

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Thursday, June 21, 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

Members of the CEA staff in attendance:

Glenn Pomeroy, Chief Executive Officer
Bob Stewart, Chief Operations Officer
Chris Nance, Chief Communications Officer
Shawna Ackerman, Chief Actuary
Janiele Maffei, Chief Mitigation Officer
Mark Dawson, Assistant Chief Financial Officer
Mitch Ziemer, Insurance Director
Susan Pitton, Governing Board and Advisory Panel Liaison
Danny Marshall, General Counsel

Also present:

Harold Brooks, CEO, Bay Area Chapter of the American Red Cross

- 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 April 26, 2012, Governing Board meeting.**

MOTION: Mr. Boyken moved approval of the April 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 will introduce Harold Brooks, CEO of the Bay Area Chapter of the American Red Cross.

- Mr. Pomeroy said that *Trading Risk*, a leading publication in the financial-risk-trading arena, had nominated the CEA for two important awards, in potential recognition of the CEA's recent transformer (catastrophe-bond) initiatives. Because of the significance of the nominations, Chief Financial Officer Tim Richison had gone to London to attend the award ceremony. Mr. Pomeroy said that these nominations were the result of Mr. Richison's determination and acumen in fashioning the concept and, with other staff, move it to fruition.

Mr. Pomeroy went on, that the nominations demonstrate that the CEA is moving in the right direction in outreach to the capital markets, using innovative and effective methods endorsed by the Board. Mr. Pomeroy congratulated Mr. Richison and the CEA staff.

- Mr. Pomeroy noted that on July 1, 2012, the CEA's Homeowner's Choice product will "go live." The new product is the culmination of much work by Chief Operating Officer Bob Stewart, with the collaboration of CEA staff and the CEA's participating insurers.

Homeowner's Choice will allow consumers to tailor their earthquake coverage based on their financial needs, the amount they wish to spend, and those possessions they wish to protect. It allows for separate deductibles to be applied to structure and contents losses.

- Mr. Pomeroy updated the Board on the efforts in Washington D.C. to secure passage of the Earthquake Insurance Affordability Act and reviewed the list of sponsors.
- Mr. Pomeroy announced the retirements of his administrative assistant, Jeanne Rushing, and Mr. Richison's administrative assistant, Judy Schimmelman. On behalf of the Governing Board, Mr. Reyes expressed his gratitude for their service.
- Mr. Pomeroy recapped the developing collaboration of the CEA with the American Red Cross (sometimes, "ARC"). It began with the two organizations' working together on the CEA's federal legislation, and has evolved to many additional aspects. In April the CEA worked with media partner Clear Channel to conduct an auction in support of the American Red Cross, raising \$180,000 for that organization. For the ShakeOut in October 2012, the CEA will work with the American Red Cross on event messages.

Harold Brooks, CEO, Bay Area Chapter of the American Red Cross, spoke to the Board about the accomplishments of the CEA/ARC collaboration:

- 2.7 million mailers were sent to residents regarding regional preparedness events.
- 20,000 disaster kits were distributed.
- \$180,000 was raised through the Clear Channel auction.

- The upcoming October Shakeout will publicize the importance of insurance, the federal legislation, and earthquake preparedness.

4. Chief Communications Officer Chris Nance will present, and seek Board approval of, the 2013 CEA marketing budget.

- Mr. Nance announced that the Totally Unprepared program, for which the CEA was one-of-three funders, had won two Communicator Awards, recognizing “Big Ideas in Marketing and Communications.” One award was for the “Will It Shake” series; the other was an Award of Distinction for the integrated campaign.
- Mr. Nance gave a background of the 4-year project.
 1. The first two years the CEA worked on a number of different research projects and experimented with co-branding its programming with promotion of the Great California ShakeOut.
 2. In 2011, CEA focused on implementing its first annualized marketing program, through which it sought to enhance relationships with participating insurers and to communicate directly for the first time in several years with policyholders.
 3. In 2012, the CEA is co-branding many activities with the American Red Cross; increasing media-partnership values; and validating advertising effectiveness through performance-research results.
- Marketing decisions are focused on four basic questions, which Mr. Nance called “the four Ps.”
 1. Product: What is the product?
 2. Price: For how much will it be sold?
 3. Promotion: How will it be promoted or advertised?
 4. Place: How will it be distributed?
- Regarding “place,” CEA is finding its way through multiple challenges, including that just one-third of new policies sold are associated with an insurance agent’s recommendation.
- Mr. Nance’s marketing budget recommendation consisted of two key points.
 1. Increasing all policies in force for 2013 compared to a 2012 goal of increasing only dwelling policies. That means that the marketing budget will actually *shrink* slightly, by about 7.85%—the budget is based on average premium of earned business, and average premium for all policies is lower than the average premium for homeowners alone.
 2. Plans for spending the budgeted funds are based on an insurance-industry-standards-supported formula for acquisition and retention. The formula projects an overall

one-year budget of about \$7.1 million, which breaks down to \$5 million for paid media and about \$2 million for direct mail to non-policyholders and policyholders.

MOTION: Mr. Boyken moved approval of the staff recommendation for a 2013 Marketing Value Program budget of up to \$7,108,203 to support the CEA's third year of strategic marketing programming; seconded by Mr. Shultz. Motion carried unanimously.

5. Assistant Chief Financial Officer Mark Dawson will present a CEA financial report.

- Mr. Dawson stated that at the end of March 2012, capital on hand to pay policyholder claims was over \$4 billion.
- Policies for the first quarter of 2012 have increased by about 2,000. Net assets have been steadily increasing for the same quarter, up about \$70 million.
- As of March 31, 2012, the CEA's budgeted-to-actual expenditures are about 25% spent, with 75% remaining.
- The "New Industry Assessment Layer" of claim-paying capacity has dropped by about \$300 million, in accordance with the law and relevant contracts. Mr. Richison has been seeking additional reinsurance to allow CEA to maintain needed capacity.

6. CEA Advisory Panel Vice-Chair Mark Simmonds will provide a summary of the proceedings at the May 17, 2012 Panel meeting.

Mr. Pomeroy reported on behalf of the Advisory Panel on its meeting of May 17, 2012. The Panel reviewed the CEA financial structure, the catastrophe-bond transformer initiatives, and CEA mitigation efforts.

7. Chief Mitigation Officer Janiele Maffei will present and seek Board approval for strategies and a 2012 budget for the CEA mitigation program, including approval of a proposed project to develop guidelines for seismic retrofits of certain existing, woodframe residential structures.

- Ms. Maffei provided background on the goal of reducing earthquake damage to single-family dwellings. The 1994 Northridge caused billions in residential damage, but potential damage from earthquakes resulting from a Hayward-Fault event could be \$45–90 billion, while potential damage from a Los Angeles-area earthquake of magnitude 7.8 could cause \$60–70 billion in damage.
- Houses are not particularly stronger, post-Northridge, partly because there are no mandatory codes for homeowners who wish to retrofit their houses.
- The objectives of the CEA mitigation program are characterization of earthquake hazard and vulnerability, implementation of plans to reduce that vulnerability, and development of incentive programs.

- A significant impediment to the realization of each objective is the California Building Code. It is written for new construction rather than existing structures.
- In collaboration with FEMA, the CEA proposes to develop comprehensive guidelines for the seismic rehabilitation of existing residential structures. CEA proposes to assist in assembling engineers, contractors, and building officials to come up with a scope, outline, and schedule for developing comprehensive guidelines that will assist in the retrofit of certain residential dwellings.
- The result would be a schedule and an outline for guideline development, which will take several years. The outline could be used by organizations such as the CEA, agencies, and people who have funding available, particularly to low-income families who would like to retrofit their homes.
- The research would entail evaluation (i.e., calculations), modeling structures, and engineering, combined with testing and shake-tables. This research is important, in that it would aim to help calculate a mitigation-related earthquake-insurance premium discount greater than the 5% the CEA currently offers for retrofitted homes.
- The research includes a symposium to be held in fall 2012 that would look at best practices, seeking ideas for research (even that we haven't yet thought of), and would serve to inform our mitigation-discount endeavors.
- The first guideline that the CEA proposes to roll out is the California Residential Mitigation Program ("CRMP"). Members are Janiele Maffei, Executive Director; Tim Richison, Treasurer-Auditor; Danny Marshall, Secretary; and Marianne Knoy, Program Administrator.
- Development of incentive programs is another important part of mitigation. The CEA will provide financial incentives with the potential for mitigation discounts, but incentives include other things such as education and empowerment.

MOTION: Mr. Shultz moved approval of the 2012 CEA Mitigation Budget, to accept and approve in principle the long-term project with FEMA, to establish statewide retrofit standards; research for the development of a mitigation discount; and to sponsor a research symposium in Fall 2012; seconded by Mr. Boyken. Motion carried unanimously.

8. Insurance Director Mitch Ziemer will seek Board approval of newly revised Eligibility Standards for CEA earthquake insurance policies.

Mr. Ziemer highlighted the proposed changes and recommendations to the eligibility standards for CEA earthquake-insurance policies.

MOTION: Mr. Boyken moved approval of the updated eligibility standards; seconded by Mr. Shultz. Motion carried unanimously.

9. Mr. Ziemer will brief the Board on the development of revised participating insurer Inspection Guidelines for CEA dwelling-earthquake-policy submissions.

Mr. Ziemer explained that the CEA was trying to modernize and bring its Inspection Guidelines to industry standards.

10. Mr. Pomeroy will request Board approval to extend the term of and modify Mr. Stewart's CEA employment contract.

Mr. Pomeroy told the board that, based on Chief Operating Officer Bob Stewart's consistent, distinguished performance in the COO position, numerous innovative achievements and successes, and "exemplary service," Mr. Pomeroy would exercise his Board-delegated power to set the salary of the COO (within the terms of the approved employment contract) by awarding Mr. Stewart a five percent merit salary increase—that increase would bring Mr. Stewart's annual salary to \$185,479.48.

Mr. Pomeroy also recommended that the Board approve an extension of Mr. Stewart's contract term of five years, from July 1, 2012, through June 30, 2017 (the draft employment contract presented to the Board contained both the term extension and the merit salary increase).

MOTION: Mr. Boyken moved approval of the Bob Stewart draft employment contract. Stewart; seconded by Mr. Shultz. Motion carried unanimously.

Mr. Stewart then addressed the Board to express thanks to his CEA colleagues: "what a pleasure it is to come to work every single day to a place that you're surrounded by good people, doing good things for a good purpose."

11. 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.

12. 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.

13. Adjournment.

The meeting was adjourned at 2:07 p.m.