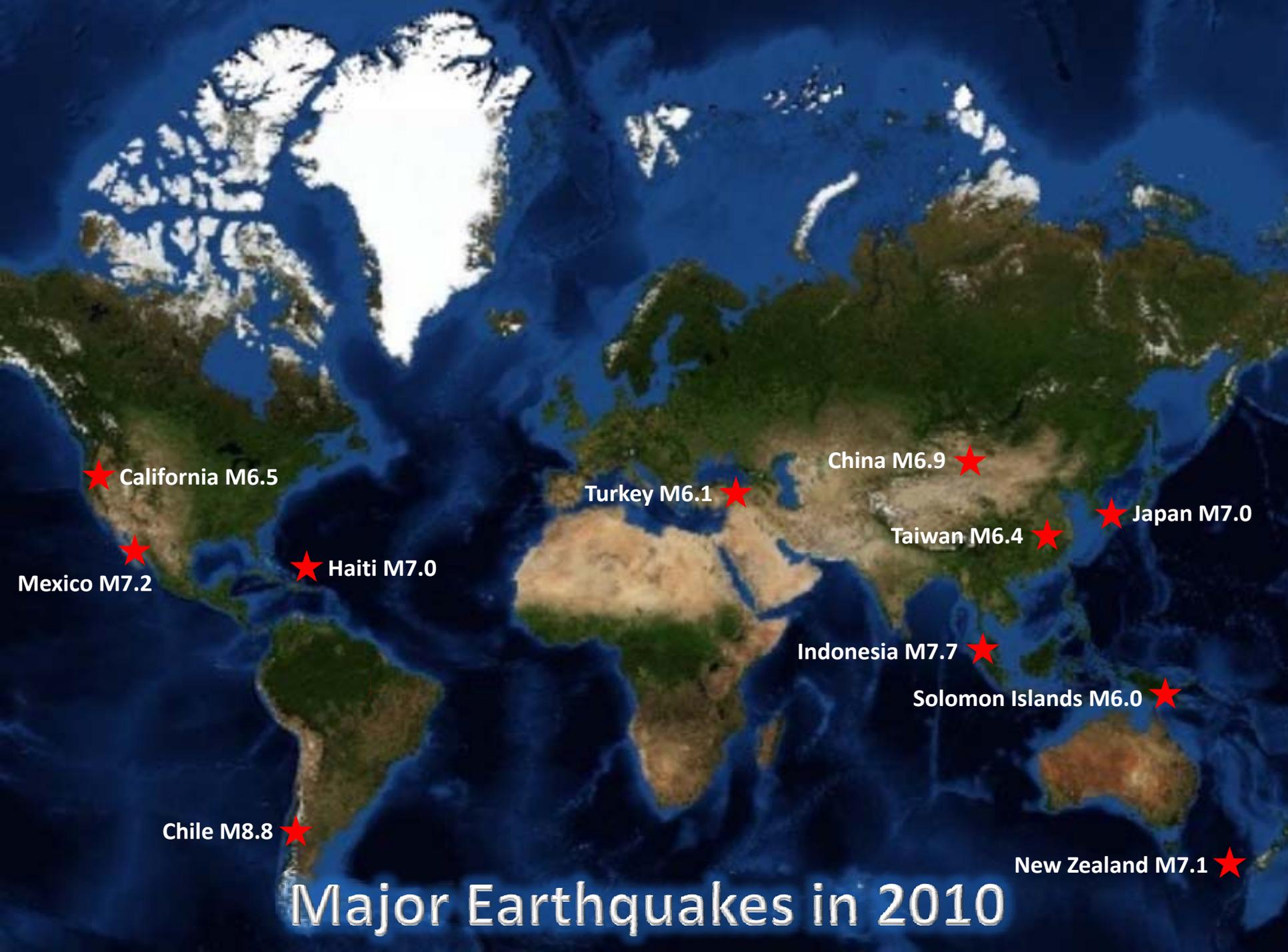




California Earthquake Authority

September 2010

Glenn Pomeroy
Chief Executive Officer



★ California M6.5

★ Mexico M7.2

★ Haiti M7.0

★ Chile M8.8

★ Turkey M6.1

★ China M6.9

★ Taiwan M6.4

★ Japan M7.0

★ Indonesia M7.7

★ Solomon Islands M6.0

★ New Zealand M7.1

Major Earthquakes in 2010

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.

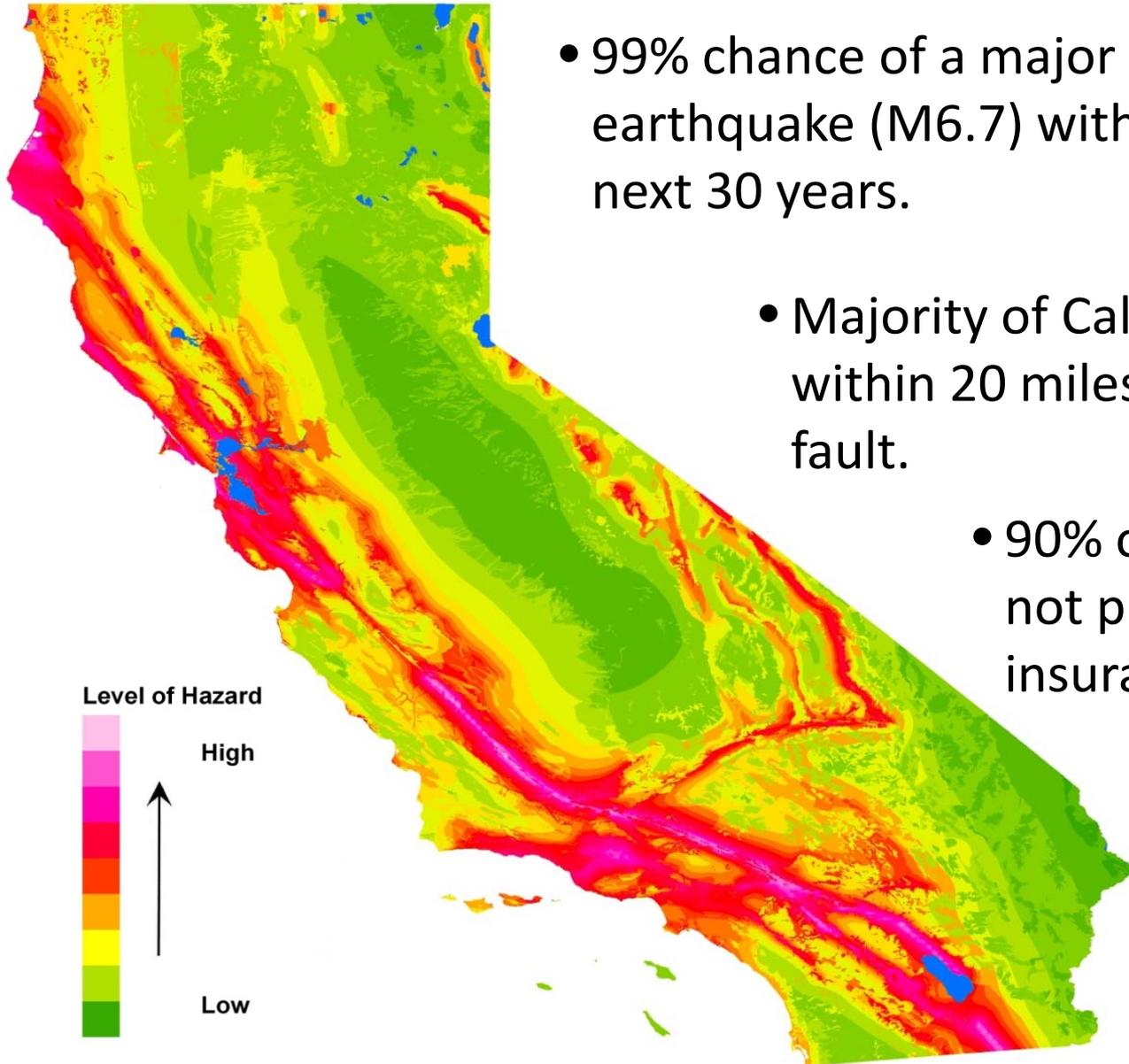
- 90% of California homes are not protected by earthquake insurance.

Level of Hazard

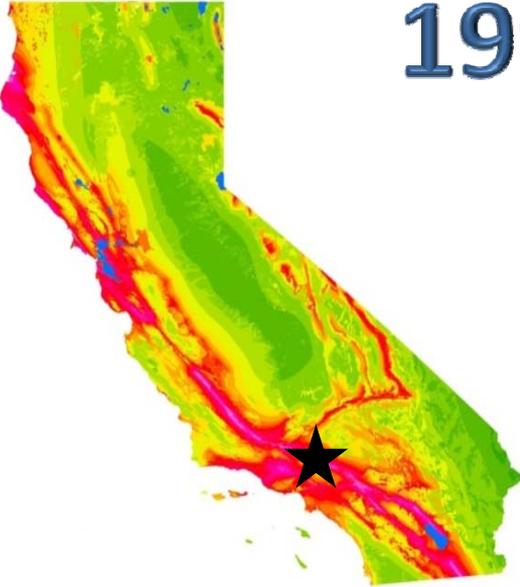


High

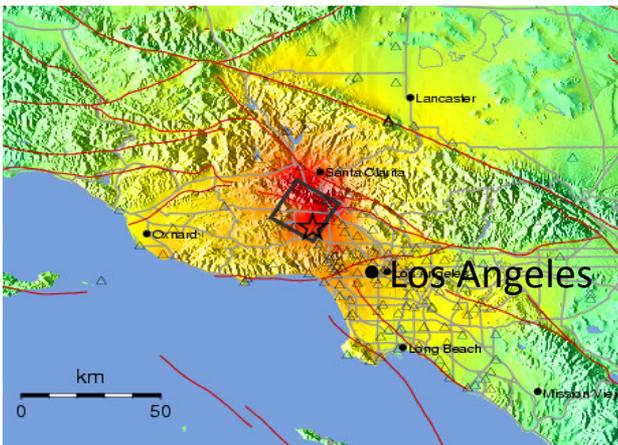
Low



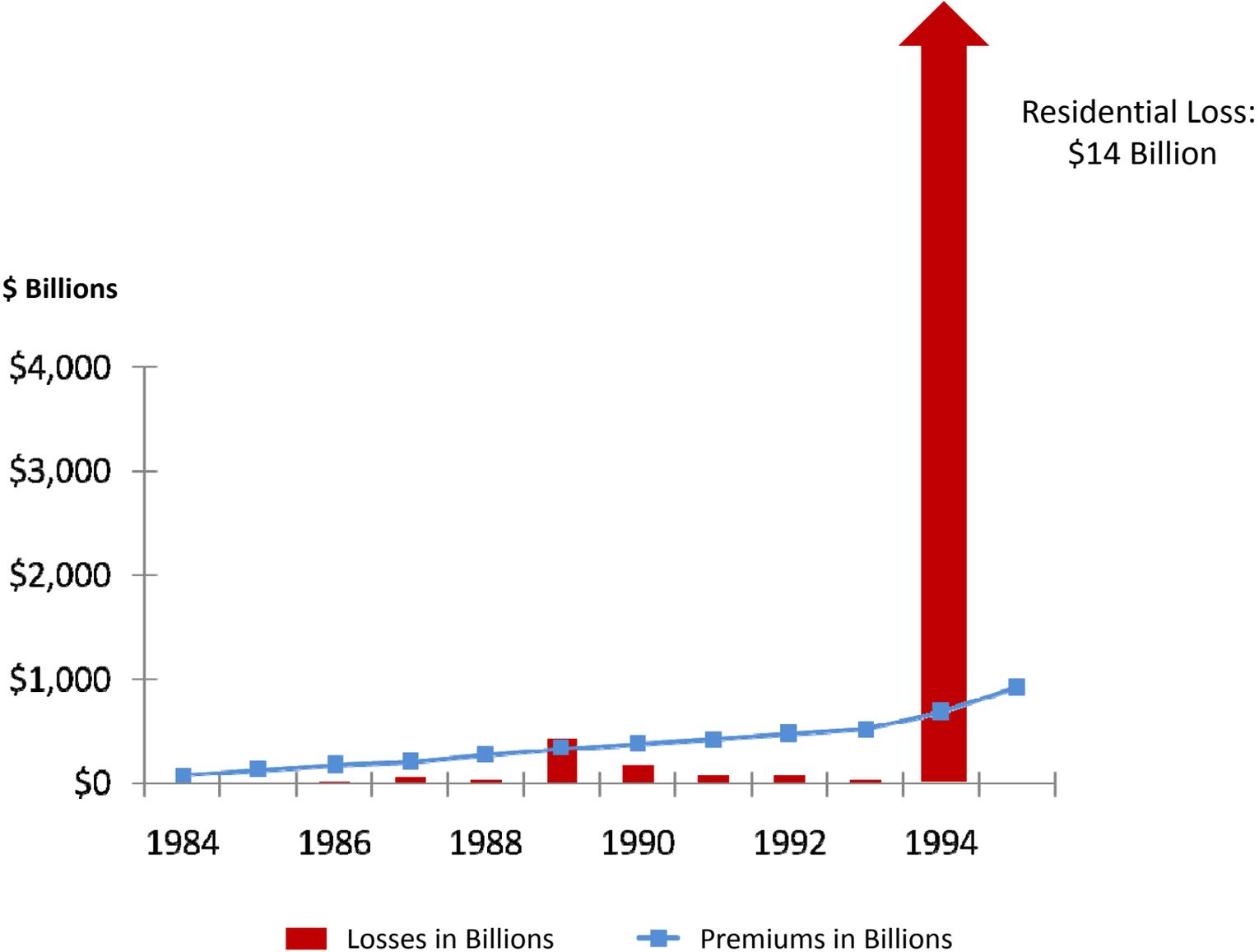
1994 Northridge Earthquake



- 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



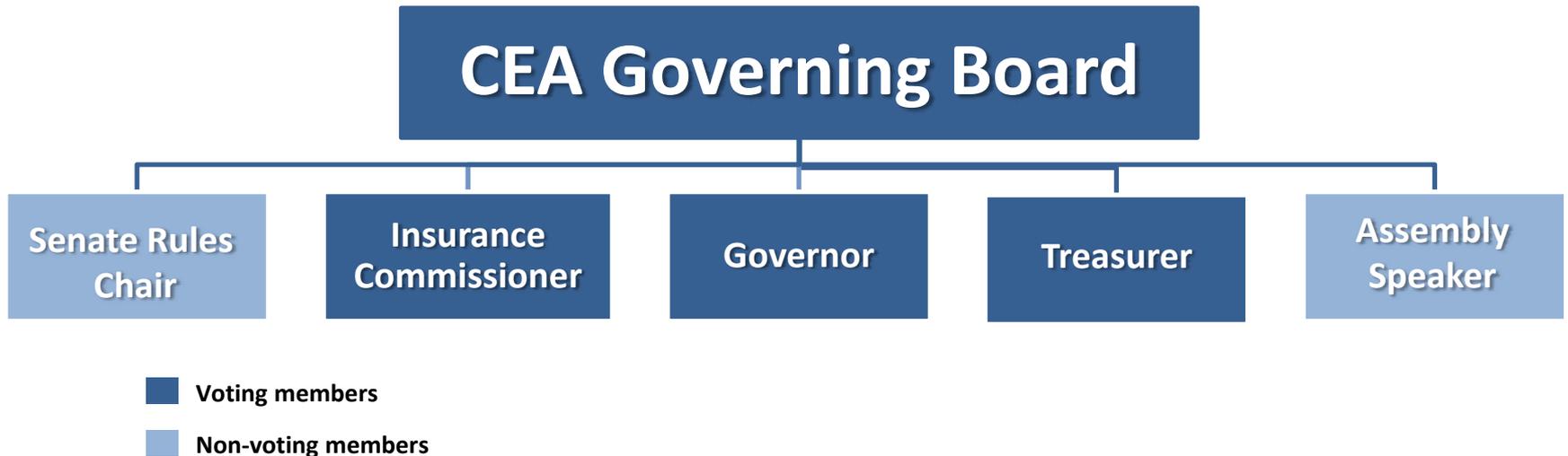
CEA: A Public Private Partnership



FARMERS



CEA Governance

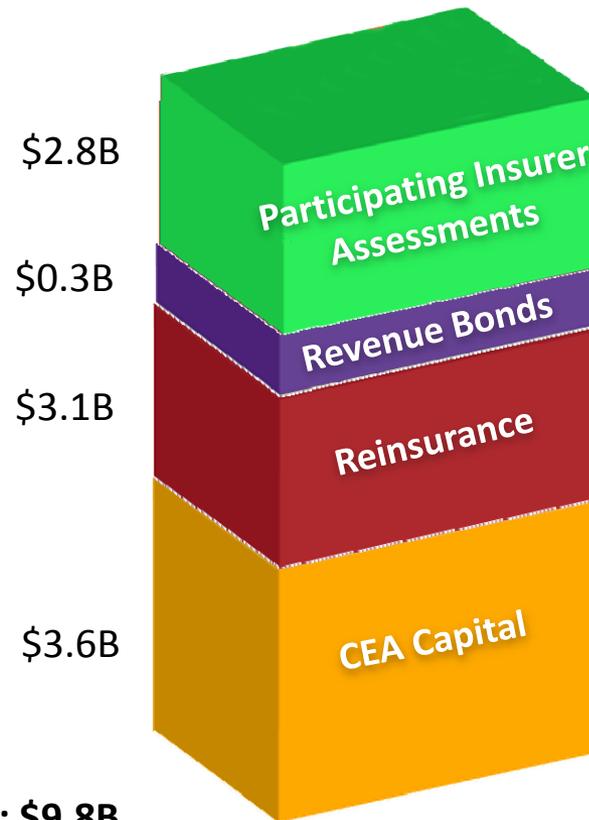


CEA Today...

- 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



Claims Paying Capacity Total: \$9.8B

1-in-545 year event

Problem



Uninsured



Insured

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

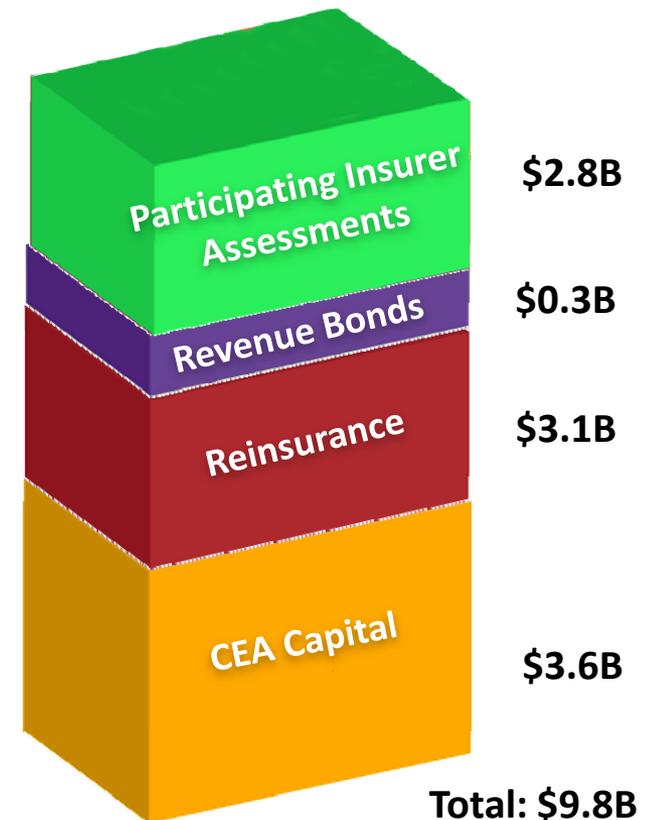
Reinsurance:

- 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%)

2010 CEA Financial Structure



Claim-Paying Capacity:
1-in-545 Years

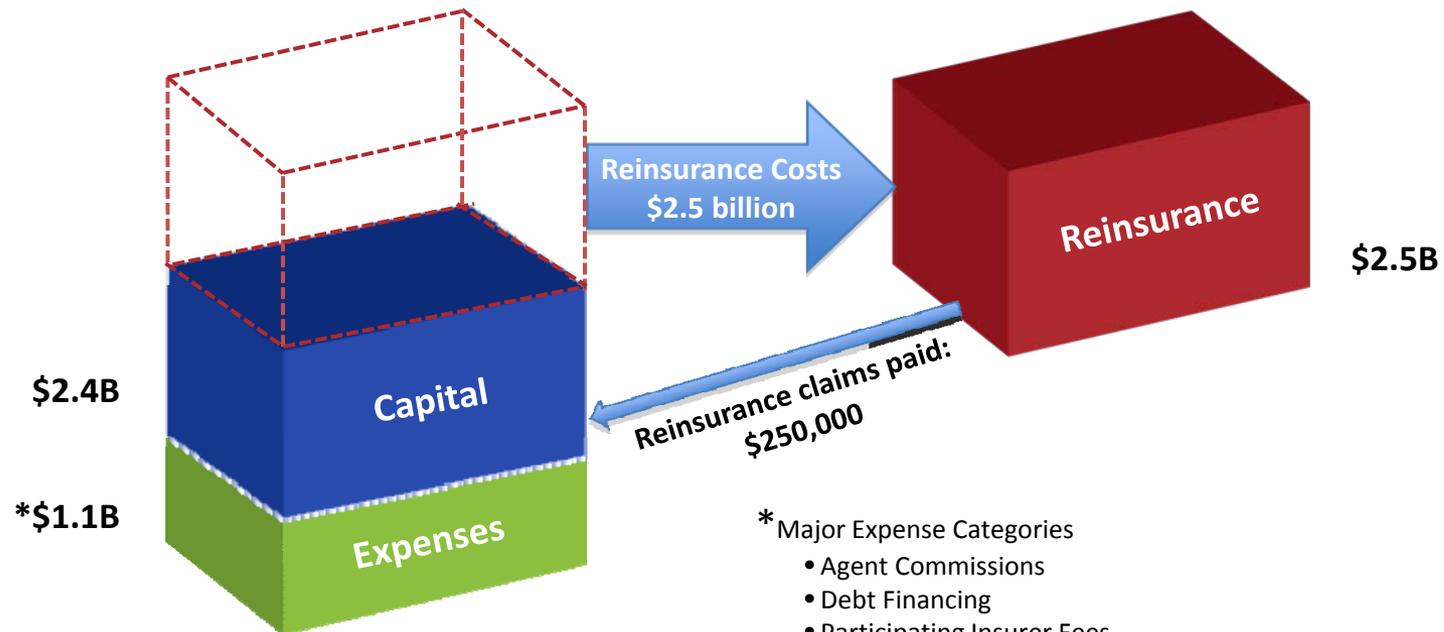
Problem: more than 40% of CEA policyholder premiums spent on reinsurance each year

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

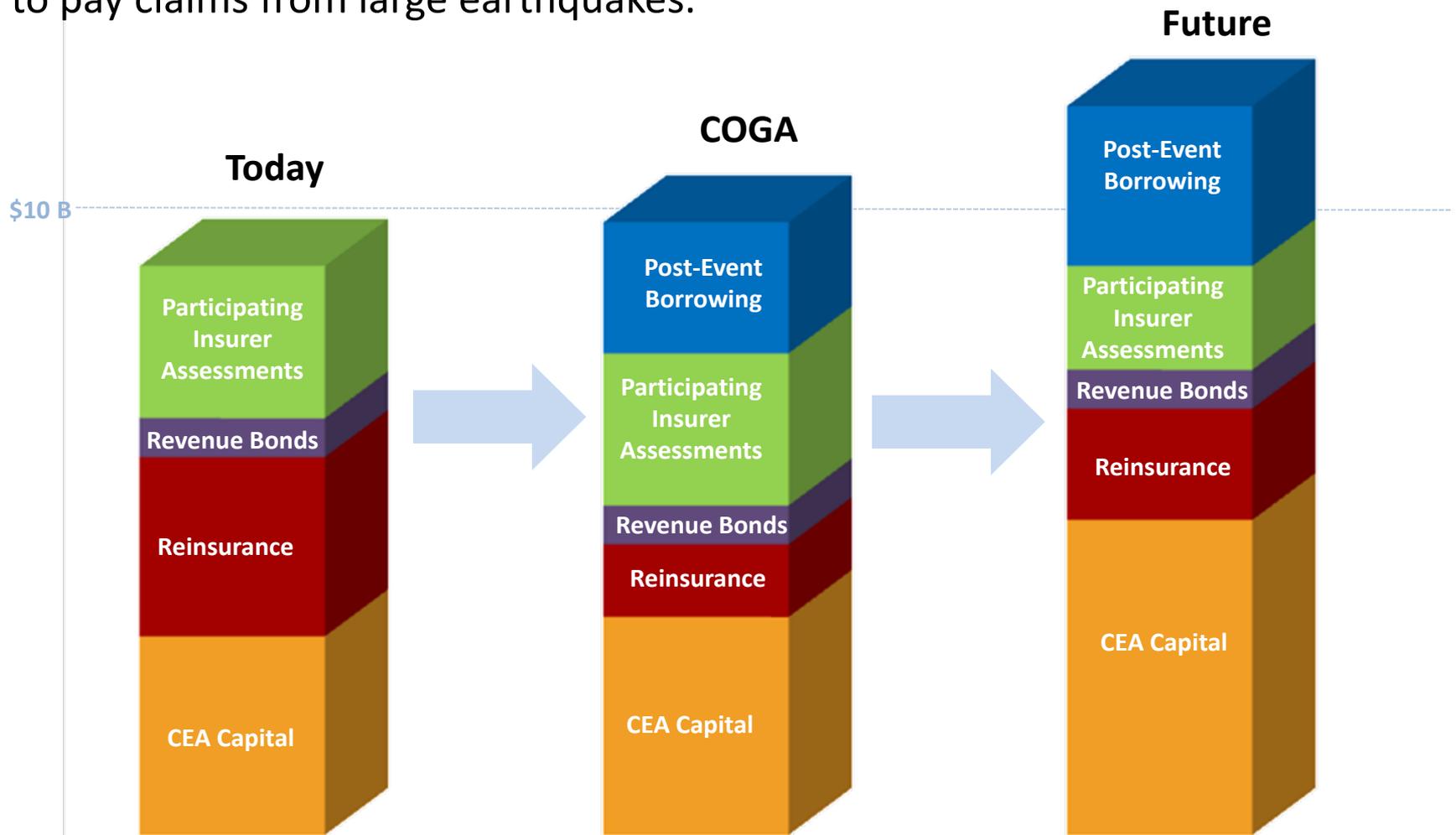


* Major Expense Categories

- 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.

Federal Legislation

S.886: Catastrophe Obligation Guarantee Act

Florida: Bill Nelson

California: Dianne Feinstein and Barbara Boxer

Louisiana: Mary Landrieu

H.R. 4014: Catastrophe Obligation Guarantee Act of 2009

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

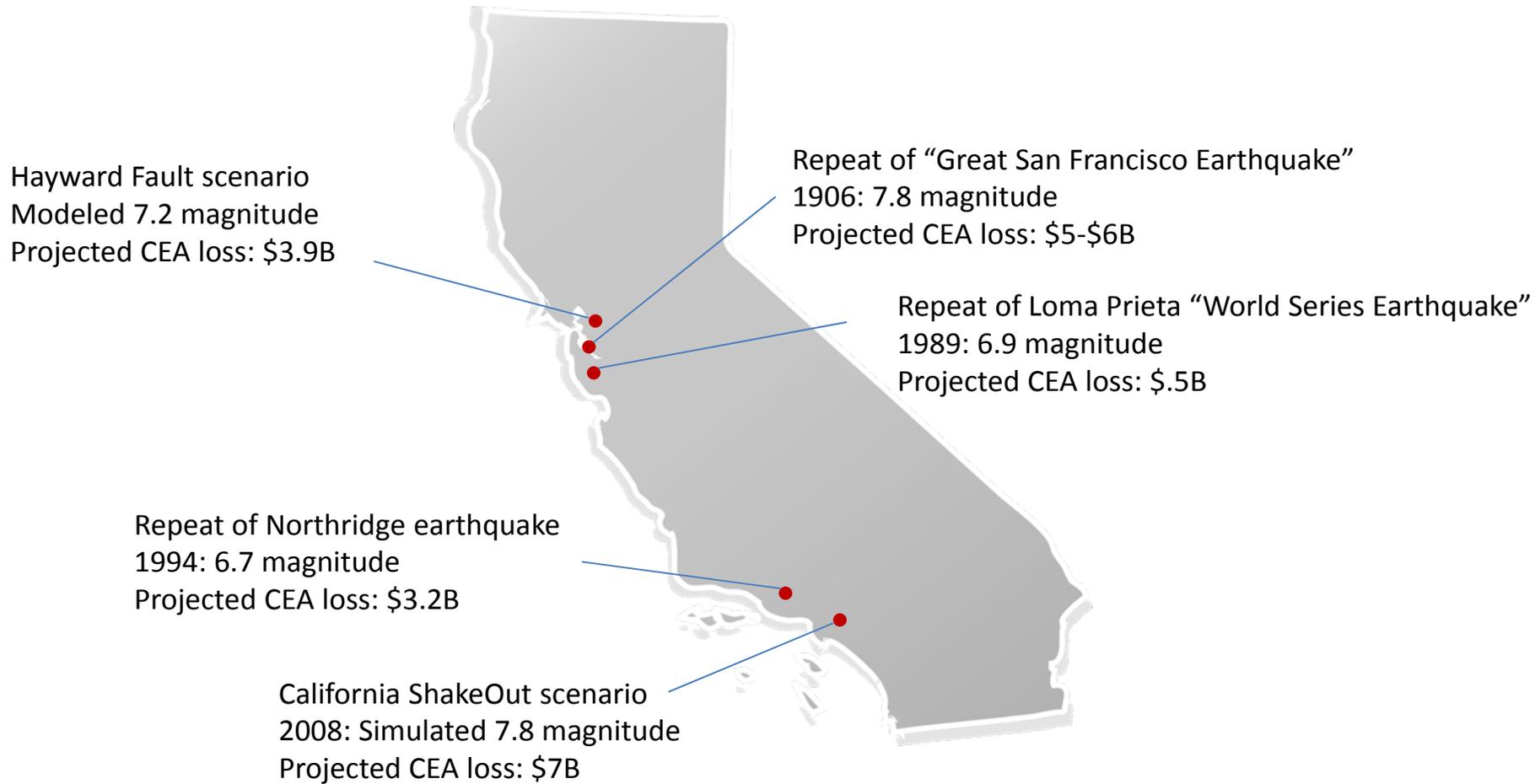
Louisiana: Charlie Melancon

H.R. 2555: Homeowners' Defense Act of 2009

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.



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