Strategic Planning Workstreams:

Claim-Paying Capacity

QUESTION	ANSWER
How much claim-paying capacity did CEA need in 2021 to be prepared for a 1-in-400 year return period loss?	$19.6 billion.
What does a 1-in-400-year return period loss mean?	There is a 1-in-400 chance that losses from one or more earthquakes in 2021 will exceed $19.6 billion.
What is the probability of a 1-in-400 loss in any given year?	1-in-400 is another way of stating 0.25% (1/400) or 1/4th of 1%.
How much reinsurance did CEA need to purchase in 2021 to meet the 1-in-400 benchmark?	$9.5 billion.
How much does CEA expect to spend on the purchase of reinsurance in 2021?	$505 million. This is more than 57% of the total amount of premium paid by CEA policyholders.
How much has CEA budgeted for 2022 to remain at 1-in-400 level?	$538 million.
Why is the reinsurance budget higher in 2022?	As CEA grows and increases its exposure, the 1-in-400 return period loss also increases the need for more reinsurance.
Does the State of California provide CEA with any financial assistance to help pay for this risk transfer?	No. All costs are borne exclusively by CEA policyholders in the premiums that they pay.

Strategic Planning Workstreams:

Claim-Paying Capacity

QUESTION	ANSWER
Is CEA statutorily required to set its claim-paying capacity at 1-in-400?	No. CEA, subject to California Department of Insurance oversight, has historically been very conservative in establishing its claim-paying capacity. The goal has been to make sure it will be able to pay 100% of its covered claims in the aftermath of a catastrophic earthquake far more damaging, and much less likely, than any earthquake in California's history.
What happens if an earthquake(s) exceeds CEA's claim-paying capacity?	CEA will settle claims on a pro rata basis. By way of simple example, if CEA has enough claim-paying capacity to only cover 90% of its covered claims, CEA policyholders would receive payment for 90% of their covered claims. A more sustainable structure would need to be approved by the California State Legislature in order for CEA to remain in business following such an event.
What return periods are now under review?	1-in-400 (annual probability: 0.25%) 1-in-350 (annual probability: 0.29%) 1-in-300 (annual probability: 0.33%) 1-in-250 (annual probability: 0.40%)
What are the potential downsides to reducing CEA's return period benchmark?	Rating agencies would lower CEA's financial strength rating (potentially impacting CEA's ability to issue pre- and post- event revenue bonds) and there would be an increased risk of CEA not being able to pay 100% of policyholders' covered claims following an extremely catastrophic earthquake.
What are the potential benefits to reducing CEA's return period benchmark?	Lowering the return period target would reduce the amount of reinsurance CEA would need to buy, and these cost savings would exclusively benefit CEA policyholders, by taking pressure off the need for future rate increases.

Strategic Planning Workstreams:

Coverage Options

QUESTION	ANSWER
What is the CEA mini-policy?	When it launched in 1996, CEA offered only a mini policy—the minimum-coverage policy authorized in 1995. While it offered full coverage of a residential structure, it only offered $5,000 in personal property and $1,500 in additional living expenses. Since that time, CEA has worked hard to offer a broader range of insurance options to give policyholders more flexibility and options.
Does CEA offer coverage options that are more comprehensive than what is required by the State of California?	Yes. CEA currently offers coverage options that provide much more extensive coverage than the barebones options that make up the CEA mini-policy.
Why would CEA even consider reducing coverage options?	The expansion of some of the options we offer is now beginning to contribute to an escalation in cost for *all* CEA policies, even for those policyholders who do not choose more expansive coverages.
How does the mini-policy deductible compare to CEA options?	The mini-policy deductible is 15%, and CEA currently offers a range of deductibles from 5% to 25%.
How much personal property coverage does the mini-policy offer compared to the CEA options?	The mini-policy provides a $5,000 limit, and CEA currently offers up to $200,000 in personal property coverage.
How much additional living expenses (ALE) coverage is available from the mini-policy and from CEA?	The mini-policy only provides $1,500 in ALE, and CEA currently offers up to $100,000. Notably, ALE coverage does not have a deductible.

Strategic Planning Workstreams:

Coverage Options

QUESTION	ANSWER
What are some of the coverage option reductions that have been analyzed recently?	In order to relieve some rate increase pressure, CEA could consider a variety of possible coverage option reductions. For example: • Eliminate the 5% deductible. • Reduce the maximum personal property limit to some amount lower than $200,000, i.e., $5,000, $25,000, $50,000, or $100,000. • Eliminate additional coverage options for breakables and masonry veneer. • Reduce coverage for condominium units to mini-policy levels. • Place a maximum on the coverage limit for structure rebuild or repair costs. • Reduce coverage options for unretrofitted homes built prior to 1940.

Strategic Planning Workstreams:

Industry Assessment Layer (IAL)

QUESTION	ANSWER
What is the Industry Assessment Layer (IAL)?	The IAL is an amount that CEA's participating insurers will be obligated to pay if there is an earthquake event exceeding a certain dollar threshold.
What is that dollar threshold?	Currently, the IAL is triggered if covered claims exceed $18.9 billion. The return period trigger for the IAL is 1-in-350, meaning there is only a 0.29% chance that this assessment will be triggered to pay claims.
What is the total amount of IAL today?	$1.7 billion.
Has there always been an IAL in CEA's claim-paying capacity structure?	Yes. When CEA began 25 years ago, there were two separate IALs, in the total amount of $3.6 billion.
Why is it only $1.7 billion now?	The California State Legislature included a formula for the IAL to reduce over time. The first IAL—roughly $2 billion—expired December 2008. The remaining IAL is set to gradually "roll off" over time as CEA capital builds.
What would need to happen in order for an IAL to be made permanent?	Any change to the current IAL or its roll off formula would require legislation.

Strategic Planning Workstreams:

Industry Assessment Layer (IAL)

QUESTION	ANSWER
Is CEA working with its participating insurers on their continuing level of financial support for CEA's claim-paying capacity?	Yes. CEA staff have been communicating with all participating insurers regarding the many considerations under review, with CEA's largest participating insurers being the most actively engaged. These companies have generally expressed a strong desire to assist in strengthening the sustainability of CEA's financial structure to protect CEA's ability to continue writing earthquake insurance, even after a severely damaging earthquake, and most have expressed a willingness to mutually explore reform ideas to accomplish the twin goals of bringing greater stability to CEA's current financial structure, as well as enhancing CEA's ability to continue writing earthquake insurance following a devastating earthquake. While the discussions are preliminary, the goal is to arrive at mutually agreeable solutions that can be collectively proposed to the Legislature.

Strategic Planning Workstreams:

Private Sector

QUESTION	ANSWER
Are CEA participating insurers prohibited from providing their customers with earthquake coverage options in addition to what CEA offers?	No. Participating insurers are not prohibited from telling consumers complete information about any residential earthquake coverage that is available in the market. However, some participating insurers have operated under a long-standing impression that this would be prohibited activity.
Are there private sector insurance companies willing to write more earthquake insurance in California?	Yes. For example, two companies that are licensed and domiciled in this state appeared at CEA's Public Forum in November and indicated their interest in increasing the number of homes in California that have earthquake insurance. Both companies have strong financial strength ratings and are regulated by the California Department of Insurance.
Does CEA recommend any particular private sector earthquake insurers?	No. CEA is not promoting or endorsing any private sector insurers. CEA's focus on the existence of private sector earthquake insurance providers is primarily for the benefit of consumers, to ensure that they have complete market information to help them make well informed insurance purchasing decisions. CEA believes that the State of California will be stronger and more resilient if more homes are insured against the peril of earthquakes, whether that insurance is issued by CEA or a private sector insurance company.
Will a CEA participating insurer still offer the CEA policy to all of their homeowner insureds?	Yes. All participating insurers are required to meet their "mandatory offer" obligation by offering a CEA policy. After satisfying that obligation, the participating insurers may present coverage options from non-CEA insurers. Consumers should work with their licensed insurance agents or brokers to help them evaluate their options and determine which coverage best meets their needs and budgets.

Strategic Planning Workstreams:

Private Sector

QUESTION	ANSWER
How can California consumers generally, and CEA policyholders specifically, benefit from increased awareness of private sector insurance coverage options from which they may choose?	CEA believes that consumers should be well informed about their insurance options. In some cases, a consumer may find an earthquake insurance policy from a private insurer that offers more coverage or a better price. All CEA policyholders will benefit when more companies begin to take on more of California's earthquake risk so that the risk is not overly concentrated in the CEA.
How does CEA staff plan on raising awareness of the participating insurers' ability to offer more choices to their customers?	CEA has prepared a circular (a form of notice to the participating insurers), which explains that their agents are not restricted from communicating with their homeowners/insureds about their policy options, and plans to distribute this circular following the 2021 December Governing Board meeting.

Strategic Planning Workstreams:

Best Available Science

QUESTION	ANSWER
Does CEA rely on "best available science" when setting policyholder rates?	Yes. When the legislature established CEA 25 years ago, it established a requirement that CEA use "best available science" for rate setting purposes.
What sources does CEA rely on to determine best available science?	Although not specifically identified by statute, CEA has historically relied on the United States Geological Survey (USGS) as the state-of-the-art expert regarding earthquake science.
Has CEA ever re-examined its reliance on USGS as the exclusive voice of the scientific community?	Yes. This fall, CEA established a Best Available Science Committee (BASC) to investigate recently published research, identifying elements of previous USGS reports that deserve further attention. The committee conducted 13 interviews with leading scientists and researchers, as well as with representatives of the three commercial modeling companies: CoreLogic, RMS, and AIR.
What did the BASC investigation conclude?	BASC has not identified any short-term or immediate modifications that should be made to CEA's current view of risk but will be working with California Geological Survey (CGS) and USGS to enhance CEA's participation in the development and validation of future USGS models.