California

• 99% chance of a major earthquake (M6.7) within the next 30 years.

• Majority of Californians live within 20 miles of a major fault.

• 90% of California homes are not protected by earthquake insurance.
1994 Northridge Earthquake

- Magnitude 6.7
- Losses totaled more than $40 billion
- Residential damages totaled about $14 billion
- Losses exceeded premiums collected previous 50 years
Historical Earthquake Premium Growth and Losses

Residential Loss: $14 Billion

$ Billions


- Losses in Billions
- Premiums in Billions
CEA: A Public Private Partnership

[Logos of various insurance companies]
CEA Governance

CEA Governing Board

- Senate Rules Chair
- Insurance Commissioner
- Governor
- Treasurer
- Assembly Speaker

Voting members
Non-voting members
CEA Today...

• Largest provider of earthquake insurance in the United States

• More than 816,314 policies in force

• Writes 70% of all California residential earthquake insurance policies
CEA Claims paying capacity

Current Financial Structure

- Participating Insurer Assessments: $2.8B
- Revenue Bonds: $0.3B
- Reinsurance: $3.1B
- CEA Capital: $3.6B

Claims Paying Capacity Total: $9.8B
1-in-545 year event
Problem

Only 12% of residents with homeowners insurance have earthquake coverage.
Barriers to purchasing EQ insurance

- High-priced premium
- High-percentage deductible
CEA is unable to grow because of heavy reliance on reinsurance.

**Rating Agencies:**
- Require 1-in-500 year level of capacity

**Reinsurance:**
- Costs CEA about $200 million per year
  - 2/3 of CEA’s overall expenses
  - 1/3 of claim-paying capacity
  - 40% of policyholder premium

**Costs borne by consumers:**
- Expensive premium — especially in high-risk areas
- High deductible (15%)
Problem: more than 40% of CEA policyholder premiums spent on reinsurance each year

1997–2009:
Total premiums paid by CEA policyholders: $6,000,000,000
Total reinsurance premium paid by CEA: $2,500,000,000
Total reinsurance claims paid to CEA: $250,000

*Major Expense Categories
- Agent Commissions
- Debt Financing
- Participating Insurer Fees
- CEA Operations
COGA: A limited – but very efficient – additional risk-transfer tool

- COGA will allow CEA to reduce expenses by at least $150 million per year.
- COGA will increase CEA financial strength, enable growth, and afford capacity to pay claims from large earthquakes.
Goal: reduce dependence on reinsurance

Catastrophe Obligation Guarantee Act (COGA):

• Commits federal guarantee for post-event borrowing in the private-debt market

• Reduces CEA dependence on reinsurance

• Enables CEA to reduce policyholder costs and deductibles

• Allows CEA to grow

• Retains CEA’s financial strength

• Reduces costs of recovery for federal government
COGA: greater consumer value

COGA savings will be passed directly on to CEA policyholders.

• 30% premium reduction
• 50% deductible reduction
• Flexible coverage options

More Californians will buy earthquake insurance.
S.886: Catastrophe Obligation Guarantee Act

Florida: Bill Nelson
California: Dianne Feinstein and Barbara Boxer
Louisiana: Mary Landrieu


California: Loretta Sanchez, Howard Berman, John Campbell, Lois Capps, Judy Chu, Jim Costa, Susan Davis, Sam Farr, Bob Filner, John Garamendi, Michael Honda, Barbara Lee, Zoe Lofgren, Doris Matsui, Jerry McNerney, Grace Napolitano, Laura Richardson, Lucille Roybal-Allard, Linda Sanchez, Adam Schiff, Brad Sherman, Jackie Speier, Fortney Stark, Mike Thompson, and Lynn Woolsey
Louisiana: Charlie Melancon


Ron Klein (FL) and others
- National Catastrophe Risk Consortium
- COGA (Title II)
- Mitigation
With COGA, the CEA could still pay all claims for any of the events below—without the need to borrow.

- **Hayward Fault scenario**
  - Modeled 7.2 magnitude
  - Projected CEA loss: $3.9B

- **Repeat of “Great San Francisco Earthquake”**
  - 1906: 7.8 magnitude
  - Projected CEA loss: $5-$6B

- **Repeat of Loma Prieta “World Series Earthquake”**
  - 1989: 6.9 magnitude
  - Projected CEA loss: $.5B

- **Repeat of Northridge earthquake**
  - 1994: 6.7 magnitude
  - Projected CEA loss: $3.2B

- **California ShakeOut scenario**
  - 2008: Simulated 7.8 magnitude
  - Projected CEA loss: $7B

**Probability of need to borrow is less than 1%.**
CEA Moving Forward

Policy Improvement
• Rate Reduction
• Coverage Enhancement

Research
• Market/Consumers
• New Policyholders
• Message
• Social Media
• UCERF 3/NGA-West 2
• Mitigation Discount

Mitigation
• $23M Mitigation Fund
• State Wide Building Code
• Retrofit Incentive Program

Financial
• COGA
• Capital Market Alternatives
• Sustainability

Great California Shakeout
• 10:21 on 10/21