

As approved by the CEA Governing Board at its meeting on Thursday, July 19, 2018

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Wednesday, March 14, 2018
1:00 p.m.**

Location: CalSTRS Headquarters Building
Boardroom (Lobby: E-124)
100 Waterfront Place
West Sacramento, California

Members of the CEA Governing Board in attendance:

Mark Ghilarducci, designee of Governor Edmund G. Brown, Jr., Board Chair
Vincent Brown, designee of State Treasurer John Chiang
Kenneth Schnoll, designee of Insurance Commissioner Dave Jones
Lisbeth Landsman Smith, designee of Insurance Commissioner Dave Jones
Jeffrey Wood, designee of Speaker of the Assembly Anthony Rendon

Members of the CEA Staff in attendance:

Glenn Pomeroy, Chief Executive Officer
Shawna Ackerman, Chief Actuary
Todd Coombes, Chief Insurance and Technology Officer
Laurie Johnson, PhD, Enterprise and Strategic Risk Advisor
Janiele Maffei, Chief Mitigation Officer
Carlos Martinez, Governing Board Liaison
Chris Nance, Chief Communications Officer
Tim Richison, Chief Financial Officer
Kellie Schneider, Chief Operations Officer
Danny Marshall, General Counsel

Also present:

Kapil Bhatia, Director of Public Finance, Raymond James & Associates, Inc.
Ross Buckley, Personal Insurance Federation of California
Jack Ehnes, Chief Executive Officer, California State Teachers Retirement System
(CalSTRS)
Fiona Ma, Second District, California State Board of Equalization

1. Call to order and member roll call.

Chair Mark Ghilarducci called the meeting to order at 1:03 p.m. A quorum was achieved.

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2. Consideration and approval of the minutes of the December 6, 2017, and January 25, 2018, CEA Governing Board meetings.

MOTION: Mr. Brown moved approval of the December 6, 2017, and January 25, 2018, California Earthquake Authority Governing Board Meeting Minutes as presented. Mr. Schnoll seconded. Motion carried unanimously with no abstentions.

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

Mr. Pomeroy included his executive report in Agenda Item 4.

Mr. Pomeroy introduced the CEO of CalSTRS, Jack Ehnes, who in brief remarks welcomed the CEA Governing Board.

4. Mr. Pomeroy, assisted by CEA executive staff, will ask the Board to adopt a resolution of support and sponsorship of a bill aimed at diversifying and enhancing CEA's financial capacity to insure California homes that will be introduced in the California Legislature.

Mr. Pomeroy discussed the history of the CEA's claim-paying capacity (including reinsurance and other risk-transfer capacity); participating insurer assessment layers and their attachment point(s); CEA's policy growth; CEA's aggregate insured exposure; what Mr. Pomeroy termed a "win/win/win proposition" for participating insurers (PIs), global reinsurers, and California homeowners; and the reasons CEA's policy count has grown.

He said the CEA has grown to a point where it can no longer take on unlimited risk. He projected the need to increase CEA claim-paying capacity from \$17 billion to \$48 billion by the end of the next decade, based on a modest projected growth rate—if the projected growth occurs, CEA would be forced to impose a cumulative rate increase of approximately 50 percent over the next 10 years.

Mr. Pomeroy then discussed a legislative concept to diversify and enhance the CEA's financial capacity. This proposal would add three layers to the CEA claim-paying tower: a CEA Policyholder Surcharge Layer (up to 20 percent, as necessary); a PI Assessment Layer, renamed and increased from the former Industry Assessment Layer; and a Property and Casualty (P&C) Assessment Layer, which would provide approximately \$200 million in combined annual savings by 2022.

This proposal is part of a bill to be introduced by Assembly Member Adrin Nazarian, which would allocate 50 percent of monies not paid for risk-transfer to CEA-rate stability and 50 percent for a new Natural Catastrophe Resiliency Initiative Fund, to be overseen by the CEA Governing Board.

Mr. Pomeroy asked Kapil Bhatia (of Raymond James & Associates, the CEA's independent financial advisor) to explain post-event assessment mechanisms.

Mr. Bhatia provided a post-event assessment overview, comparing similar assessment mechanisms in other states, post-event examples, and views of rating agencies on such statewide insurance-policy assessments.

Mr. Bhatia said government entities use bonds to address timing and frequency risk. Post-event bonding (contingent capital) can solve the timing risk of large-catastrophe events. The intent is to provide a "multi-capital strategy." The CEA's multi-capital strategy is surplus, risk-transfer, and the CEA industry assessment layer. Post-event assessments

provide a way to use reinsurance capacity effectively while allocating the monies not spent on reinsurance more efficiently.

Other states have used the “savings “differently, but the objective is the same: managing the timing and the risk level while providing the best benefit for state residents.

Mr. Pomeroy said that what is unique about the proposal is its use of savings: reinvesting some of the savings, not in ongoing reinsurance costs, but in resiliency projects for the state—bringing funds to communities to help reduce losses associated with catastrophes.

Mr. Pomeroy then asked Laurie Johnson to discuss the proposed National Catastrophe Resiliency Fund.

Dr. Johnson discussed outreach feedback, the focus on key natural hazards, natural disaster resilience investments, and implementing the resilience fund. She said the California Natural Disaster Resilience Fund would aim to ensure that all Californians could withstand natural disasters and thrive afterward, whether natural disasters or changing climatic conditions. She termed resiliency the “holistic way” of looking at disaster management, noting that a statewide investment in resilience could save California billions of dollars in losses and that the CEA has the experience to establish and manage a statewide risk-reduction program.

Mr. Pomeroy stated a great deal of thought has been put into this important work. He stated the governor called for creativity, boldness, and action in his last State of the State address, in response to the recent natural disasters—those concepts are embodied in this legislative concept.

Mr. Pomeroy thanked the Chief Resiliency Officers for the City and County of San Francisco and the City of Los Angeles, who sent letters of encouragement to support this legislative concept (letters included in the meeting packet). He stated AB 2927 would enable the CEA to continue to provide valuable, affordable earthquake insurance while establishing a sustainable revenue stream of up to \$100 million per year for natural disaster resiliency.

Public Comment

Fiona Ma, Second District, California State Board of Equalization, described her first experience with earthquakes and her background in disaster-relief planning. She said that AB 2927 is creative and adapts to the changes in California to ensure that policyholders can keep policies affordable.

Ross Buckley, Personal Insurance Federation of California (“PIFC”), stated his organization will make more detailed comments at a future date. Initially, he said, PIFC members had concerns about (1) the proposed increase to the industry assessment layer, (2) the one percent assessment on all P&C policies, and (3) using earthquake premium dollars for the resiliency fund. He asked how much staff and expertise the CEA would require to run this proposed new program.

Mr. Brown stated this proposal is a dramatic change from the original CEA law. State Treasurer John Chiang supports several of the principles but is concerned about the growth of the reinsurance and the related costs. Mr. Brown said that, on behalf of State Treasurer Chiang, he would abstain on voting, until there has been more time to vet it.

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Mr. Ghilarducci, for the Chair, stated the necessity of moving forward with the opportunity to provide expertise. He stated, without endorsing or not endorsing, the CEA must continue the process to move forward.

Upon hearing Board members' respective remarks, Mr. Pomeroy noted sufficient Board support for the legislative recommendation, as presented, to allow the CEA staff sufficient authority to work with Assembly Member Nazarian and legislative staff. He said staff will continue to work on the proposal and report progress to the Board at its next meeting.

CEA staff recommended the following substance for a Board motion:

- Support the principles in Assembly Bill 2927 (Nazarian), which, if enacted, would provide the CEA additional cost-efficient sources of financial capacity that would reduce the CEA's reliance on reinsurance and enable the CEA to continue to protect more California homes and families with affordable, sustainable earthquake insurance and fund resiliency projects throughout the state. Because the CEA is best able to provide informed, authoritative advice on the impact on CEA of this bill as it moves through the legislative process, CEA is authorized to provide any advice and assistance reasonably requested by or of the author of AB 2927.

MOTION: Ms. Landsman-Smith moved approval of the staff recommendation, as presented. Mr. Ghilarducci seconded, with the caveat that the motion, if carried, would be for approval to move the bill forward through the legislative process. Motion carried with one abstention (Mr. Brown).

5. Chief Financial Officer Tim Richison will present to the Board the quarterly CEA Financial Report.

Mr. Richison provided an overview of CEA financial information as of December 31, 2017. He showed a five-year financial-comparison chart.

6. Mr. Richison will seek Board authorization to set the CEA participating insurers' respective maximum-earthquake-loss funding-assessment levels, effective April 1, 2018.

Mr. Richison provided an overview of the annual CEA participating insurer (PI) maximum earthquake-loss-funding-assessment levels and showed slides of Attachment A: Calculation of New Industry Assessment Layer and Attachment B: 2018 Maximum Earthquake-Loss-Funding Assessment Levels. The New Industry Assessment Layer will have been reduced to zero, by law and without loss, as of April 1, 2018.

Staff recommendation was:

- Recognize that the power and authority of the CEA to assess participating insurers in what is generally known as the "New IAL" has been reduced to zero, effective April 1, 2018, by operation of law. [No action requested.]
- Adopt the CEA market-share percentages shown in Attachment B, which are to be used to determine the maximum earthquake-loss-funding-assessment levels for CEA participating insurers, effective April 30, 2018.
- Authorize CEA staff to notify each participating insurer of its respective April 30, 2018, maximum earthquake-loss-funding-assessment level responsibility.

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MOTION: Mr. Brown moved approval of the staff recommendation as presented.
Ms. Landsman-Smith seconded. Motion carried unanimously.

7. Kapil Bhatia, Managing Director of Public Finance for Raymond James & Associates, Inc.—the CEA’s independent financial advisor—will present to the Board the annual report on the state of the economy.

Mr. Bhatia provided an overview of the economic, financial, investment, and risk-transfer market in his annual report on the state of the economy. He concluded the following:

- Low unemployment and inflation rates and improving global growth.
- Expected that the federal government will increase rates twice this year.
- Low interest rates, strong corporate issuance and fixed income markets, and stable reinsurance markets.
- Expected mergers and acquisitions in 2018 to keep issuance strong.
- Strong investment portfolio and increase in income returns.
- Reinsurance rates more or less unchanged.

8. Chief Communications Officer Chris Nance will present, and seek Board approval of, the 2019 CEA advertising budget.

Mr. Nance provided an overview of the market strength; policy growth; success stories; outreach and media marketing; barriers, including advertising competition; and 2018 advertising campaign that will roll out statewide on April 1, 2018. He showed a video of a CEA advertisement, noting that visuals in the ads will differ by geographic region.

He discussed the proposed CEA marketing and advertising budget for 2019.

Mr. Wood asked how the CEA might overcome the perception of high cost for earthquake insurance and whether there are plans to share testimonials of CEA policyholders who have benefited from their policies.

Mr. Nance described the plans to roll out a series of testimonials.

Staff recommendation was:

- Approve proposed a CEA 2019 marketing and advertising budget of \$12,239,500 and requested that the Board vote to authorize expenditures up to that level to implement the CEA’s 2019 advertising plan.

MOTION: Mr. Brown moved approval of the staff recommendation as presented.
Ms. Landsman-Smith seconded. Motion carried unanimously.

9. Janiele Maffei, Chief Mitigation Officer, 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.

Ms. Maffei provided an overview of the upcoming Guideline/Standard development, QuakeGrade, the California Real Estate Inspection Association (CREIA) certification takeover, the Dwelling Verification Form, the California Residential Mitigation Program

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(CRMP), the Napa Earthquake Brace + Bolt program, 2018 EBB registration, CEA FEMA applications, and the CEA Mitigation Incentive Program.

10. Mr. Richison will recommend to the Board transferring money from the CEA’s Earthquake Loss Mitigation Fund to the California Residential Mitigation Program (“CRMP”), a joint powers authority whose members are the California Governor’s Office of Emergency Services and the CEA.

Mr. Richison stated the CRMP governing board had approved the 2018 CRMP budget during its most recent meeting. He noted, however, that if the CRMP budget changes or CRMP is able to support and provide grants for more retrofits, additional funds may be necessary. For present purposes, he asked for the sum of \$5.6 million to be transferred from the CEA Earthquake Loss Mitigation Fund to the CRMP, to permit CRMP to fund its approved budget and carry out its programs.

Staff recommendation was:

- Approve the proposed transfer to CRMP of funds in the amount of \$5.6 million – the funds would be used to expand the CRMP EBB program in 2018, as described.

MOTION: Mr. Brown moved approval of the staff recommendation as presented. Ms. Landsman-Smith seconded. Motion carried unanimously with no abstentions.

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

Ms. Maffei provided an overview of the CEA Research Program, the Damage Assessment and Repair Document update, the PEER Project, and the February Research Forum. She stated the CEA is contracting with the Applied Technology Council (ATC) to update the Damage Assessment and Repair Document (generally known as the CUREE Guidelines) and draft a companion “guidelines” document for use by engineers.

12. Ms. Maffei will update the Board on CEA’s progress in establishing a nonprofit charitable foundation, whose functions would include receiving contributions and disbursing accumulated funds for clearly defined grant programs and other appropriate mitigation-related purposes.

Ms. Maffei stated no funding has been sought, arranged, or accepted. Staff is doing the legal setup to the Foundation and will return with further information about the Foundation in later meetings.

13. Chief Insurance and Technology Officer Todd Coombes will report to the Board on CEA insurance and information-technology initiatives.

Todd Coombes, Chief Insurance and Technology Officer, provided an overview, with a slide presentation, of CEA’s insurance-education and sales-support activities; insurance operations; and information technology.

Ms. Landsman-Smith asked how many PIs are in the CPP program. Mr. Coombes replied that six PIs are currently in the program and at least three are scheduled for this year, though he expected four or five.

Public comment

Mr. Buckley stated his organization’s members have asked for twelve months of implementation time for the most recent CEA rate and form filing, now pending with the Department of Insurance. Mr. Coombes recommended that PIs move forward with draft

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information. He stated staff will continue to work with PIs to help them complete implementation within the projected time frame.

14. Mr. Coombes will present to the Board the application of Amica Mutual Insurance Company to become a CEA participating insurer, recommending (a) Board acceptance of that application and (b) execution of the CEA Insurer Participation Agreement by CEO Glenn Pomeroy, with further action dependent on Amica's continued compliance with CEA-participation-related data, legal, and related requirements, in the manner required by the Authority.

Mr. Coombes provided an overview of Amica Mutual Insurance Company.

Staff recommendation was:

- Approve Amica Mutual Insurance Company's application to become a CEA participating insurer.
- Authorize the Authority's CEO Glenn Pomeroy, assisted by the CEA general counsel, to negotiate and execute on the Authority's behalf an Insurer Participation Agreement with Amica Mutual Insurance Company that meets the description and requirements above, and to take any and all additional, related, and necessary steps to accomplish the related and supporting acts contemplated and described above.

MOTION: Ms. Landsman-Smith moved approval of the staff recommendation as presented. Mr. Brown seconded. Motion carried unanimously with no abstentions.

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

Dr. Johnson provided an overview of the background, framework and progress to date, Enterprise Risk Management (ERM) process completion, and ERM framework development and next steps.

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

Kellie Schneider, Chief Operations Office, provided a report based on performance metrics introduced at the December 2017 Board meeting, including an overview of the four strategic goals and the performance metrics to accomplish in 2018; the status of the enterprise workforce plan; and the increase in call volume.

17. 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.

There was no closed session.

18. 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.

19. Adjournment.

There being no further business, the meeting was adjourned at 3:29 p.m.