitigation Fund to the CRMP.**

- Mr. Richison stated that in December 2010, the Board had approved transferring \$500,000 to CRMP to fund the startup of the joint powers authority's activities—about half of those funds have been spent and half remain in the fund.
- The budget approved by the CRMP board was \$1.2 million for fulfilling contracts and \$500,000 for incentives.
- Under the terms of the joint powers agreement, CalOES must approve the transfer of CEA funds, and once its approval is received, the funds can be transferred.

Mr. Richison asked the Board to approve moving \$1 million from the CEA Mitigation Fund to the CRMP fund.

**MOTION:** Mr. Boyken moved to approve the recommended action in the recommended amounts; seconded by Mr. Shultz. Motion passed unanimously.

**12. Ms. Maffei will seek Board approval for an augmentation to the CEA's mitigation-program budget.**

Mr. Richison stated that in December 2012, the Board approved the CEA mitigation program's preliminary budget. The current requested budget-augmentation (\$35,000) would go to compensate a person to answer phones and help consumers and for furniture.

Mr. Richison recommended that the Board approve a budget augmentation to the CEA mitigation-program budget of \$35,000.

**MOTION:** Mr. Shultz moved to approve the augmentation; seconded by Mr. Boyken. Motion passed unanimously.

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

Chair Jerue announced that there would be no closed session.

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

There was no public comment.

**15. Adjournment.**

Chair Jerue adjourned the meeting at 2:31 p.m.