The Earthquake Insurance Affordability Act (EIAA)

Protecting Homeowners and Taxpayers

<u>Recent earthquakes in Virginia and Colorado – as well as catastrophic earthquakes in Japan, New Zealand and Haiti – have delivered a major wake-up call to American homeowners and federal taxpayers</u>

- California alone is home to more than two-thirds of America's earthquake risk.
- Experts agree that a major earthquake in California within the next 30 years is a virtual certainty.

<u>Federal taxpayers are exposed because millions of American households do not have earthquake coverage</u>

- In California, for example, just 10 percent of homeowners have earthquake insurance, yet about 80 percent of its residents currently live on or near a fault.
- History tells us that after natural disasters, when homeowners can't rebuild, there's tremendous pressure on the federal government to help. And after an earthquake, there's tremendous demand for earthquake insurance.
- Federal taxpayers were on the hook for more than $8 billion[1] after the Northridge quake [or, over $9.5[2]], while California's taxpayers chipped in more than half a billion dollars more.

<u>Increasing earthquake insurance affordability will reduce federal taxpayers' risk</u>

- Because we can't prevent an earthquake, we must increase access to affordable earthquake insurance – to help Americans recover and rebuild without a federal taxpayer subsidy.
- In California, the public, non-profit California Earthquake Authority (CEA) is the state's major earthquake insurer. While actuarially sound and financially very strong, a large percentage of its annual expenses are driven by reinsurance.

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1 W. Petak, S. Elahi, "The Northridge Earthquake, USA and its Economic and Social Impacts," http://www.iiasa.ac.at/Research/RMP/july2000/Papers/Northridge_0401.pdf.

2 Congressional Budget Office, "Federal Reinsurance for Disasters," (Chapter 2: "The Insurance Market's Response to Disasters"), 2002. http://www.cbo.gov/doc.cfm?index=3787&type=0&sequence=3.

<u>The Earthquake Insurance Affordability Act (EIAA) reduces premiums, protects Federal taxpayers, and will speed economic recovery after "the next big one" strikes</u>

- EIAA (S.637) would significantly lower the cost of earthquake insurance and lower quake deductibles for homeowners by letting CEA cut back the reinsurance it now carries.
- EIAA provides one thing: a committed, but limited, federal guarantee of private-market debt, while reducing some reinsurance expenses. Passage would allow CEA alone to save $100 million in reinsurance expenses each year – savings would go directly to CEA policyholders, dropping premiums by as much as 20 percent and allowing more homeowners to afford earthquake insurance in California's totally voluntary market.
- After the next "big one" strikes, with more insured American homeowners, communities will recover more quickly and with less federal assistance.

<u>The EIAA is fiscally responsible: CBO estimates *zero* cost to federal taxpayers.</u>

- EIAA is a fiscally sound solution. It consumes no federal funds whatsoever. In fact, preliminary estimates by the nonpartisan Congressional Budget Office (CBO) conclude that its cost to the federal government and taxpayers is zero.
- For eligible quake programs, EIAA sets strict guarantee limits and a very high bar of fiscal responsibility. Guarantees can be issued only to entities that demonstrate they can repay 100 percent of the guaranteed loans. And all fees and costs – without exception – are borne by the qualified state program that would receive this committed guarantee.
- The bottom line for federal taxpayers is that EIAA would allow CEA and any other qualified public, non-profit earthquake insurer to use private debt capital to provide liquidity after a major earthquake.

<u>About the California Earthquake Authority</u>

The California Earthquake Authority is a publicly managed, privately funded organization that provides catastrophic residential earthquake insurance and encourages Californians to reduce their risk of earthquake loss.

The CEA opened its doors in 1996 and was established in response to the Northridge earthquake in California's San Fernando Valley – one of the most expensive disasters in U.S. history.

Today, CEA is the largest writer of residential earthquake insurance in the country. Since its inception, the CEA has accumulated almost $4.3 billion in capital and consistently grows its capital through positive retained earnings. Its current premium revenue is some $600 million per year.

The CEA's required total claim-paying capacity is approaching $10 billion, while operating expenses are limited by law to no more than three percent of annual written premium.

The CEA is not affected by the California state budget, and the state cannot take CEA funds.

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