CEA Public Forum/ Listening Session

Tuesday, November 9, 2021

CEA CALIFORNIA EARTHQUAKE AUTHORITY™ THE STRENGTH TO REBUILD®

CEA Public Forum/Listening Session: November 9, 2021

Final Report

The CEA Public Forum/Listening Session was held on Tuesday, November 9th via Zoom. The 2 hour and 20-minute Forum was simultaneously broadcast in three languages—Spanish, English, and American Sign Language (ASL)—and on social media.

The purpose of the Forum was to gather input from CEA stakeholders, as well as members of the public, regarding various steps and topics under review and consideration as CEA strives to continue to provide valuable earthquake coverage at stable rates, while having the financial strength necessary to pay policyholder claims in the aftermath of a catastrophic earthquake. Those topics and possible steps include coverage reductions; lowering of the CEA's claim-paying capacity; retention of the participating insurers' Industry Assessment Layer (IAL); and encouraging private earthquake insurers to grow their market share.

There was extensive stakeholder outreach leading up to the Forum, with approximately 800 people and organizations receiving invitations to participate. A total of 217 people attended the Forum by registering on Zoom. Of the 217 participants, 48 were CEA staff and staff support; 11 were invited Forum speakers; four were people who commented during the Forum's public comment section; and the remaining 154 were members of the public.

Several questions were posed by attendees during the Forum via Zoom's "Q&A" chat box function, with answers provided by CEA in real time. A dedicated CEA email portal also was set up to receive written comments from the public and a recording of the Forum is available upon request. The post-Forum written comments will be included in the Forum's public record.

Forum speakers represented consumer groups, insurance consumers, CEA participating insurer industry and insurance agent groups and non-CEA, private earthquake insurance companies doing business in California.

The below report of the Forum contains the following:

- **Summary of Positions on Key Issues Expressed by Forum Speakers and Participants**
- **Summary of Comments Made and Input Provided by Forum Speakers**
- **Transcript of Zoom Q&A Chat Feature During Live Forum Event**
- **Emailed Written Submissions to CEA Email Portal**

Summary of Positions on Key Issues Expressed by Forum Speakers and Participants

Reduce Coverage Options

- **Consumer Federation of America:** Opposes coverage reductions.
- **Consumer Federation of California:** Coverage option reductions should only be considered as a last resort.
- **United Policyholders:** Opposes coverage reductions, specifically noting the need to retain lower deductibles, and "first dollar" loss for additional living expenses. If necessary, could consider placing a cap on dwelling limit.
- **Strategic Action for a Just Economy:** Opposes any coverage reductions that would adversely affect low-income renters and homeowners.
- **Consumer Action:** Continue to offer different policies with many differ levels of coverage.
- **PIFC:** Priority should be on structural repair and rebuild, and additional living expenses. Non-structural coverage is lower priority.
- **APCIA:** Coverage for additional living expenses is important, but lowering coverage for personal property might make sense.
- **RAA:** Reinsurers will support CEA regarding how much coverage it chooses to buy, but noted that the greater the amount of coverage, the more risk transfer it will need to buy.
- **Geovera:** Expand consumer awareness of alternatives in the market rather than reducing coverage.
- **Palomar:** Clarify that agents of participating insurers (PIs) can sell outside of CEA rather than reducing coverage.
- **Motus:** No comment.

Public Comment

David Shafer, Agent: Opposes coverage reductions.

Patrick O'Rourke, Agent: Opposes coverage reductions.

Edward Thomas, Natural Hazard Mitigation Association: No comment.

Kate Stillwell, Jumpstart: Opposes coverage reductions.

Reduce Claim Paying Capacity

- **Consumer Federation of America:** Supports reduction to 1 in 250.
- **Consumer Federation of California:** Supports consideration of reduction to something like 1 in 250.
- **United Policyholders:** Supports reduction to 1 in 250, or some other amount, provided no adverse consequences.
- **Strategic Action for a Just Economy:** No comment.
- **Consumer Action:** Supports reduction in claim-paying capacity to a level that would allow payment of 100% of covered claims for a 1906-sized earthquake.
- **PIFC:** Open to consideration of reduction to, for example, 1 in 250 provided the move is coupled with creation of a more sustainable structure following major disaster.
- **APCIA:** If reduced, must be coupled with ability to recapitalize following major earthquake.
- **RAA:** Has encouraged CEA to explore the possibility of a reduction with the rating agencies.
- **Geovera:** Expand consumer awareness of alternatives in the market rather than reducing policyholders' security.
- **Palomar:** No comment.
- **Motus:** No comment.

Public Comment

David Shafer, Agent: No specific comment, but noted an insurance company should remain financially strong in order to pay its claims.

Patrick O'Rourke, Agent: No comment.

Edward Thomas, Natural Hazard Mitigation Association: No comment.

Kate Stillwell, Jumpstart: No comment.

Retain Industry Assessment Layer (IAL)

- **Consumer Federation of America:** Supports retaining and expanding IAL.
- **Consumer Federation of California:** Supports retaining IAL.
- **United Policyholders:** Supports retaining and expanding IAL.
- **Strategic Action for a Just Economy:** No comment.
- **Consumer Action:** No comment.
- **PIFC:** Did not comment specifically on IAL but noted PIFC members are "willing to do their part."
- **APCIA:** No comment.
- **RAA:** No comment.

- **Geovera:** No comment.
- **Palomar:** No comment.
- **Motus:** No comment.

Public Comment

David Shafer, Agent: No comment.

Patrick O'Rourke, Agent: No comment.

Edward Thomas, Natural Hazard Mitigation Association: No comment.

Kate Stillwell, Jumpstart: No comment

Public Backstop

- **Consumer Federation of America:** Supports.
- **Consumer Federation of California:** Supports.
- **United Policyholders:** Supports.
- **Strategic Action for a Just Economy:** No comment.
- **Consumer Action:** Supports concept, but opposed to taxpayer subsidizing insureds.
- **PIFC:** No comment.
- **APCIA:** Opposes.
- **RAA:** Opposes.
- **Geovera:** No comment.
- **Palomar:** No comment.
- **Motus:** No comment

Public Comment

David Shafer, Agent: No comment.

Patrick O'Rourke, Agent: No comment.

Edward Thomas, Natural Hazard Mitigation Association: Supports.

Kate Stillwell, Jumpstart: Opposes.

Expand Private Sector Role in Earthquake Market

- **Consumer Federation of America:** Opposed to encouraging Surplus Lines to write earthquake insurance.
- **Consumer Federation of California:** Concerned about more participation by Surplus Lines writers.
- **United Policyholders:** No comment.
- **Strategic Action for a Just Economy:** No comment.
- **Consumer Action:** No comment.
- **PIFC:** No comment.
- **APCIA:** No comment.
- **RAA:** No comment.
- **Geovera:** Supports.
- **Palomar:** Supports.
- **Motus:** Supports.

Public Comment

David Shafer, Agent: Supports.

Patrick O'Rourke, Agent: No comment.

Edward Thomas, Natural Hazard Mitigation Association: No comment.

Kate Stillwell, Jumpstart: Supports.

Summary of Comments Made and Input Provided by Forum Speakers

Consumer Groups

Doug Heller: Consumer Federation of America (CFA)

- Has been working on insurance consumer issues in California for more than 25 years.
- CFA consists of more than 250 non-profit insurance organizations from across the country.
- In CEA's early years, the policy it offered did not provide sufficient value. Could not recommend its purchase.
- Over the years, CEA staff and Governing Board have significantly improved the value of the coverage CEA offers.
- Opposes reduction in CEA coverage options. This would result in fewer people choosing earthquake insurance, increasing the "protection gap."
- Residents want property insurance to be useful, not so limited that it kicks in in only during the worst case scenario, and then provides inadequate coverage. If disaster strikes, people want to know they have the protection to rebuild or move, and to be housed safely in the meantime.
- Fundamental test for strategic decisions: Does this help CEA offer an affordable policy that would provide coverage worth paying for?
- Shifting more burden for earthquake risk to insurance consumers should not be the focus of CEA's efforts at this time.
- Focus instead on structural changes and reforms that develop strategies that allow CEA to reduce reliance on private reinsurance.
- Supports reduction in claim-paying capacity from 1 in 400 to 1 in 250-year return period, which would be sufficient for an earthquake that would be more extreme than any the state has ever experienced.
- Accepts the very small possibility that CEA may run out of capital if California has the very large, never before experienced earthquake in order to provide more people with quality coverage.
- Supports creation of a public backstop in order to relieve some of the pressure that comes with the high and variable cost of reinsurance. CEA should become less reliant on foreign and domestic unregulated reinsurers, noting reinsurance costs now account for 60% of the premiums paid by CEA policyholders.
- One approach would be a pure, public backstop with the state of California absorbing one layer of risk, putting taxpayers on the hook if damage from an earthquake exceeds the capital available.
- A better approach would be to relieve reinsurance pressure, while limiting the exposure of taxpayers. The state of California should create a "catastrophe fund" that sells reinsurance to CEA at less cost.

In Florida, for example, the Florida Hurricane Catastrophe Fund saved Florida residents more than $20 billion (between the year 2000 and 2011) by providing reinsurance at a lower rate than the private sector could offer.

- Oregon has a public reinsurance program for its health insurance market. A public reinsurer is not without practical precedent.
- Perhaps, a regional catastrophe fund could be created among other western catastrophe-prone states, or even a federal program could be established to help diffuse the risk.
- A state reinsurer could also sell reinsurance to private earthquake insurers—both residential and commercial.
- This could also become a source or mitigation funding.
- In terms of private market, CFA is opposed to encouraging surplus lines insurers to participate in the California earthquake insurance market because they are not closely regulated and do not participate in the California Insurance Guarantee Association (CIGA).
- Supports retaining and expanding the Industry Assessment Layer (IAL) in exchange for an ongoing CEA, which will continue to relieve CEA participating insurers (PIs) of having to offer their own earthquake insurance policies.
- Encourages resumption of CEA marketing and advertising. Reaching out to Californians to advise them of their right to purchase earthquake insurance is a key public function of CEA.
- Supports significant, historic investment in seismic retrofitting/mitigation/Earthquake Brace + Bolt (EBB) program.
- Encourages expanded mitigation program, built around urgent need of people irrespective of whether someone has earthquake insurance.
- Expressed appreciation for the opportunity to be heard, and said that CEA should take on the challenge of implementing reforms that expand access to quality coverage by focusing on the structural problems that have forced CEA to rely so heavily on existing reinsurance market.

Amy Bach: Executive Director, United Policyholders (UP)

- Supports comments and input from Mr. Heller.
- UP has been a partner with CEA in seeking to educate the public about the need to protect their assets against the risk of earthquakes, and has been strong promoter of Earthquake Brace + Bolt (EBB) program.
- UP is mindful of the financial challenges facing CEA, and appreciative of the public forum.
- CEA should not go back to higher deductibles.
- CEA has always struggled due to the fact that it is a “take all comers” insurance provider and has also always struggled with cost of reinsurance.
- Don’t turn back on progress CEA has made in developing lower deductibles because higher deductibles have always been the biggest hindrance preventing the purchase of a policy, and keeping the option of offering a 5% and 10 % deductible is important.

- Reducing to a 1 in 250-year return period measure would be good if “unintended consequences” on CEA’s finances are avoided. However, the concern over “pro-rata payout” was a very big concern of consumers in the early years of the CEA, and was a big reason why people were hesitant to buy the product.
- Supports continuing Earthquake Brace + Bolt (EBB) program.
- Supports creation of a state-owned reinsurance facility similar to Florida.
- Keep current level of IAL as it is in the CEA claim-capacity tower.
- If coverage must be limited to keep the policy affordable, CEA should consider capping its maximum dwelling limits similar to the National Flood Insurance Program (NFIP). If coverage must be reduced, it should be done at the higher end, and not at the lower end.
- Important to keep available “first dollar coverage” for additional living expenses. People need cash after a disaster—more than is provided in the CEA mini-policy.
- UP is available to help consumers decide whether earthquake insurance is right for them.
- CEA is to be commended for conducting this Public Forum and for handling difficult challenges.

Robert Herrell: Executive Director, Consumer Federation of California (CFC)

- Grateful to CEA for conducting the Public Forum and highlighting consumers voices.
- Supports comments and input from Doug Heller and Amy Bach.
- CFC has been representing consumers in California since 1960.
- Parallels exist between earthquake and wildfire in terms of the need for homeowners to mitigate their risk.
- CEA needs to challenge existing constraints, such as the massive amounts CEA must spend on reinsurance. CEA is overly dependent on the unregulated reinsurance industry.
- Support creation of some sort of entity to challenge monopolistic domination by reinsurance industry. This can be learned from other forms of public backstops, such as public catastrophe funds and other governmental instruments and entities.
- Concerned about more participation in earthquake insurance market by unregulated surplus lines insurance companies.
- CEA needs to challenge financial rating agencies and consider switching from a 1 in 400-year return period to something like 1 in 250-year return period.
- Supports retaining, stabilizing, and growing the IAL so that CEA participating insurers can play a more meaningful role.
- More communication is recommended on a local and regional level regarding low earthquake insurance take up rates and the need for earthquake insurance.
- Supports significantly scaling up the funding for and scope of the EBB program. State of California should make a strong investment in mitigation.
- Reducing CEA coverage options should be considered only a last resort.

Cynthia Strathmann: Executive Director, Strategic Action for a Just Economy (SAJE)

- SAJE is a non-profit based in South Central Los Angeles working on housing, justice and equity issues on behalf of low-income families.
- Low- income homeowners cannot afford CEA insurance, and won't be covered in event of a major earthquake.
- Majority of low-income residents are tenants, even in single-family homes.
- In Los Angeles, only 37% of housing units are owner occupied.
- Many of the buildings are older and have not been well maintained.
- Immediate need of most low-income individuals following a large earthquake will be for shelter.
- Opposes any coverage changes that would adversely impact low-income renters and homeowners.
- In the event of a major disaster, public officials are going to be looked to for solutions, so leaders should start planning those solutions right now.
- Interested in learning more about EBB low-income grant program.

Ken McEldowney: Executive Director, Consumer Action

- Thanked CEA for hosting the forum and for soliciting input from consumers, insurance companies and members of the public.
- Consumer Action is a national organization that works with community-based organizations —including over 2,000 groups in California.
- Supports offering different earthquake insurance policies with many different levels of coverage because for the more basic policy the premiums will be much lower.
- Supports a level of claim-paying capacity that would support paying 100% of covered claims for a 1906 earthquake with pro-rata payout beyond that level, in order for earthquake insurance to be more affordable.
- Supports the concept of public reinsurance, but taxes should not subsidize the cost of earthquake insurance as this would make it less costly for people to live in areas that are prone to more serious earthquakes.
- Encouraged sharply increasing and expanding retrofit subsidies for all types of houses, and all homes that qualify should be eligible for these subsidies.
- Encouraged creation of CEA Spanish-language website and Spanish-language educational outreach campaign.

Public Comment

David Shaffer: Independent Insurance Agent, Walnut Creek

- Agents are on the front line in terms of encouraging consumers to buy earthquake insurance.
- Did not think CEA policy in the early years was valuable, and did not encourage customers to buy it. CEA coverages have been improved dramatically over the years, and reducing coverages would be a mistake.
- Purpose of insurance should be to make people whole.
- Opposes reduction in CEA coverage options, including placing any cap on the dwelling limits.
- Supports greater investment and promotion of earthquake retrofitting.
- Supports resumption of CEA marketing and advertising, and should highlight the many options that are available (i.e., higher coverage limits and lower deductibles).
- An insurance company should remain financially strong in order to pay a policyholder's claim.
- Earthquake market in California is constricting. Private earthquake insurer ICAT, for example, has notified agents that it is not going to take any new business next year, and may non-renew existing policies in 2022. QBE Insurance Company, which provides private earthquake insurance through Arrowhead General Insurance Agency, has stopped writing earthquake insurance in California. The only non-CEA companies that remain are Geovera and Palomar, and they offer the broad coverage options that consumers want.
- The private industry should be encouraged to offer more earthquake insurance in California.
- In summary, CEA should retain existing coverage options and deductibles, including those for Additional Living Expense (ALE) coverage, and should let consumers know that these coverage options exist.

Patrick O'Rourke: Farmers Insurance Agent, Torrance

- Always emphasizes importance of earthquake insurance.
- Insurance should be able to make a policyholder whole.
- Affluent clients should have access to higher coverage limits, and less wealthy should consider all the options that are available.
- Farmers Insurance is now able to support monthly billing, credit card payment, etc., which should help with the affordability issue.
- Earthquake insurance is now more affordable than ever before, and consumers should consider it to make sure they can return back to where they were after the loss.
- Additional Living Expense (ALE) coverage is also important to make sure that someone will have adequate shelter and additional expenses after a loss.

Edward Thomas: President Emeritus, Natural Hazard Mitigation Association

- Disaster is not just about the consumer. Disaster insurance is sort of like a bank account for the resilience and bouncing back of the communities, homeowners associations and the state.
- Retrofitting is essential, and low-income assistance should be provided.
- Supports stronger building codes, beyond “life safety,” but also for “operability.”
- Supports creation of a federal financial catastrophic backstop.
- In California, earthquake insurance should perhaps become mandatory. Broadening the base of who has insurance could reduce the cost, especially if a public backstop is established.
- Consider the national flood insurance model, in which insurance companies share in both the profit and the risk.
- Doubling the cost of earthquake insurance in California would be horrible. Much of what is currently being spent on reinsurance should be kept in the state instead.

Industry Trade Associations

Seren Taylor: Senior Legislative Advocate, Personal Insurance Federation of California (PIFC)

- PIFC member companies write approximately 70% of CEA market share, are committed to its success, and are grateful for this opportunity to be heard.
- CEA should be made financially stronger, not weaker.
- CEA’s primary mission is to satisfy California’s legal mandate that an insurer offers a basic, dwelling focused earthquake insurance policy each time it sells a homeowners policy. Far more Californians buy homeowners insurance compared to earthquake insurance, and much of California’s economy depends on ready access to homeowners insurance. Making CEA financially weaker would have negative impacts well beyond earthquake insurance market.
- In order to make CEA financially stronger, all stakeholders must do their part in finding solutions to current challenges, and participating insurers (PIs) are willing to do their part.
- A CEA policy must include coverage sufficient to repair or rebuild a structure after an earthquake. The need for non-structural coverage is less.
- Supportive of Additional Living Expense (ALE) coverage limits. It takes longer today to rebuild a home than it did in the past.
- If coverage reductions are necessary, personal property coverage should be considered the lowest priority, which is driving unnecessary financial pressure for CEA.
- Open to argument that the current 1 in 400-year claim-paying capacity target is too high.
- If financial capacity will be reduced to, for example, a 1 in 250-year return period, simultaneous steps should be taken to ensure CEA’s ability to be fully functional the day after a major earthquake.

- CEA currently has a recapitalization provision to ensure it is minimally prepared to continue operations following a devastating earthquake. This capacity should be strengthened, including mechanisms to start placing funds in a separate "lock box" that would only be available following a major earthquake.
- PIFC looks forward to being an active thought partner as we move forward to build a more sustainable CEA for the future.

Don Griffin: Vice President, American Property Casualty Insurance Association (APCIA)

- If claim-paying capacity is reduced, it must be done in conjunction with ability to recapitalize following major earthquake event.
- Opposes creation of public catastrophe fund. In Florida, following large hurricanes in 2004 and 2005, Florida Citizens, the equivalent of the California Fair Plan, needed to impose a surcharge on all insurance policies in the state for the next 10 years. The Florida Hurricane Catastrophe Fund, the state's reinsurer, also had a shortfall, and also required a surcharge on all policyholders for the next 10 years—when policyholders could least afford it.
- Agrees that lowering of personal property coverage limits might make sense, but it is a balance between affordability and value in the coverage.
- Additional Living Expense (ALE) coverage is an important issue, but it should be noted that flood insurance provided by the National Insurance Flood Program provides no ALE coverage.
- APCIA wants the CEA to continue to maintain solid financial footing, and is willing to work with CEA and the consumer groups to make sure that happens.

Dennis Burke: Reinsurance Association of America (RAA)

- RAA represents reinsurance companies on regulatory and regulatory matters.
- Despite previous comments, "reinsurance is not satanic, and reinsurers are not the spawn of Satan."
- Reinsurance is simply insurance for insurance companies, a risk transfer product that helps CEA to ensure it can cover its claims following a covered earthquake. CEA pays a premium in exchange for that transfer of risk.
- Reinsurance is a form of "rented capital"—capital that does not need to be paid back if a covered event occurs, and allows CEA to manage its risk.
- Complaining about the cost of reinsurance is akin to complaining that one has not collected on their life insurance. Reinsurers have been constantly at risk to pay its share of claims ever since CEA started.
- RAA and the reinsurers will work with CEA to ensure that CEA can continue its mission of providing earthquake insurance to its policyholders on behalf of the CEA participating insurers (PIs) for the benefit of California residents.
- Reinsurers will support CEA regarding its decision about how much coverage to provide. However, the greater amount of CEA coverage it provides the more risk transfer it requires to manage that risk.

- CEA is one of the few entities that has lowered costs by 35% over a 25-year period, and it is important to keep economic realities in mind—including how much it will cost to rebuild after an earthquake.
- CEA is not statutorily mandated to buy to a 1 in 400-year level of claim-paying capacity, and RAA has supported CEA exploration of a reduction in this level with the rating agencies.
- RAA opposes the creation of a state financial backstop. Only 12% of Californians have earthquake insurance, and it would be unfair to impose taxes on those who do not have earthquake insurance to pay for losses of those who are insured.
- Supports reducing risk through mitigation. The best way to reduce insurance and reinsurance costs is to reduce risk. RAA continues to work with CEA in support of federal legislation to eliminate federal taxation of CEA mitigation grants, and supports making more federal dollars available to support CEA mitigation activities.

Non-CEA Earthquake Insurance Companies

John Forney: CEO, Geovera Insurance

- Formally, served as CEA's financial advisor from 2008 - 2012 while employed with Raymond James, and authored the Raymond James analysis in 2011 regarding the efficacy of the Florida Hurricane Cat Fund.
- Geovera's primary mission is to get more Californians covered with earthquake insurance.
- CEA has been passionate about getting more Californians covered with earthquake insurance, and has overcome many structural impediments over time.
- Geovera shares that passion, and is working hard to get the word out regarding the need for earthquake insurance and the strength of the Geovera product.
- Geovera wrote its first earthquake insurance policy in 1995, one year before CEA started. Domiciled in California and as an admitted company, Geovera is regulated by the California Department of Insurance, purchases reinsurance up to the 1 in 500-year level, and participates in the California Insurance Guarantee Association (CIGA). Geovera's AM Best rating is "A," a notch higher than CEA, and the strongest of any insurer of residential earthquake.
- The world has changed a lot over the last 25 years. In 1994 and 1995, the California homeowners insurance market faced an existential crisis, and it was appropriate for the legislature to create CEA as a means to fulfill the mandatory offer requirement, and CEA is commended for today insuring more than one million homes.
- But today there is a vibrant, dynamic, competitive residential earthquake market—with admitted, state regulated companies that are highly rated—and there is enough capital that could absorb most or all the full coverage policies that CEA has, or at least some of them, providing a "relief valve" so that CEA doesn't have to reduce coverage or reduce security for policyholders.
- Open to a dialogue on how it can provide a "relief valve" for CEA with a goal of providing affordable earthquake insurance to as many Californians as possible.

Bill Bold: Chief Strategy Officer, Palomar Insurance Company

- Grateful to CEA and other presenters for this Public Forum.
- Headquartered in La Jolla, California, Palomar is an admitted, state regulated carrier in California and a market leader in residential and commercial earthquake insurance across U.S. The company also is the third largest earthquake insurer in California.
- The risk of a catastrophic earthquake in California is high, it is not a question of "if" we will have another major earthquake, it is a question of "when" and "where."
- The state must continue to increase the take up rate of earthquake insurance.
- CEA has structural limitations, and as a one peril, one state entity insurance provider, CEA is limited in its ability to spread risk, unlike private insurance companies. Palomar, for example, writes earthquake insurance throughout the West Coast, and extensively in the New Madrid region in the southcentral region of the United States. CEA is not configured to provide earthquake insurance outside of California.
- Risk transfer rates are placing enormous stress on CEA rates and coverage.
- Palomar shares CEA's view of the California earthquake market and agrees with CEA's economic analysis of its business. However, reducing CEA coverage or raising policyholder rates is at cross purposes with the state's interest to increase the number of homes that have earthquake insurance and ensuring broad customer choice for all Californians. Therefore, the most expeditious way to address CEA's concern about its risk profile is to explore new models of partnership with other private insurance companies, regardless of whether they are a CEA participating insurer (PI).
- Many PIs, and many consumers, may operate under the assumption that PIs are prohibited from placing earthquake insurance with other earthquake insurers.
- Urges CEA to clarify with its PIs that their agents can sell earthquake insurance outside of the CEA to help spread the CEA's risk across a broader range of carriers without having to rely solely on reducing coverage or raising rates.
- A closer partnership and collaboration with private sector would increase consumer choice and increase coverage as consumers become better informed about the range of options available through both the CEA and non-CEA companies.

Dan Wallis: President, Motus Insurance

- Mr. Wallis is the founder of Motus, which is considered the "opt in" earthquake program for common interest developments, such as condominiums, townhomes, and housing "co-ops." He also was one of the creators of common interest unit reforms, which were created to expand the assessment coverage available to the 2.7 million unit owners living in condominium associations.
- CEA's condominium policy is flawed and doesn't work for many California condominium unit owners. Motus provides an alternative earthquake insurance product for those folks.
- Two major faults of the CEA condominium insurance policy are: (1) the CEA condominium unit owner policy was built to supplement condominium homeowners associations (HOAs), which have a commercial insurance master policy, but only 15 percent of these HOAs have a commercial master policy for earthquake insurance and (2) Even if the HOA has a commercial insurance master policy, only 30

percent of the individual unit owners are eligible for personal earthquake insurance because the remainder of individual unit owners do not have a homeowners insurance policy, which is required to have a CEA earthquake insurance policy for their unit.

- As a result, CEA's condominium policy will adequately function for only 4.5 percent of the condominium unit owners in California.
- CEA condominium policy does not cover the community's "common areas."
- CEA condominium policy coverage is severely limited relative to exposure.
- CEA's Loss Assessment coverage provides coverage for only a small portion of a unit owner's exposure for building damage when there is not a commercial insurance master policy in place.
- CEA does not offer combined coverage limits.
- A condominium unit owner must have condominium homeowners/fire policy in order to buy a CEA policy. Of the 2.7 million condominium units in California, only 925,000 have a homeowners/fire policy in force. As such, 1.8 million condominium owners are not eligible to purchase a CEA condominium policy.
- Earthquake insurance take up rate for single-family homeowners has increased, but is declining for condominium unit owners.
- Multi-family units are the most vulnerable to earthquake damage.
- There are alternatives that will work better for the vast majority of condominium unit owners, and consumers need to become better educated.

Kate Stillwell: Founder and CEO, Jumpstart Insurance

- Is the founder of Jumpstart, which is not a competitor to CEA nor CEA's s participating insurers (PIs).
- Jumpstart offers a parametric product in California, Oregon and Washington. Parametric insurance is a type of insurance that provides a lump sum following the occurrence of a predefined event by paying a set amount based on the magnitude of the event.
- Jumpstart products provides a $10,000 disbursement after a defined event.
- Payout is a relatively small amount of money meant to help start the rebuilding process.
- The noble purpose of earthquake insurance is to build community resiliency.
- Government financed catastrophic backstop programs require the uninsured to subsidize the insured.
- Making first dollar loss, or early dollar loss, coverage available builds individual and community resilience.
- 50% - 55% of Californians have less than $1,000 in savings.

Transcript of Zoom Q&A
Chat Feature During Live Public Forum Event

During CEA's Listening Session, held via Zoom on November 9, 2021, the Q&A chat feature was available. Below are the general comments, questions and answers from the public. Not all of them are directly related to the issues being discussed during the forum, but for transparency we have included them unedited. Note: Answers ("A:") are provided by CEA staff.

Kate Stillwell

Q: Could you please share/repeat the name of the current public commenter? Thank you.

A: Edward Thomas

William Gallagher

Never made a claim in 30+ years., My cost has increased 175% in 2 years currently $3k doesn't seem to be line with your presentation

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Paul Kendall

The reason we're with CEA is because it's better coverage and cheaper than other insurance companies. I cancelled my previous homeowners policy that was cheaper than State Farm to get CEA because only some insurance companies deal with CEA. I was told to shop around after CEA raised my earthquake 8X. I assume that the other insurance companies would be even more expensive.

Kathi DOLAN

Please make no changes to Loss of Use - Please keep it a ZERO deductible. As Rental Housing is SO EXPENSIVE in CA, most of my clients primarily are purchasing EQ polices because of this GREAT Benefit. As Lenders don't forgive Mortgage payments, this coverage alone will save many customers as they will be able to RENT while repairs are being made

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Linda Peterson

I was concerned by the disparity in coverage quotes I received by two different agents. I own a condo and a concern of our homeowners is the loss assessment for the overall complex. Our units were constructed in 1986. My premium for earthquake insurance (walls in) is $943. p/yr. The policy contains a lot of caveats that are disconcerting. I am located in Southern California (Ventura County).

Linda Peterson

I am single and a senior. I have lived in my home 25 + years. Our HOA carries a policy for the buildings (walls out). I'm also concerned we may be under-insured with the policy currently held.

Linda Peterson

Thank you. This was so informative and greatly appreciated.

Edward Thomas

Huge thanks!!!

Patrick Jones

Q: Will Decks / Presentations be available after meeting. Thank you.

A: Recording w/slides included will be available online following this webinar

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Patrick O'Rourke

Q: When will Torrance and the Beach cities (Redondo, Hermosa, and Manhattan Beach) have access to Brace Bolt?

A: It is likely some, if not all of those, ZIP Codes will be added during the next registration period, which we are hopeful will be in early Q2 2022. We have multiple FEMA grant applications outstanding and are hopeful that additional funding is coming soon.

Laurel B

Q: What percentage of California homeowners have earthquake insurance?

A: Statewide, it's about 12-13%. But it's higher in some areas that have more risk.

Anonymous Attendee

Q: Can you discuss the deductible the insured would have to pay in the event an earthquake happened? Thank you

A: You do not pay your deductible out-of-pocket. The deductible is subtracted from your covered damage amount you receive later, so you don't have to pay any of the deductible up front to receive a claim payment.

Kimberly Lilley, CIRMS, CMCA, EBP

Q: Does the low-income part of Brace & Bolt apply to low-income RESIDENTS? Or just the owners? Because the owners probably aren't low income?

A: Residents. Details here: https://www.earthquakebracebolt.com/How-Our-Program-Works/EBB-Supplemental-Grant-For-Low-Income-Homeowners

Q: @Bryan, I'm confused... I found this is the Bolt and Brace program rules: "The house must be the participant's primary residence, and they must be the legal owner of record." That sounds like it is only for owners.

A: Are you asking if renters are eligible? The program is currently available only for owner-occupied eligible houses.

Q: Yes, thanks, Bryan. Glenn made a comment about making Brace & Bolt available to low-income folks, but it seems like most folks who own a home in someplace like LA probably aren't as low-income as the people they rent to, and I was curious if there was a way they could be considered.

Emailed Written Submissions to CEA Email Portal

Kate Stillwell, Founder and CEO of Jumpstart

Thanks for holding the Public Forum Session. Here are Jumpstart's formal written comments, reiterating the perspective that I shared during the forum, and adding a few additional comments:

-Broadening access to financial resources in a time of great need is the highest purpose and should be the definitive criterion for decision-making.

-Immediate, first-dollar losses build economic resilience of individuals and communities, given the low savings rate and high financial vulnerability of a majority of Americans and Californians.

-Partial limits significantly reduce the uncertainty that drives reinsurance prices. In addition, partial limits build fairness and access so that the largest dollar amounts aren't disproportionately disbursed to the most affluent.

-A public backstop is neither socially equitable nor favorable for the long-term reputation of the insurance industry.

Generally speaking, we support "cutting off the tail" of high-severity, low-frequency losses. We see how reducing return periods achieves this. A similar effect could be achieved - and with the added benefit of greater fairness - by capping limits. You would need strong consumer education to avoid class-action liability demanding "total rebuild" to then-construction costs. Perhaps the responsibility for such education could be borne by the PIs, since their agents are on the front lines of communication, and perhaps there is potential to trade-off the IAL vs. liability of disbursements exceeding limit caps.

We neither support nor oppose explicit encouragement of more participation by private earthquake insurers. The public oversight dimension of the CEA introduces checks and balances which, if phased out, could unintentionally distort the availability and prices in the marketplace. Any changes will, in and of themselves, shift risk, upon which private market players will find opportunity.

A repeated theme was the formation of a public reinsurer, with a comparison to Florida. Instead, we believe a post-disaster lending facility would make more sense. Given the low current uptake of CEA policies in California, the risk of major post-event policyholder assessments is far lower than a situation (like Florida) with widespread take-up. The likely post-event surge in demand for insurance could provide repayment sufficiency with little to no assessments on pre-event policyholders. An ex-post lending facility would not replace but complement ex ante reserves provided by reinsurance capacity, while cutting the needed reinsurance stack to a fraction of current.

I trust you and your colleagues will make informed, wise decisions, and we remain grateful for the opportunity to provide input.

With Warmest Regards, Kate Stillwell, Founder and CEO, Jumpstart

Seren Taylor, Senior Legislative Advocate, Personal Insurance Federation of California (PIFC)

Good afternoon. My name is Seren Taylor, Senior Legislative Advocate for the Personal Insurance Federation of California. PIFC member companies write approximately 70% of the CEA market share and are committed to its success. Thank you for the opportunity to participate in today's stakeholder discussion about the future of the CEA. Before sharing our views on the questions raised in the CEA's background document, please allow me to offer a few, general comments.

General Points First, as the CEA Board and executive team considers how to move forward, we urge them to focus on making the CEA financially stronger, not weaker. The CEA's primary mission is to satisfy California's legal mandate for an insurer to offer a basic, dwelling-focused earthquake insurance policy each time it sells a homeowners' insurance policy. The number of Californians who buy homeowners' insurance dwarfs the number of Californians who buy earthquake insurance – and so much of California's economy depends upon ready access to homeowners' insurance. Any action to make the CEA financially weaker would have negative impacts well beyond the earthquake insurance market.

Second, in order to make the CEA financially stronger, all stakeholders must do their part. CEA participating insurers continue to provide almost $2 billion of contingent capital to support the CEA's claims-paying capacity. We know insurers will be asked to be part of any future solution, and we intend to do our part.

Specific Topics In its background document, the CEA asked for stakeholder input on two questions.

Question 1: What features do you believe must be contained in a CEA policy? The original arguments for the CEA "mini policy" still apply with equal force today. A CEA policy must include coverage sufficient to repair or rebuild a dwelling after a destructive earthquake. The need for nonstructural coverages is less, but we would be generally supportive of an additional living expense coverage that provides consumer stability for a period of time sufficient to develop and move forward with long-term plans. It takes much longer today to rebuild a home than it did in the past, so attention to ALE is important. The lowest priority for this catastrophic policy should be personal property coverage. This coverage is driving unwarranted financial pressure for the CEA.

Question 2: What do you believe is the appropriate target for CEA claim paying capacity? There is not a "correct" answer to the question about CEA's most appropriate claim paying capacity. In the past, the CEA Governing Board drove the claims paying capacity above a 1-in-1000-year event. That excessive requirement undermined the CEA in significant ways and required grossly excessive reinsurance purchases. At this point, we are open to the argument that the current 1-in-400-year return period is, likewise, too high.

If the Governing Board decides to reduce the CEA's financial capacity, for instance, a 1-in-250-year return period, we would urge it to, simultaneously, take other steps to increase the CEA's ability to be fully functional the day after a major earthquake. The CEA statute currently has a recapitalization provision to ensure it is minimally prepared to continue operations following a devastating earthquake. We recommend building this capacity, including mechanisms to start placing funds in a separate lockbox that would only be available for the day after a major earthquake. We look forward to being an active thought partner in the upcoming discussions

Dan C. Dunmoyer, President and CEO of California Building Industry Association

The California Building Industry Association (CBIA) is a statewide trade association representing over 3,100 member-companies involved in residential and light commercial construction. CBIA member-companies are responsible for building over 85% of the single-family homes built in California each year. The CBIA also build thousands of multi-family, affordable housing, and charity housing units annually throughout the state of California.

CBIA prides itself as the most supportive and sophisticated building trade association for building the most resilient, energy and water efficient, and seismically safe homes in the United States. Our commitment to ensuring that the homes we build are not only beautiful and functional but address the climate crisis we are facing and stand up to the natural hazards that come with California's complex and yet beautiful environment.

CBIA is a staunch supporter of a financially sound and sustainable California Earthquake Authority (CEA). As the CEA celebrates its 25th anniversary we congratulate the Governor, Treasurer and Insurance Commissioner, and the professional CEA staff team, for their faithful leadership and stewardship of this successful public/private partnership with the state, participating insurance companies and the over a million consumers who safeguard their most important asset through this financial mechanism known as the CEA.

A viable, successful, and sustainable CEA is not only important to safeguarding the citizens of California, but the CEA is also inextricably linked to a successful homebuilding market. In California, well over 80% of all homes purchased require a mortgage and with a mortgage comes the requirement that homes have homeowners insurance. California law also requires that when residential insurer sells a homeowners insurance policy, they must also offer an earthquake insurance policy.

As we saw in 1995, after the 1994 Northridge Earthquake, the risk to maintain and sell earthquake insurance exceeded the capital and surplus held by the property and casualty insurance industry effectively shutting down the residential insurance market, the real estate market, and eventually the homebuilding market. The reality of consumers needing to fulfill all components of the home purchasing process – the ability to pay the Principal, Interest, Tax, and Insurance (PITI) -- collapsed when there was not a viable residential earthquake insurance market. This collapse had a profound and negative impact on homebuilding and homebuying consumers in California right after a major earthquake when the building and sale of homes was essential to begin the economic and societal recovery of the greater Northridge community. The CEA solved this real estate and homebuilding crisis and continues to solve this crisis for the past 25 years.

For these important public policy and societal reasons, the CBIA strongly supports a viable and sustainable CEA for the future of our state, its people, and the places we call home.

Respectfully submitted,

Dan C. Dunmoyer

President and CEO

California Building Industry Association

Joel Laucher

Thank you eliciting public input on this topic.

Without the benefit of becoming better informed from next week's public forum, I will share my current thoughts about the coverage limits that should be offered:

Overall, I think coverage should be offered "a la carte" with the consumer given the opportunity to choose their limits for each coverage.

For the dwelling structure: the consumer should be able to choose a limit up to the underlying property policy. <u>Critical would be providing concise, critical information to inform that decision</u>.

Any limitations on the coverage, such as ornamental elements that will not be covered if damaged, should be clearly identified in the instructions to the consumer to inform the decision.

The consumer should also be notified that the dwelling policy limits on HO policies are often found not to be sufficient for rebuilding the structure especially when there is "demand surge" situation for contractors and building materials - as might be expected after an earthquake (to warn them about potential underinsurance as well).

On the flip side, it would also be helpful to have some information about the level of expected damage for a similar home, e.g., "a single story, wood frame home bolted to a perimeter raised foundation is not likely to experience damage beyond 30%(?) of the replacement cost limit for the structure."

Because the great majority of single-story homes built after 1960 and located stable soil aren't likely to suffer total losses from earthquake damage, most that purchase this coverage at the full replacement cost limits from the HO policy are over-insured and eating up your reinsurance capacity.

I would expect that consumers who purchase less than 90% of the underlying dwelling limit would pay a slightly higher rate on an ascending scale as the percentage of their dwelling limits that is purchased decreases.

For contents, I think the consumer should be able to purchase at least up to 25% of the dwelling structure limit on the underlying policy.

For additional living expense, I think the consumer should be able to purchase up to the ALE limit on the underlying fire policy.

I believe the CEA should set rates based on the higher frequency/ lower severity basis but of course would need a plan for how to cover a higher-than-expected loss year if not obtainable/reasonably affordable through reinsurance. I realize this is the big challenge. A federal government backstop would be nice or an assessment on the participating insurers that is repaid in a short timeframe. Perhaps a very small (up to $25?), one-time assessment on all policyholders from the participating insurers would be reasonable.

Maybe I will revise all my thinking once I learn more!

Joel Laucher

David Shaffer, Agency Principal, David Shaffer Insurance Services

Dear CEA Team,

It was with great sadness that I just heard that some MAJOR changes are on the drawing board about the CEA program. The CEA finally has a great product which I have ideas on how it can get better, such as offer a higher loss of use limit, but now I see it may have to charge higher premiums and, in some form, reduce the coverage options.

I have even written an article about earthquake insurance, "Not if, but When?", see attached. Although it was written with Financial Planners in mind, it is a good read for any consumer who is interested in learning more about earthquake insurance.

I would like an opportunity to speak at next week's CEA Forum about my strong feelings about maintaining the current CEA product as is.

In the meantime, can you please send to me any information about why the CEA is considering a MAJOR change to its policies? Is it related to reinsurance issues? Is it related to underinsurance of homes in California? Also, what specific changes are being contemplated? For example, would loss of use be reduced from $100,000? Would the option to buy up to $30,000 for building code coverage be eliminated. Would 5% and 10% deductible options be removed?

Another question I have is if more homeowners in the CEA now did the appropriate retrofitting work to minimize their damage, how does that make a difference, if any, to the changes now being contemplated? I know a contractor, East Bay Retrofit, that believes a home that is properly retrofitted is unlikely to incur major earthquake damage. Therefore, earthquake retrofitting, which is a risk management tools, needs to be part of this conversation.

I look forward to hearing from the CEA Team and hope I can play a positive role in this process. I have already registered for the forum.

Stay safe.

Thank you

David Shaffer, ARM, CPRIA

Agency Principal

David Shaffer Insurance Services

Royce Simpson

Thank you. Do you happen to know when the next forum will be?

William t. Gallagher

I was interested in learning more about your rate increases as my premium has increased by 175% in 2 years, from $1073 to $2960, and you're informing my rate will mostly continue to increase. This in spite of having never filed a claim in over 30+ years. When I complained about this increase, I received a letter stating various data is factored into determining rates. That was not a very satisfactory answer to account for a 175% increase. I am retired and increases such as the above are a problem.

William t. Gallagher

San Jose

Paul Kendall

My rate as of 2019 was $150 annually. Now my rate is $1200 annually. I live in Frazier Park, CA 93225 (San Andreas Fault) and may be moving (retiring) to Ecuador soon. Everything is dramatically going up in price. Unsustainable!! The drinking water (depleted) is bad and not recommended for children or pregnant women. What's so great about California (or the United States)?

Janice Murota

Hi thanks for opportunity for feedback. Very much in favor of lower premiums with possibility full Payout for the more likely lower strength quake.

Thanks.

Janice Murota

Homeowner considering buying insurance
