Concept: Establishing a Sustainable Revenue Stream to Support Resiliency

June 29, 2018
California is Earthquake Country

California is home to two-thirds of the nation’s earthquake risk
California is the only state that requires homeowner insurance companies to offer earthquake insurance.
1994: Northridge Earthquake

January 17, 1994
M6.7

Total Property Damage ➔ $40 Billion
Residential ➔ $20 Billion
Insured Residential ➔ $10 Billion

**Aftermath:** most insurance companies stopped writing Homeowners insurance
Established 1996
CEA: Publicly Managed and Privately Financed

GOVERNING BOARD: Governor
Insurance Commissioner
State Treasurer

Non Voting: Assembly Speaker and Senate Rules Chair

PRIVATELY FINANCED: 1,046,000 Policyholders

MISSION: Educate
Mitigate
Insure

A not-for-profit provider of residential earthquake insurance
CEA Policies in Force

2006–2015 average annual increase: 6,700

2016: 52,000

2017: 90,000

2018: 25,000

Jan-May
However: 90% of California households remain uninsured for earthquake damage.

14 million California households
CEA Claim Paying Capacity: 1 in 400 Years

Rating agencies require CEA to plan for a 1 in 400 year earthquake

**2018**

- **IAL** $1.7B
- **Bond Proceeds** $700M
- **Reinsurance** $9.2B
- **Capital** $5.7B
- Total: **$17.3B**

*2018 Value

**Historical Earthquakes:***

- **1989 Loma Prieta** $1B*
- **1994 Northridge** $6B*
- **1906 San Francisco** $9B*
CEA Claim Paying Capacity: 1 in 400 Years

This requires CEA to purchase a tremendous amount of "reinsurance"

Since CEA’s Inception in 1996:

- CEA policyholder premium: $10.9B
- CEA reinsurance premium: $4.3B
- Reinsurance claims paid to CEA: $250,000

2018 Projected Reinsurance Expenses: $395M
If current trend continues, CEA claim paying capacity will need to more than double over the next ten years.

Assumes growth of 70,000 policies per year
To sustain current growth rate, the cost of CEA earthquake insurance will more than double over next ten years.
Most insurance companies that offer earthquake policies plan for a 1 in 250 year earthquake – an event so large there is only a 0.4% probability of it occurring.

Because these companies are “multi-line”, if an extremely unlikely earthquake were to occur that is larger than planned for, they have other backstop resources from which to draw – such as:

• Surplus
• Owner’s Equity
• Capital Markets
• Other affiliated companies
If CEA planned for a 1 in 250 year level – it would look like this:

- **1 in 250**
  - IAL $1.7B
  - Bond Proceeds $700M
  - Reinsurance $5.2B
  - Capital $5.7B
  - Total $13.3B

- **2018**
  - IAL $1.7B
  - Bond Proceeds $700M
  - Reinsurance $9.2B
  - Capital $5.7B
  - Total $17.3B

*2018 Value
Extra Reinsurance Capacity will Cost CEA $120M this Year

2018

1 in 400

Planning to a 1 in 400 level requires an additional $4 billion of reinsurance capacity – at a cost to CEA policyholders of $120 million this year alone.
Concept: A Stand-by Financial Backstop for CEA

If... CEA losses exceed a 1 in 250 year event, an assessment would be triggered on all Property & Casualty** insurance policies in California.

Maximum Assessment: 1% or 2%

Probability of Full Assessment: ¼ of 1%

** Excludes Work Comp (P&C does not include Life and Health)
### Affordable Earthquake Insurance and a National Disaster Resiliency Fund

**Every year...** CEA’s reinsurance expenses would be reduced by $100-$200M per year.

A portion of the savings would be used to keep CEA rates affordable and increase capital to pay claims.

The other portion of the savings would fund the **Natural Disaster Resiliency Fund.**

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>P&amp;C Stand-by Assessment</td>
<td>$4B</td>
</tr>
<tr>
<td>IAL</td>
<td>$1.7B</td>
</tr>
<tr>
<td>CEA Surcharge</td>
<td>$1B</td>
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<tr>
<td>Bond Proceeds</td>
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<tr>
<td>Reinsurance</td>
<td>$4.9B</td>
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<tr>
<td>Capital</td>
<td>$5.7B</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$17.3B</strong></td>
</tr>
</tbody>
</table>
The Great ShakeOut Scenario: M7.8

M7.8 Scenario Earthquake
Time = 148.6 s

Would not trigger Stand-By Assessment
California Natural Disaster Resiliency Fund

Ensuring that all Californians will withstand and thrive following natural disasters and adapt to current and future challenges, such as climate change.
Resiliency Fund: Focus on Natural Hazards throughout California
Resiliency Fund: Include Drought, Urban Heat, and Sea-Level Rise
For Example: EarthquakeBraceBolt.com

Earthquake Brace + Bolt
EBB surpasses 5,000 completed retrofits and the program is still growing!
Registration for EBB is currently closed. "Sign Up" for EBB updates to learn when the program will reopen.

5,000+ Homes Retrofitted since launch in 2014
Potential Resiliency Fund Investments

Earthquake
- Retrofit seismically vulnerable housing
- Evaluations and inventories of seismically vulnerable community buildings
- Above ground auxiliary water supply systems to fight post-earthquake fires

Wildfire
- Rooftop sprinkler systems
- Defensible space zones

Flood
- Elevate flood-prone structures
- Dry floodproof structures
- Heighten or strengthen levees and other community flood protection systems
“It’s time for **courage**, it’s time for **creativity** and it’s time for **boldness** to tackle climate change... The risk is real, the cost is huge and growing, and therefore taking a sequence of **realistic steps** just makes sense, and that’s what we’re going to do in **California**.”

- California Governor Edmund G. Brown Jr.
How can we help you?