

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Thursday, April 26, 2012
1:00 P.M.**

Location: CALSTRS Headquarters Building
Board Room
100 Waterfront Place
West Sacramento, California

Members of the Governing Board in attendance:

Pedro Reyes, designee of Governor Jerry Brown
Grant Boyken, designee of State Treasurer Bill Lockyer
Chris Shultz, designee of Insurance Commissioner Dave Jones
Dietrich Stroeh, designee of Chair of the Senate Rules Committee Darrell Steinberg
Deborah Doty, designee of Speaker of the Assembly John Pérez

Members of the CEA staff in attendance:

Glenn Pomeroy, Chief Executive Officer
Tim Richison, Chief Financial Officer
Bob Stewart, Chief Operations Officer
Chris Nance, Chief Communications Officer
Shawna Ackerman, Chief Actuary
Janiele Maffei, Chief Mitigation Officer
Susan Pitton, Governing Board and Advisory Panel Liaison
Danny Marshall, General Counsel

- 1. The meeting was called to order at 1:00 p.m. A quorum was established.**
- 2. Consideration and approval of the minutes of the February 23, 2012 and March 26, 2012 Governing Board meetings.**

MOTION: Mr. Boyken moved approval of the February 23, 2012, and March 26, 2012, Governing Board minutes; seconded by Mr. Shultz. Motion carried unanimously.

- 3. Executive Report by Chief Executive Officer Glenn Pomeroy; assisted by CEA executive staff, Mr. Pomeroy's report will include an update for the Board on federal and state legislative activities of interest to the CEA.**

Mr. Pomeroy updated the Board on the CEA's efforts in Washington D.C. to secure passage of the Earthquake Insurance Affordability Act (the "EIAA").

- Mr. Pomeroy showed a list of Congressional EIAA co-sponsors. Senators Dianne Feinstein and Barbara Boxer are the co-sponsors of the Senate version of the bill, and a bipartisan

collection of co-sponsors are on the House version of the bill – a quarter of California’s House delegation.

- The CEA continues to succeed in getting the word out in California to local groups regarding the importance of the EIAA to businesses and consumers, and as well to our new preparedness collaborator, the American Red Cross. Mr. Pomeroy showed a list of new supporters.
- The effort is to send a clear and strong message that it is important to everyone who lives in California to make earthquake insurance more affordable.

4. Chief Financial Officer Tim Richison will present a financial report.

- As of the end of February 2012, the CEA’s cash and investments exceeded \$4.5 billion.
- At the beginning of April 2012, there was a reduction of the New Post-Earthquake Industry Assessment Layer, because of the legally required annual “roll-off” of that layer.
- As of February 2012, the CEA had a \$9.7 billion claim-paying capacity, or roughly a 1-in-527-year level of security.
- At April 2012, because of the New Industry Assessment Layer roll-off and the Program B reinsurance program characteristics, actual capacity was reduced to approximately 1-in-489-years.
- Staff has determined the CEA should contract its risk-transfer program into variably commencing contract terms, to allow renewals to come due at different points. Staff feels this will result in more efficient pricing and availability of capacity.
- At year-end 2011, the CEA’s total insured exposure was \$296 billion; at February 2012, the total exposure was \$298 billion.
- The total insured values of CEA policies, based on the cost of reconstruction, will continue to move higher as policy count increases. It is a factor the CEA staff monitors closely, to ensure that CEA’s claim-paying capacity is sufficient in case of a major earthquake; the adjustment of claim-paying capacity is achieved through the risk-transfer program.

5. Mr. Richison will present and seek Board approval of a proposed reinsurance contract for the CEA risk-transfer program for 2012; Mr. Richison will also seek Board approval for prospective, additional transformer reinsurance contracts in 2012.

- The transformer reinsurance transaction achieved three goals:
 1. The contract is multi-year and collateralized, both important features.
 2. A move to access markets other than traditional reinsurance (the capital markets). Since 1996, the catastrophe-bond market (a part of the capital markets) has continued to grow. And since the CEA entered it with the August 2011 transaction, it has grown quite rapidly.

3. The cat-bond market is growing; it's important to the CEA's risk-transfer program in diversifying the capital sources needed to support and pay policyholder claims.
- Staff seeks authorization to execute additional levels of the risk-transfer program under documented, stated conditions. Program additions would be based on the principles that we have always applied regarding our risk-transfer program. The transactions we have executed have been on prudent and sound principles of risk transfer at the authority levels, pricing levels, and capacity levels.
 - Conforming requirements are:
 1. The combination of transformer transactions may not exceed a total of \$300 million.
 2. The conforming transaction must be fully documented.
 3. CEA must consider all aspects of the cost and benefits associated with a particular transaction.
 4. To the reasonable judgment of CEA management and retained experts, it is less than or equal to the estimated cost of the CEA acquiring equivalent traditional reinsurance—the CEA should generally not do a transaction whose benefits do not outweigh the costs of traditional reinsurance.
 5. Staff must inform the Board of all the essentials of any executed, conforming transformer transactions at the earliest possible time and keep the Board informed.

Program C is a risk-transfer program that contains one reinsurance contract.

Mr. Marshall reviewed the resolution for the Board, including the authority to conduct transformer transactions in 2012 and the approval of risk-transfer Program C.

Mr. Shultz clarified with Mr. Richison (who affirmed) that the authority for staff to enter into transformer reinsurance contracts extends until January 1, 2013, but the concept is that those contracts would inception by 2013 and be multi-year contracts, typically three years.

Mr. Reyes added that the Board should be willing to give staff flexibility to conduct transactions as noted but not a "blank check."

The CEA has secured an additional \$100 million of traditional reinsurance contract, fully collateralized—the reinsurer, Poseidon Re, is a "special purpose reinsurance vehicle" in Bermuda that is backed by Nephila Capital.

- The proposed inception date is May 1, 2012, and the term is one year. The annual premium is \$4.5 million.
- This is part of a strategy to diversify the capital for the CEA risk-transfer program and spread the effective (and renewal) dates.

As approved by the CEA Governing Board at its meeting on Thursday, June 21, 2012

Staff recommended the following:

- That the Board authorize staff to enter into “transformer” transactions, as described, in an aggregate amount not to exceed \$300 million, to incept on or by January 1, 2013. Staff must present full and appropriate transaction information to the Board and comply with the terms of the resolution regarding approvals.
- That the Board approve reinsurance Program C with reinsurer Poseidon Re for \$100 million and that staff be authorized to bind the corresponding reinsurance commitment, with Mr. Pomeroy authorized to complete steps and execute documents, as appropriate, to complete the necessary reinsurance contracts and related documents.

MOTION: Mr. Boyken moved approval of the resolution; seconded by Mr. Shultz. Motion carried and approved unanimously by a roll call vote.

6. Chief Communications Officer Chris Nance will provide the Board with an update on the CEA’s Marketing Value Program (MVP).

- Mr. Nance thanked the Board for its support of the budget, approximately \$9.5 million for 2012 plus a roll-over from the previous year’s unexpended budget.
- The CEA has joined forces with American Red Cross to accomplish the following:
 - To share values-based preparedness messages.
 - To co-promote short-term survival (Red Cross) and long-term recovery (CEA) earthquake-preparedness actions.
 - To integrate local Red Cross programming with statewide CEA programming.
 - To bring to the Red Cross access to more than 20,000 insurance agents statewide who are eligible to sell CEA earthquake insurance.
- The CEA is working with the ABC and NBC television networks in 2012, compared to CBS and Fox in 2011.
- The CEA is working with more than 50 radio stations, statewide.
- The CEA is working with the insurance trade press. Mr. Nance displayed an example of a trade-press ad for the Board.
- *Insurance Journal* this week featured a story entitled “CEA and Red Cross Combine Forces.”
- The CEA is getting more focused with direct mail this year.
- This year also has more emphasis on renters, specifically through pilot programs in the Los Angeles, San Francisco, and San Diego areas.
- The CEA and the Red Cross are co-branding an auction, managed by Clear Channel Media and Entertainment, which secures the auction items and collects all the proceeds. Auction items include a car, expense-paid trips to see concerts, and sporting event tickets. A check will be presented to the American Red Cross by Clear Channel and CEA at the annual, sold-out Wango Tango concert in Los Angeles.

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- CEA and Red Cross created a landing page to help roll out the auction to the public and news media. This landing page will remain in use for other purposes after the auction concludes.
- CBS – a partner of CEA – contracted with a firm called Frank Magid Associates, whose business is evaluating the effectiveness of TV advertising. The firm found that the CEA’s core TV branding spot (“Blueprint”)k and the CEA’s three other TV spots all outperformed 85% of advertising tested in the Sacramento and Los Angeles markets.
- The firm also found that CEA ads appeal equally to men and women.
- The CEA advertises on TV just 8 weeks of the year and on radio for 15 weeks.
- Online marketing accounts for less than a third of the overall budget, but online advertising will be up for most of 2012. The online-marketing strategy seeks to serve CEA ads to the most likely purchasers of earthquake insurance.

Mr. Reyes commented on seeing and appreciating the linkage between advertising – with the claim of millions of impressions, brand recognition, and the like – with attracting actual policyholders. Mr. Nance responded that as a result of new policy forms being put into place in 2012, CEA staff will have access to more consistent data from all participating insurers. At the end of 2012, it will be determined whether the marketing/advertising objectives have been met by comparing the number of policies in force this year compared to last year.

7. Chief Mitigation Officer Janiele Maffei will provide the Board with an update on the CEA’s mitigation programming, including CEA’s participation in the California Residential Mitigation Program (CRMP).

Ms. Maffei told the Board that she is the executive director of a joint powers authority (“JPA”), and the JPA board (composed of CEA and CalEMA officials) had authorized her in seeking a program administrator to commence contract negotiations with a team of proposers identified in the relevant selection process. Those negotiations are continuing.

Under the broad goal of reducing risk of earthquake loss in California homes under the auspices of the CEA’s Mitigation Program, Ms. Maffei intends to bring to the June 2012 Board meeting strategies for achieving this goal.

8. Chief Actuary Shawna Ackerman will seek Governing Board approval of a licensing agreement with EQECAT, Inc., for in-house use by CEA of EQECAT’s earthquake-loss-modeling software.

Ms. Ackerman began with a brief background on the CEA’s use of earthquake-loss-modeling software, which includes separate contracts with three commercially available earthquake-modeling firms.

She requested a modification to the arrangement with one of the modelers, EQECAT. For over 15 years, the CEA has worked with EQECAT to develop modeling practices and techniques for the CEA, which have been validated by reliable outside parties—the EQECAT model has accepted several times before the California Insurance Commissioner as part of the CEA’s rate- and product-development analyses.

The EQECAT model is available for in-house licensing. The benefits of bringing the modeling in-house spans the entire organization, including analysis of reinsurance and risk-financing-structure changes, more frequent portfolio analyses (which will be needed with successful

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marketing programs and more policy growth), a better understanding of mitigation on the expected losses to a dwelling, and innovative product choices.

The cost of licensing the earthquake-loss-modeling software is comparable to the past fees paid to EQECAT. But by licensing the product in-house, the CEA can do more alternative analyses at *no additional per-alternative cost*. Additionally, it puts the CEA on a better-practices basis as compared to other insurers with significant catastrophe risk.

In response to a question from Mr. Boyken, Ms. Ackerman explained that EQECAT is the one of the three modelers with which CEA feels confident in going before the Insurance Commissioner for approval of rate-filing matters.

Mr. Boyken commented that the Treasurer's Office, in general, prefers competitive bidding. Ms. Ackerman stated that a future possibility would be to consider bringing additional modelers' products in-house, and to try any new models that might be developed.

MOTION: Mr. Shultz moved approval of the licensing agreement with EQECAT; seconded by Mr. Boyken. Motion carried unanimously.

- 9. 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.**

The Board entered closed session at 1:54 p.m. and resumed its proceedings in open session at 2:13 p.m.

Mr. Reyes reported that the Board wished to extend Mr. Pomeroy's current (expiring) contract term through the end of the calendar year 2012, to provide the Board with adequate time to work with him on renewal terms.

- 10. 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.

- 11. Adjournment.**

The meeting was adjourned at 2:13 p.m.