

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Wednesday, June 12, 2019
12:00 p.m.**

Location: California Earthquake
Authority Main Conference
Room
801 K Street, Suite
1000 Sacramento,
California

Members of the Governing Board in attendance:

Mark Ghilarducci, designee of Governor Gavin Newsom, Board
Chair Kasey O'Connor, designee of State Treasurer Fiona Ma
Lisbeth Landsman-Smith, designee of Insurance Commissioner
Ricardo Lara Michael Martinez, designee of Insurance Commissioner
Ricardo Lara Jeffrey Wood, designee of Speaker of the Assembly
Anthony Rendon
Craig Fry, designee of Chair of the Senate Rules Committee Toni Atkins

Members of the CEA Staff in attendance:

Glenn Pomeroy, Chief Executive Officer
Shawna Ackerman, Chief Actuary
Tom Hanzel, Chief Financial Officer
Laurie Johnson, PhD, Enterprise & Strategic Risk
Advisor Janiele Maffei, Chief Mitigation Officer
Michael Melavic, Acting Chief Information Officer
Kellie Schneider, Chief Operations Officer
Colby Tunick, Acting Governing Board
Liaison Tom Welsh, General Counsel

Also present:

Michelle Goss, CPA, Plante Moran, PLLC
Dan VanDreumel, CPA, Plante Moran, PLLC

Preliminary Matters

1. Call to order and member roll call.

Chair Mark Ghilarducci called the meeting to order at 12:05 p.m. A quorum was achieved.

Mr. Ghilarducci welcomed everyone and moved the Board into closed session.

2. The Board will meet in closed session to discuss personnel matters, as permitted by California Government Code section 11126, subdivisions (a).

The Board entered closed session at 12:07 p.m. and resumed its proceedings in open session at 1:54 p.m. No action was announced as having been taken.

3. Consideration and approval of the minutes of the March 20, 2019, CEA Governing Board meeting.

MOTION: Ms. Landsman-Smith moved approval of the March 20, 2019, California Earthquake Authority Governing Board Meeting Minutes as presented. Motion carried unanimously.

4. Consideration and approval of the minutes of the April 12, 2019, CEA Governing Board meeting.

MOTION: Ms. O'Connor moved approval of the April 12, 2019, California Earthquake Authority Governing Board Meeting Minutes as presented. Ms. Landsman-Smith seconded. Motion carried unanimously.

CEA Enterprise – Executive and Operations Reports

5. Executive Report by Chief Executive Officer Glenn Pomeroy, which will include an update for the Board on legislative activities of interest to the CEA.

Glenn Pomeroy, Chief Executive Officer, provided a summary, with a slide presentation, of the CEA policies in force, policy growth, claim-paying capacity, mitigation retrofits, federal legislation, and community outreach efforts. He referred to the claims-paying tower on Slide 10 and noted that the blue CEA Surcharge \$1 Billion box was new this year. This authorization from the Legislature will save \$30 million this year in reinsurance costs. He reported the following:

- Senate Bill (SB) 254 has been made a two-year bill. The bill will implement a small post-event assessment layer on top of the tower to replace some of the reinsurance but has been met with resistance among some private insurance companies and legislators.
- Staff will testify in support of Assembly Bill (AB) 548 at the hearing in a couple of weeks. This bill will make certain changes related to the use of funds appropriated by California for the Earthquake Brace + Bolt program specifically to promote mitigation in low income communities.
- H.R. 2053, the federal Earthquake Mitigation Incentive and Tax Parity Act, continues to gain momentum in Congress.

6. Chief Operations Officer Kellie Schneider will update the Board on the quantitative business metrics report.

Kellie Schneider, Chief Operations Officer, reviewed the Business Metrics Report, which was included in the meeting packet. She noted that the Mitigate and Organizational Resilience categories deviated from the plan within 10 percent of what would be expected. She stated the Mitigate category will be discussed later today in Item 14. She stated the Organizational Resilience category relates to the completion of civil service probation reports for employees. Staff will meet with individual supervisors to resolve this issue.

Questions and Discussion

Chair Ghilarducci asked about training supervisors and other executives on ethics and leadership. Ms. Schneider stated that is one of the drivers of the Organizational Resilience category.

Mr. Wood asked if the ethics training is being done online. Ms. Schneider stated it is.

Mr. Wood asked if individuals are not completing it because of the two-hour requirement. Ms. Schneider stated individuals have either been out of town or unable to complete it in the timeframe internally identified.

7. Enterprise & Strategic Risk Advisor Laurie Johnson will update the Board on CEA enterprise-risk-management-program planning and progress.

Laurie Johnson, Ph.D., Enterprise and Strategic Risk Advisor, reviewed the 12 priority risks in the CEA Enterprise-Risk-Management (ERM) Program, the ERM Quarterly Report as of May 29, 2019, and the 2019 Program Plan. She reported the following:

This quarter, two risk checkpoints were approached or reached:

- Business Continuity – A bomb scare in the building allowed risk controls and responses to be checked. An after-action review was conducted for program improvement.
- Legislative/Regulatory – As long as the legislation discussed in Item 5 is active, staff will continue to be strategic in monitoring efforts and proactive in understanding reputational and other risks that may materially affect the CEA.

This quarter, one risk limit was approached or reached:

- IT Systems and Data Security – This item continues to be red because of an ongoing contracting matter for data security. Mr. Pomeroy will discuss hiring a Chief Information Security Officer in the next agenda item as a way to mitigate this problem.

Questions and Discussion

Mr. Fry asked if the IT Systems and Data Security category can ever realistically get out of the red. Tom Welsh, General Counsel, agreed that the risk will always be there. He stated the need for infrastructure and reviews to be put in place to manage against that.

8. Mr. Pomeroy will seek Board approval to permit CEA to contract to hire a Chief Information Security Officer.

Mr. Pomeroy stated two things are required to address the deficiency in data security:

- A Chief Information Security Officer (CISO)
 - As per Board request, staff has been working to fill the CISO position by developing a career executive assignment concept to recruit the CISO within civil service, but no qualified candidates were found.

- Staff requests a contract position to recruit on the open market.
- A cyber-risk insurance

policy Staff recommendation:

- Approve recommended process and accept CEO Glenn Pomeroy's recommendation to direct-hire a contract Chief Information Security Officer.

Questions and Discussion

Ms. O'Connor asked about the process to ensure diversity in filling the CISO position. Mr. Pomeroy stated staff is working with two search firms and has asked that a diverse panel of candidates be provided.

Chair Ghilarducci asked how a search on the private side may differ from the search already conducted on the government side. Mr. Pomeroy deferred to Ms. Schneider to answer that question.

Ms. Schneider stated the two biggest challenges are competing with Silicon Valley and the requirements that candidates must be on the leading edge of technology in order to meet or exceed the data security standards implemented by participating insurers. She assured that the CEA is recruiting widely but stated salaries are depressed in the state in regards to IT classifications.

Mr. Wood suggested reaching out to professional organizations that might be centered around diverse groups. Michael Melavic, Acting Chief Information Officer, stated CISOs are in high demand and the pool of certified information systems security professionals is small.

Mr. Fry asked about a reasonable timeline to start the search. Ms. Schneider stated the search could begin next week.

MOTION: Ms. O'Connor moved approval of the staff recommendation as presented. Ms. Landsman-Smith seconded. Motion carried unanimously.

Insure – Matters Related to CEA’s Insurance Business

9. Chief Financial Officer Tom Hanzel will present to the Board the quarterly CEA financial report.

Tom Hanzel, Chief Financial Officer, provided an overview, with a slide presentation, of the CEA financial information as of March 31, 2019. He stated CEA claim-paying capacity grew by approximately \$100 million from January 1st to April 1st of 2019, which was driven by retained earnings in the company during the first quarter. There was also a shift in the risk transfer amount on April 1st due to the expiration of approximately \$1 billion and a new program that went into effect at that time. Pricing was essentially flat. He asked Shawna Ackerman, Chief Actuary, for verification.

Ms. Ackerman verified that both claim-paying towers maintain the Board- approved risk-transfer strategy of a minimum coverage to meet a 1-in-400-year event.

Mr. Hanzel stated the Department of Insurance (DOI) has concluded their triennial examination, which looked at CEA financials, controls, and risks. The DOI has issued their public Report of Examination with no recommendations or findings.

Questions and Discussion

Chair Ghilarducci referred to Slide 28 and asked about the 10 percent Producer Compensation line item, if producers are working effectively, and if it is worth their investing the time and energy. He asked if the percentage should be increased to make it a better incentive. Mr. Hanzel stated staff will look into that.

Chair Ghilarducci stated reinsurance is at 66 percent. A way needs to be found to buy that down. He asked staff about ideas and options they have considered to bring down what is given to reinsurers and to lower the protection gap.

Mr. Hanzel stated it is necessary. There is a dependency on reinsurance that potentially is not sustainable. These are good partnerships that need to be sustained while finding alternative ways to prop the primary tower up, reduce that spend, and the capacity that goes along with it. Three reinsurance brokers help place the business. Staff will be meeting with them on Monday for a strategy session on how to tackle this and how to ensure that there are enough funds before an event happens and after.

Ms. Ackerman stated the mitigation piece changes the risk, which then changes the amount of reinsurance that will be needed. Staff is working on convincing policyholders to take advantage of the \$3,000 grants available to mitigate their houses.

Chair Ghilarducci stated credit is not given from the reinsurers on the mitigation program. Mr. Pomeroy stated they will when enough of it is done.

Chair Ghilarducci asked what the tipping point would be on that. Ms. Ackerman stated she will look into that.

Mr. Welsh stated this connects to the earlier question about compensating the brokers and agents enough. He suggested that CEA is seeking to collaborate with the field force of agents who have the best relationships with policyholders who need their homes mitigated.

Chair Ghilarducci stated brokers and agents need to understand the mitigation program and to buy into the value of it. Agents sell insurance; they have no reason to push mitigation.

Mr. Hanzel stated this has been seen in other states, where the agent loses their commission if the risk goes down; however, the best agents go back and tell policyholders that their premium has been reduced through mitigation and they sell \$1 million in liability coverage or a lower deductible with that savings. The CEA could work with agents on options policyholders can utilize with their mitigation premium savings so that everyone benefits.

Mr. Martinez stated producer compensation and how to further incentivize could be part of a good, healthy dialogue with the participating insurers and the agent and broker communities.

Mr. Pomeroy stated staff will report back on this topic at the next meeting. Mr. Fry stated he, Mr. Pomeroy, and his team met last week in Southern

California. He stated a staff member whom he brought with him suffered severe damage to his house during the 1994 Northridge earthquake but has not had insurance on his house since then because he was under the impression it was too expensive. Mr. Pomeroy worked out the numbers right there at the table and this staff member bought insurance that day. Mr. Fry stated the importance of including in the agent training and incentives the fact that earthquake insurance is not expensive and the more policies they sell, the more money they will make and the prices will

come down.

Chair Ghilarducci referred to Slide 30 and asked if there is a metric goal for number of policyholders for 2019 and 2020 to help drive resources.

Ms. Schneider stated policy count is not a current metric.

Chair Ghilarducci stated it would improve sustainability, acceleration, and accountability across the organization to include projected growth in the number of policies in force.

Dr. Johnson stated there is a risk management aspect to growth. The ERM program has risk checkpoints and growth limits, which trigger around risk transfers. Policy count growth is part of the ERM.

Chair Ghilarducci agreed but asked if the risk analytics are appropriate, based upon where the CEA wants to go as an organization. The ERM data is based on how the CEA currently operates as an organization, as opposed to where it wants to go to expand in the future.

Dr. Johnson stated it is a balance. Mr. Pomeroy stated staff will do more metrics on this.

Mr. Wood stated the cost to buy a house is not the same as the cost to rebuild. It is important for the public to understand the difference. Ms. Ackerman agreed and stated it is called the Coverage A or the Replacement Cost. The CEA is required to follow what the underlying homeowners residential policy sets as the coverage A amount.

Chair Ghilarducci stated this is a big thing in the disaster recovery business because the cost of rebuilding spurs whether homeowners will rebuild or not, which affects the economic recovery for the region and how it rebounds from a disaster. Understanding that piece is important because most homeowners are underinsured. That is where it all ties together with regards to how much people truly understand and what the insurance companies are conveying to them.

Mr. Martinez suggested adding that to the conversation with the participating insurers, agents, and brokers.

Mr. Wood suggested marketing to debunk the myth that earthquake insurance is too expensive.

Dr. Johnson stated, similar to a post-catastrophic fire, the base policy does not provide adequate replacement cost that most homeowners will face in an earthquake. She stated the need to also consider post-

event inflation issues and competition for resources brought on by demand surge.

10. Mr. Hanzel will seek Board approval for the annual set-aside of a statutory portion of CEA investment income for transfer into the CEA Earthquake Loss Mitigation Fund.

Mr. Hanzel provided an overview, with a slide presentation, of the background and analysis for the annual set-aside for the CEA Earthquake Loss Mitigation Fund. He stated staff's proposal was reviewed by Shawna Ackerman, CEA Chief Actuary, as required by law.

Ms. Ackerman stated her review found the proposed set-aside to be actuarially sound.

Staff recommendation:

- Authorize a 2019 set-aside of \$5,000,000 for the CEA Loss Mitigation Fund (calculation shown on Attachment B to the Governing Board memorandum for this Agenda Item).

MOTION: Mr. Martinez moved approval of the staff recommendation; seconded by Ms. O'Connor. Motion passed unanimously.

11. Mr. Hanzel will provide a brief overview of CEA's need to retain a consulting firm to assist CEA in a comprehensive assessment of its readiness to efficiently and effectively administer a high volume of claims following a major earthquake, and will seek Board approval to contract with a consulting firm to assist CEA in this process.

Mr. Hanzel provided an overview, with a slide presentation, of the background and analysis for the CEA's need to retain a consulting firm to assist in a comprehensive assessment of its readiness.

Staff recommendations:

- Approve retaining a consulting firm at an expense not to exceed \$250,000 to provide a comprehensive assessment of CEA's claim readiness.
- Authorize CEO Glenn Pomeroy to negotiate and execute the contract on behalf of CEA.

Questions and Discussion

Chair Ghilarducci stated his organization routinely brings in external reviewers to push them and to ensure that they can meet the ability to

respond and recover effectively. External reviewers find gaps that may exist and where improvements can be made. He suggested that this can coordinate with the ERM program.

Dr. Johnson agreed and stated the Natural Catastrophe Industry Working Group did a claim adjuster capacity assessment last year. They reached out to all PIs to test that model and weaknesses were found. Real “just in-time” training of new claims adjusters will be required for more people to understand earthquakes and, in particular, earthquake damage. Another area of weakness is volume and the ability to move things through the transactional aspects of claim adjustment and paying.

Mr. Fry volunteered to help the Working Group find solutions to the weaknesses they found and help educate on post-event recovery issues.

Mr. Martinez asked how often the proposed comprehensive assessments of CEA’s claim readiness will be required. Mr. Hanzel stated every three to five years, depending on the baseline findings of the first one.

Chair Ghilarducci stated he is interested to see how the specialty consultant will come up with their assessment since there has not been a major California earthquake in years.

MOTION: Mr. Martinez moved approval of the staff recommendation as presented. Ms. O’Connor seconded. Motion carried unanimously.

12. CEA independent financial auditor Plante Moran PLLC will present to the Board the results of its most recent audit of CEA, conducted pursuant to the standards of the Governmental Accounting Standards Board (GASB).

Mr. Hanzel introduced Michelle Goss and Dan VanDreumel from Plante Moran, CEA’s independent financial auditors, and asked them to present this agenda item.

Michelle Goss, CPA, Partner, Plante Moran, provided an overview, with a slide presentation, of the audit process.

Dan VanDreumel, CPA, Senior Manager, Plante Moran, provided an overview, with a slide presentation, of the required communications under audit standard AU 260.

Ms. Goss stated there were no significant findings or issues. Plante Moran has issued a clean, unmodified opinion of the 2018 financial

statements.

Mitigate – Matters Related to CEA’s Mitigation Mission

13. Mr. Pomeroy will report on the continued development of a 501(c)(3) Non- Profit Public Benefit Corporation.

Mr. Pomeroy stated staff will present a proposed set of bylaws and a detailed business plan for Board approval at the September meeting. He asked the Board for their input.

Questions and Discussion

Ms. O’Connor asked staff to consider the following:

- How the Board of Trustees is established and who would be in the pool.
- What the appointment process will be and if the trustees will be subject to the Bagley-Keene Open Meeting Act and reportable to the FPPC and SEC.
- Ensure that safeguards are put in place.

Mr. Martinez asked staff to consider governance, internal controls, accountability, and transparency.

Mr. Fry stated the challenge of separating the perception of mitigation from recovery. Donations may be made for recovery when the goal is mitigation.

14. Chief Mitigation Officer Janiele Maffei will update the Board on CEA mitigation-program projects, including the California Residential Mitigation Program incentive program (CRMP Earthquake Brace + Bolt), CEA’s financial-incentive and mitigation program (CEA Brace + Bolt), and ongoing mitigation-related research projects.

Janiele Maffei, Chief Mitigation Officer, reviewed the Earthquake Brace + Bolt program activity to date and the progress of the Federal Emergency Management Agency (FEMA) Hazard Mitigation Grant Program (HMGP) for proactive risk- reduction mitigation work.

Educate – Matters Related to CEA’s Earthquake Preparation and Education Mission

15. Mr. Pomeroy will report on CEA’s launch of the statewide multi-agency earthquake preparedness and recovery “TV News Station Initiative.”

Mr. Pomeroy gave credit to Chris Nance, Chief Communications Officer, for the TV News Station Initiative. He stated Mr. Nance is working with representatives from many of agencies to develop a three-pronged approach to get into TV news stations in the high-risk areas to do three things:

- Develop a public service announcement, which is produced and done by local talent.
- Build a shared landing page for the TV station websites as a one-stop shop for earthquake preparedness and recovery information.
- TV news station briefings with everyone around the table to help increase earthquake safety and preparedness.

Mr. Pomeroy stated staff has visited Los Angeles and San Francisco and plans to visit San Diego this fall.

16. Ms. Maffei will update the Board on the CEA Research Program.

Ms. Maffei provided an overview, with a slide presentation, of the current status of the CEA research projects.

Questions and Discussion

Chair Ghilarducci asked if Ms. Maffei engages the California Building Standards Commission when working on the codes. Ms. Maffei stated she does and plans to ask the Board in the near future for assistance in working with the California Department of Housing and Community Development (HCD).

17. 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.

18. Closing remarks by Mr. Pomeroy.

Mr. Pomeroy thanked the Board for their input and invited everyone to attend the orientations that had been scheduled prior to the next Board meeting.

19. Adjournment.

There being no further business, the meeting was adjourned at 3:55 p.m.