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California Earthquake Authority strengthens CAT Bond Program with completion of second reinsurance deal

SACRAMENTO, Calif. – The California Earthquake Authority (CEA) today successfully completed its second transaction as part of its ongoing program focused on obtaining reinsurance funded from the capital markets through an earthquake catastrophe bond issued by a reinsurer. This \$150 million, three-year deal completes another step for CEA toward establishing standardized earthquake CAT bonds as a significant ongoing source of risk transfer.

“Successful completion of this second transaction demonstrates CEA’s ongoing commitment to diversify and expand its claim-paying resources,” said Glenn Pomeroy, CEA’s chief executive officer. “A diverse set of risk-transfer tools, combining traditional reinsurance and catastrophe bonds with post-earthquake federal loan guarantees, will help us make earthquake insurance more affordable.”

Upon completion of this second transaction, some 10 percent of CEA’s total \$3 billion risk transfer program is now funded from the capital markets.

Last August, CEA completed its first \$150 million earthquake reinsurance transaction that was fully funded by a CAT bond issued without the involvement of a traditional reinsurer. In that deal, as in the present deal, CEA was not involved in issuing the bonds. Instead, it contracted for reinsurance from Embarcadero Reinsurance, Ltd., a Bermuda-based special purpose reinsurance vehicle established for these CEA transactions. Embarcadero Re then issued the bonds, transferring risk to investors in the form of interest-bearing bonds.

“Using the same basic structure in these repeatable transactions makes it easier for investors to understand the deal and be comfortable with its terms, which also helps to expand the investor base and solidify market capacity for follow-on deals,” said Tim Richison, CEA’s chief financial officer. “As we said last August, we intend to be back in the marketplace as often as investor interest will support.”

Under the new transformer reinsurance deal, led by Deutsche Bank Securities, Embarcadero sold \$150 million in three-year catastrophe bonds to investors, at a rate of 7.25 percent above one-year U.S. Treasury money-market funds.

In addition to strengthening its claim-paying capacity by tapping capital markets, CEA continues to support ongoing bipartisan efforts in the U.S. Congress to authorize a federal guarantee of CEA’s post-earthquake, private-market borrowing. This guarantee would help entities like CEA enhance its financial diversity, through a more efficient use of capital, to help speed recovery from catastrophic earthquakes.

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And the federal guarantee would save California consumers about \$100 million in premium costs every year, making it possible for many more Californians to insure their homes against damaging earthquakes, while also reducing post-earthquake recovery costs now borne by federal and state taxpayers.

The California Earthquake Authority is a publicly managed, privately funded organization that provides catastrophic residential earthquake insurance and encourages Californians to reduce their risks of earthquake loss. Today, the CEA is the largest monoline writer of residential earthquake insurance in the United States, with about 820,000 policies in force, some \$600 million in annual premium revenue and more than \$9 billion in claim-paying capacity. The CEA currently writes about 70 percent of the residential earthquake insurance policies sold in California.

For more information, see www.EarthquakeAuthority.com.

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