

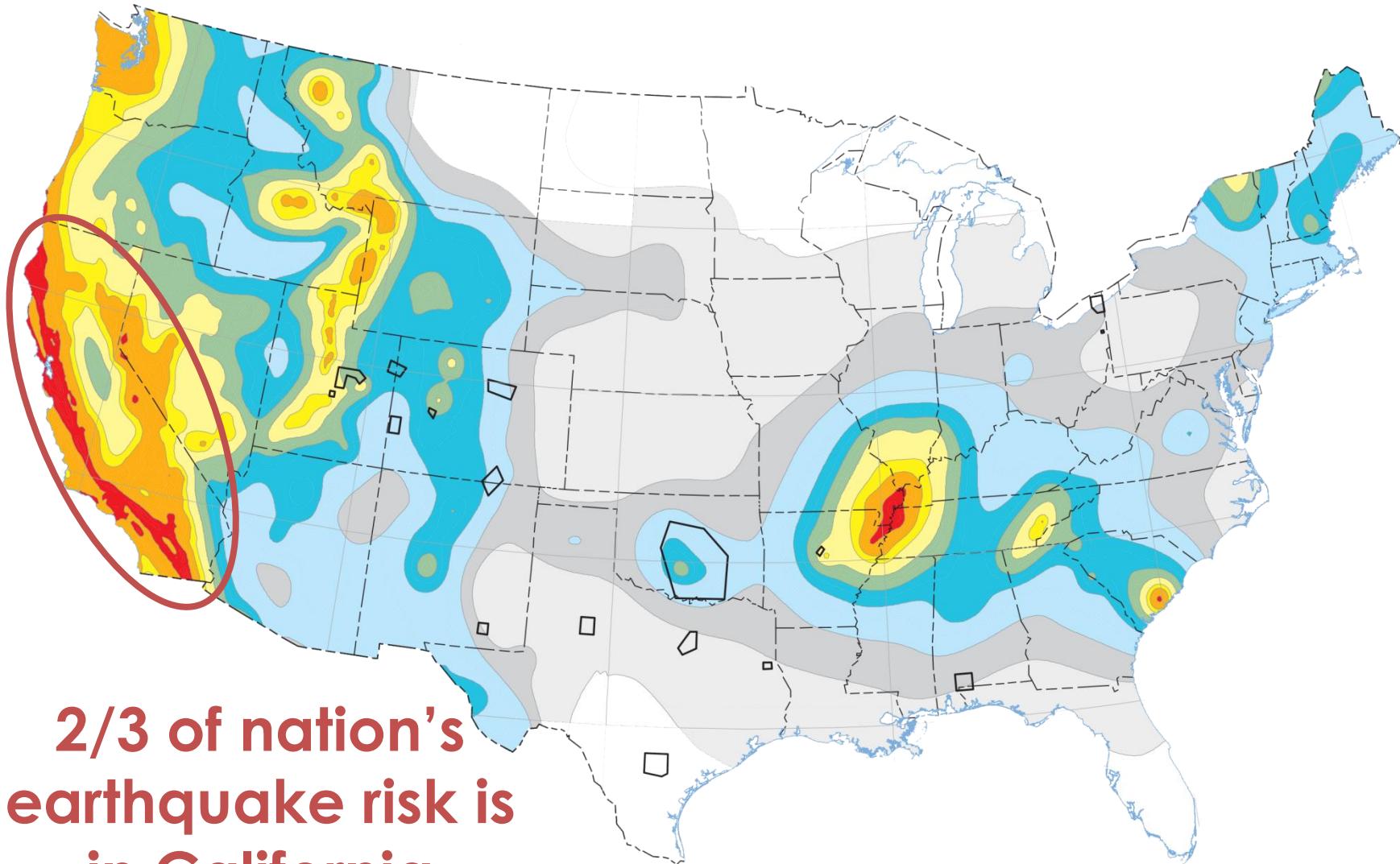


Educate · Mitigate · Insure

The Resilient America Roundtable

July 10, 2015

1 in 500 Year Earthquake Risk



**2/3 of nation's
earthquake risk is
in California**



California Earthquake Authority

- History
- Operational Model
- Challenges
- Opportunities

Questions?

1. What can we learn from New Zealand?
2. How can California's public/private partnership for earthquake insurance be improved?
3. Has earthquake insurance encouraged adoption of other types of loss reduction measures?

1984: Mandatory Offer Established

- At request of the insurance industry, earthquake was specifically **excluded** from homeowners policy.
- In exchange, companies selling homeowners insurance were **required to offer** separate earthquake policy.

State law mandates wording of offer

YOUR POLICY DOES NOT PROVIDE COVERAGE AGAINST THE PERIL OF EARTHQUAKE.

CALIFORNIA LAW REQUIRES THAT EARTHQUAKE COVERAGE BE OFFERED TO YOU AT YOUR OPTION.

WARNING: THESE COVERAGES MAY DIFFER SUBSTANTIALLY FROM AND PROVIDE LESS PROTECTION THAN THE COVERAGE PROVIDED BY YOUR HOMEOWNERS' INSURANCE POLICY. THERE ARE EXCLUSIONS AND LIMITATIONS SUCH AS OUTBUILDING, SWIMMING POOLS....

1994: Northridge Earthquake



Total Property Damage: \$40 Billion

Residential Damage: \$20 Billion

Insured Residential Damage: \$10 Billion

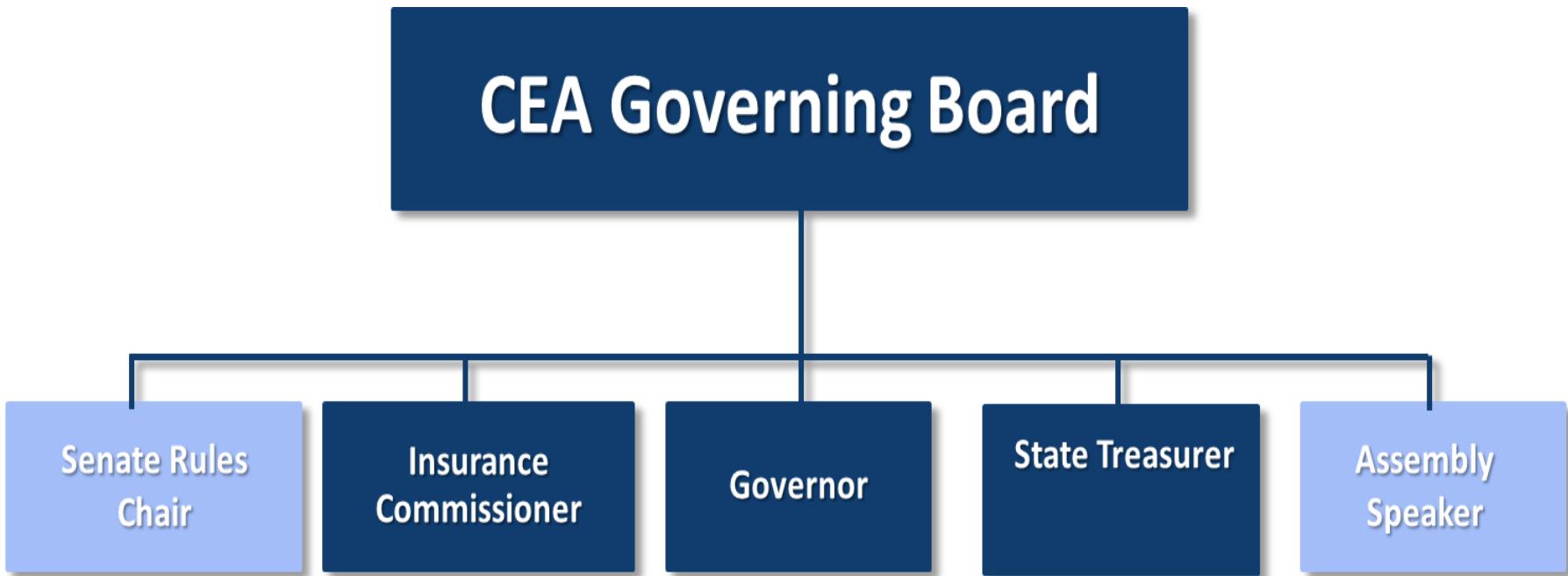
In the Aftermath of Northridge

Because they wished to stop writing
earthquake insurance:
**most companies ceased writing new
homeowners policies**



**1996: CEA created to fix broken homeowners
insurance market**

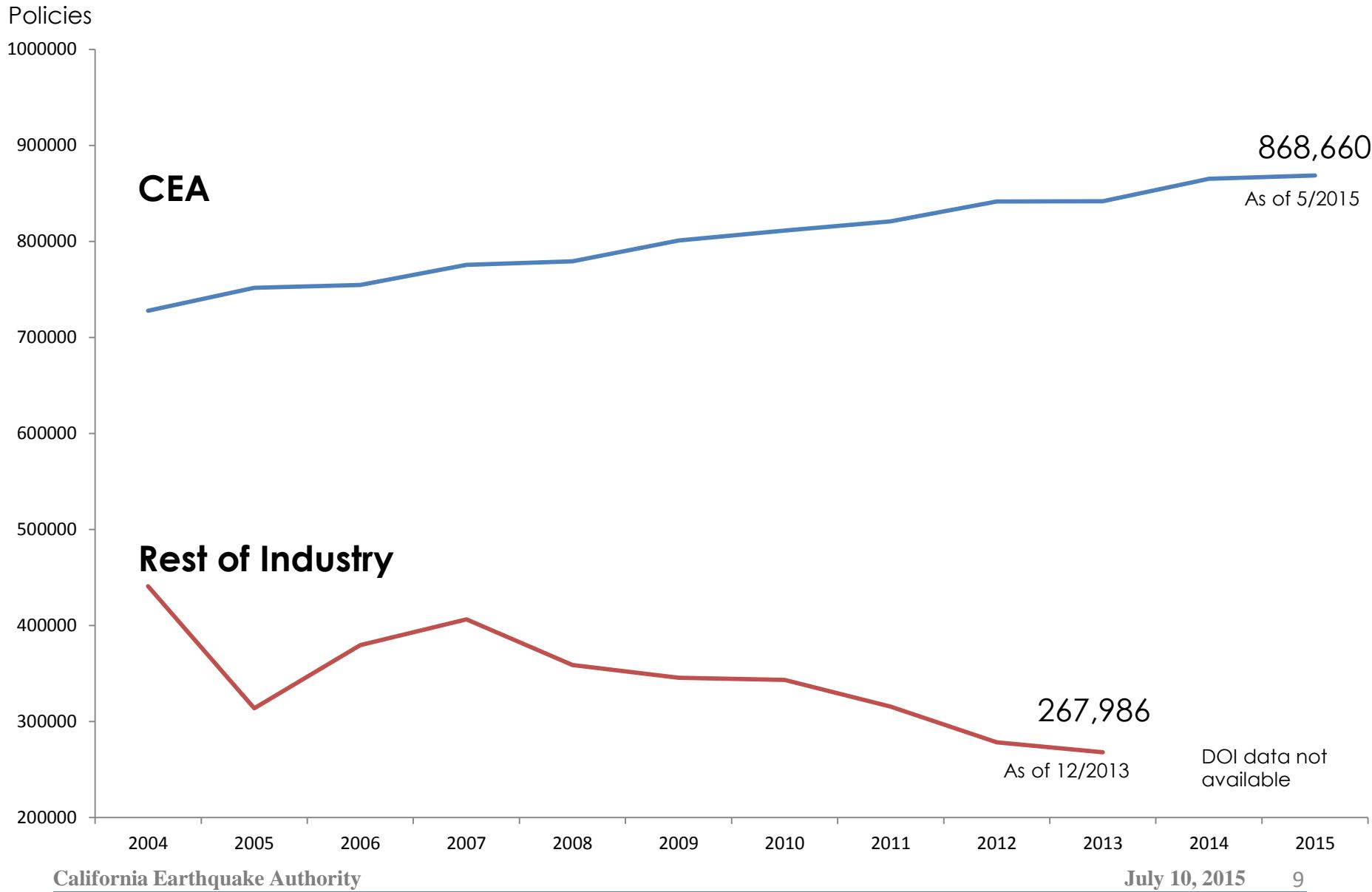
Publicly Managed



Privately Financed



CEA: A Decade of Slow, Steady Growth



The Great California Disconnect

Scientists agree:

There is a virtual certainty of a 6.7M or greater earthquake in California within the next 30 years.



And Yet:

Over 90% of all homes do not have earthquake insurance

Why are so many Californians unprotected?



Over time, people forget



EQ insurance not high priority for some companies



False hope for federal assistance



Outdated offer letter



Confusion about coverage in homeowners policy



Concern about cost and value

Number One Barrier to Purchase



Concern about cost
and value

So what are we doing about it?

Expanding coverage

Lowering rates

Expanding Coverage

More Options – More Coverage – More Affordable

	<u>1996: Mini Policy</u>	<u>2016: New Options</u>
Structure	Full	Full
Deductible	15%	5%, 10%, 15%, 20%, 25%
Personal Property	\$5,000	Up to \$200,000
Loss of Use No deductible	\$1,500	Up to \$100,000
Emergency Repair	5% of covered property: deductible applies	5% of covered property: no deductible on first \$1,500
Mitigation Discount	5%	5%, 10%, 20%

CEA Premium Estimator for 2016



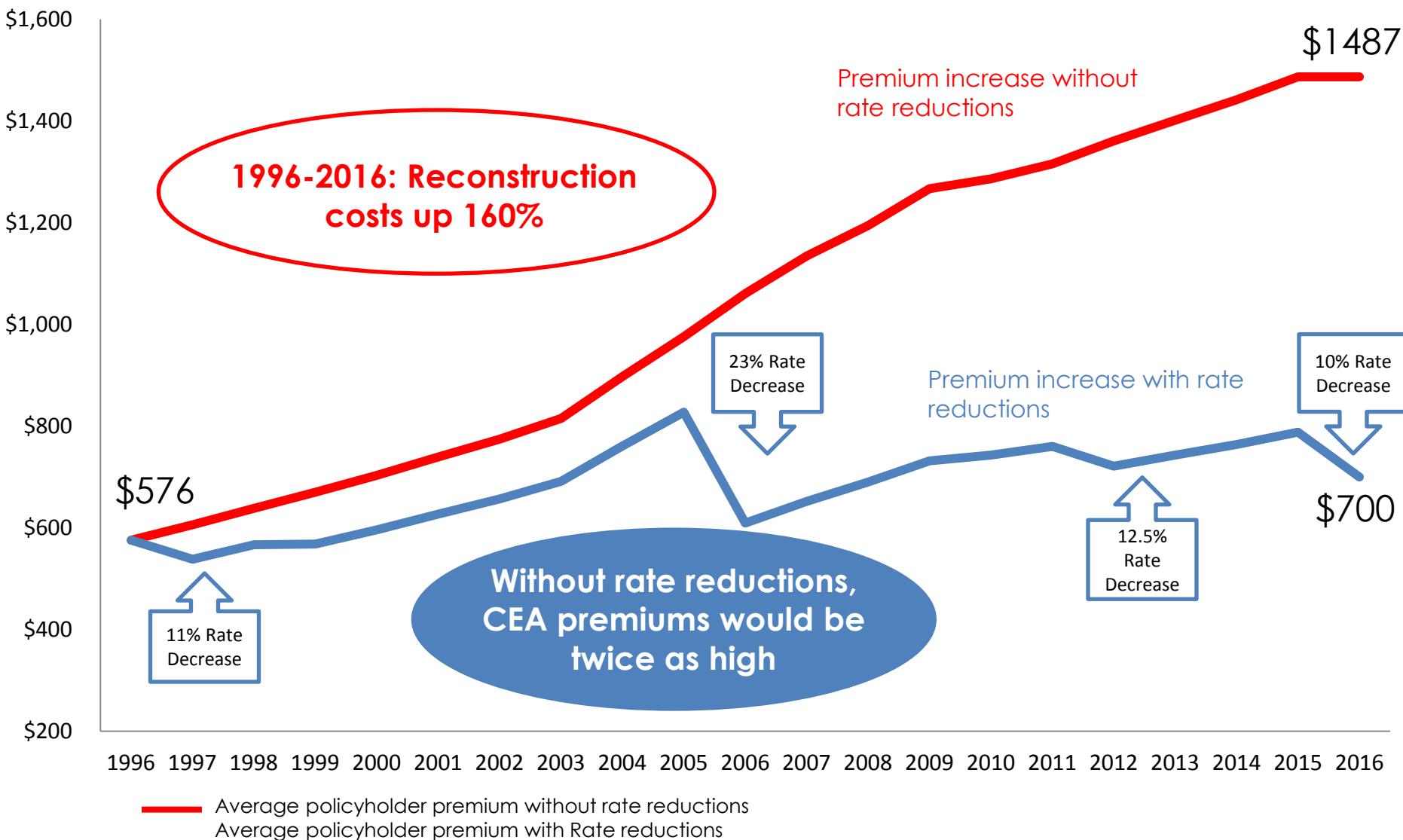
Launching Fall of 2015

From the provider that gives customers the strength to rebuild, comes a new app that gives them strength to control their earthquake coverage.

Lowering Rates

*CEA Premium

1/1/16
Estimates



Effective 01/2016: Mandatory Offer Reform

“Your residential property insurance policy does not cover earthquake damage to your home or its contents.

To cover earthquake damage to your home and its contents you need to purchase a separate earthquake insurance policy. The coverage provided by an earthquake insurance policy is different from, and typically more limited than, the coverage provided by your residential property insurance policy.

California law requires insurance companies to offer earthquake insurance in conjunction with a residential property insurance policy. If you do not accept the offer of earthquake insurance below within 30 days of the mailing of this notice, your insurance company shall presume that you have not accepted this offer of earthquake insurance.

Participating Insurance Company Logo/Letterhead

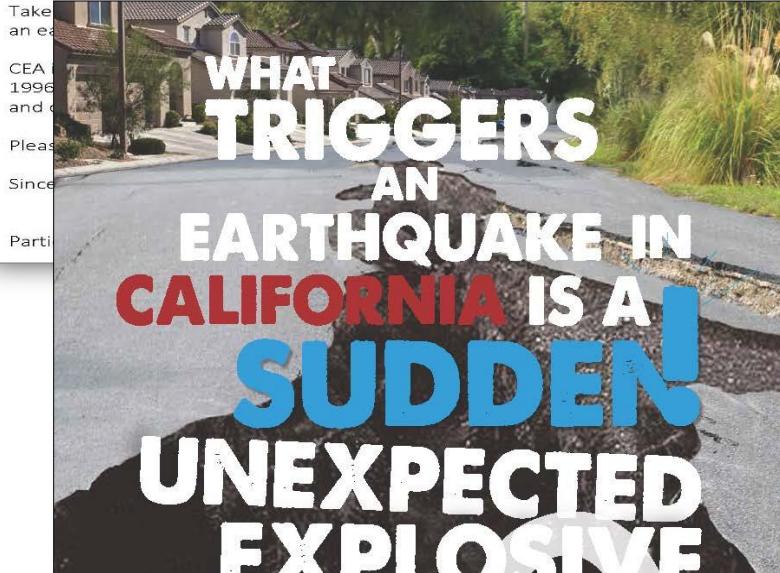
You are invited to accept this offer of earthquake insurance.

Important Information About Earthquake Insurance

Dear (Policyholder):

Thank you for choosing (PI Company Name) to satisfy your home-insurance needs.

It's important for you to know that your home-insurance policy from (PI Company Name) does not cover earthquake damage, and post-earthquake government grants or loans may not offer all the financial protection you need.



Replacing the 30-year-old,
confusing, ineffective notice

with a vastly improved offer letter

In addition, CEA PI's will provide a “CEA message” to all of their insureds each year

1. What can we learn from New Zealand?



September 2010 – 7.1 M

February 2011 – 6.3 M

Devastating earthquakes strike Christchurch

Christchurch will Recover Because...

New Zealand Government provides a public backstop for earthquake insurance

As a result, Earthquake insurance is much more affordable

Take-up of residential earthquake insurance is nearly 100%

New Zealand earthquake commission (EQC) has funded the rebuilding of over 66,000 homes

EQC

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WHAT WE DO BE PREPARED GET HELP NOW CLAIMS RECENT EVENTS CANTERBURY



98%
of full repairs completed, or underway, for the 68,500 homes in the Canterbury Home Repair Programme

Canterbury Home Repair Programme

More progress updates »



2,386 Full repairs to do or underway

66,872 Completed home repairs as at 26 June 2015

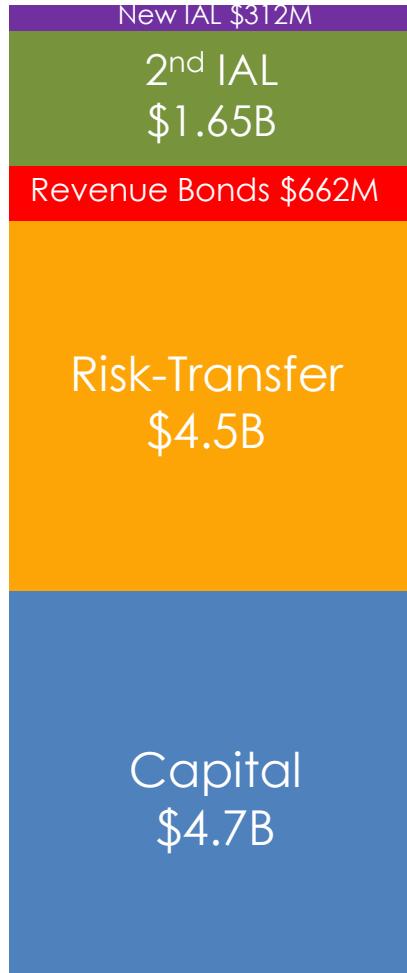
2. How can California's public/private partnership for earthquake insurance be improved?

Put more **public**
in public/private partnership

CEA Claim-Paying Capacity

As of 1/1/2015

CEA Claim-Paying Capacity



State law requires CEA rates to be actuarially sound.

Rating agencies require CEA claim paying capacity to be sufficient for a 1 in 450 year loss.

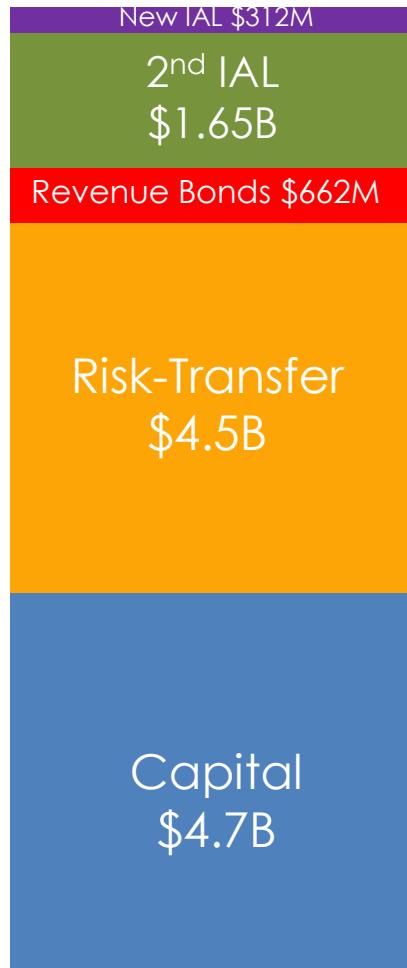
Best available science plus input from **3 major modeling firms** determine amount of claim-paying capacity required.

Amount of required claim-paying capacity determines how much reinsurance is needed.

A Costly Reliance on Reinsurance

As of 1/1/2015

CEA Claim-Paying Capacity



Since Inception: 40% of CEA-Policyholder Premium has been spent on reinsurance

Earthquake insurance premium:

Paid by CEA policyholders to CEA..... \$9.0 Billion

Reinsurance premium:

Paid by CEA to reinsurers..... \$3.7 Billion

Reinsurance claims:

Paid by reinsurers to CEA..... \$250,000

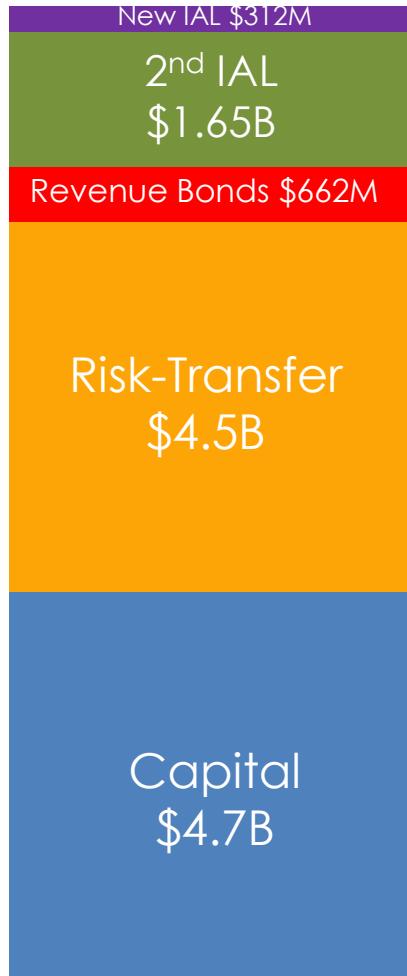
Reinsurance costs are a significant driver of CEA rates

A Concept to Lower Reinsurance Costs

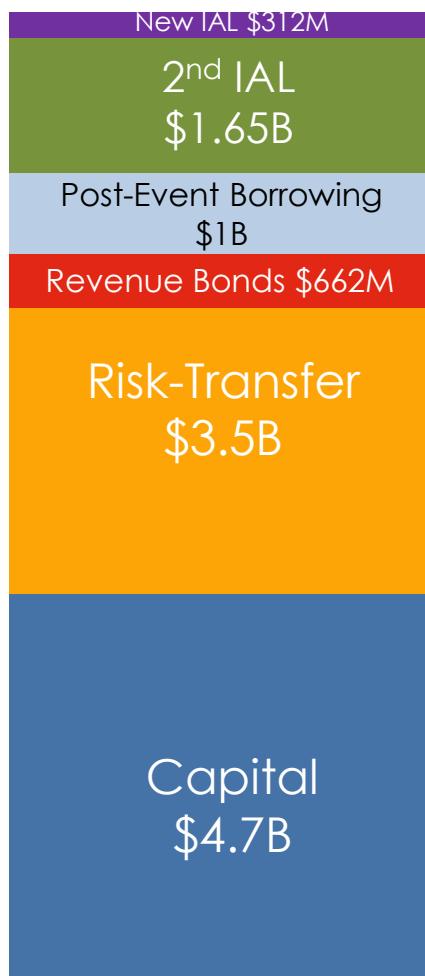
A post-event borrowing layer backed by a **public** guarantee

As of 1/1/2015

CEA Claim-Paying Capacity



Concept



Significant reinsurance cost savings

Savings would be passed on to policyholders

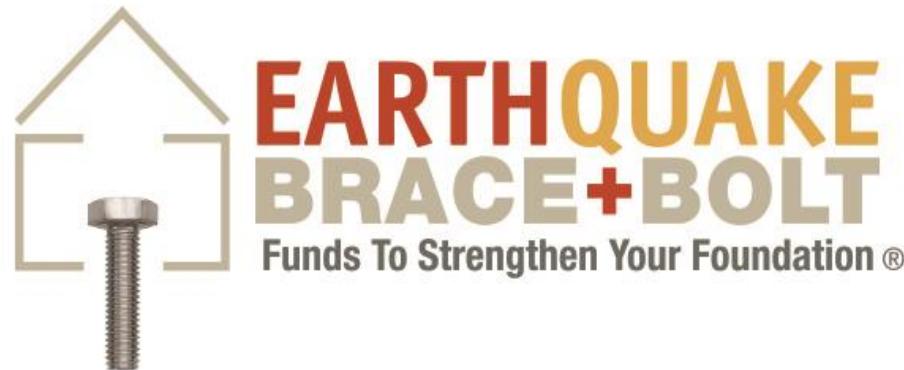
Borrowing would be repaid from policyholder premium

Probability of borrowing less than 0.4%

Public guarantee insures access to private debt markets

3. Has earthquake insurance encouraged adoption of other types of loss reduction measures?

Absolutely



CEA Mitigation Fund

- Established to help all Californians strengthen their homes against damaging earthquakes.
- Financed annually by CEA's investment income of 5 percent or \$5 million, which ever is lower.
- Currently \$25 million is available.

California Residential Mitigation Program (CRMP)

- Joint Powers Authority
 - California Earthquake Authority (CEA)
 - Governor's Office of Emergency Services (Cal OES)





CEA Mitigation Program

Guidelines · Research · Incentives

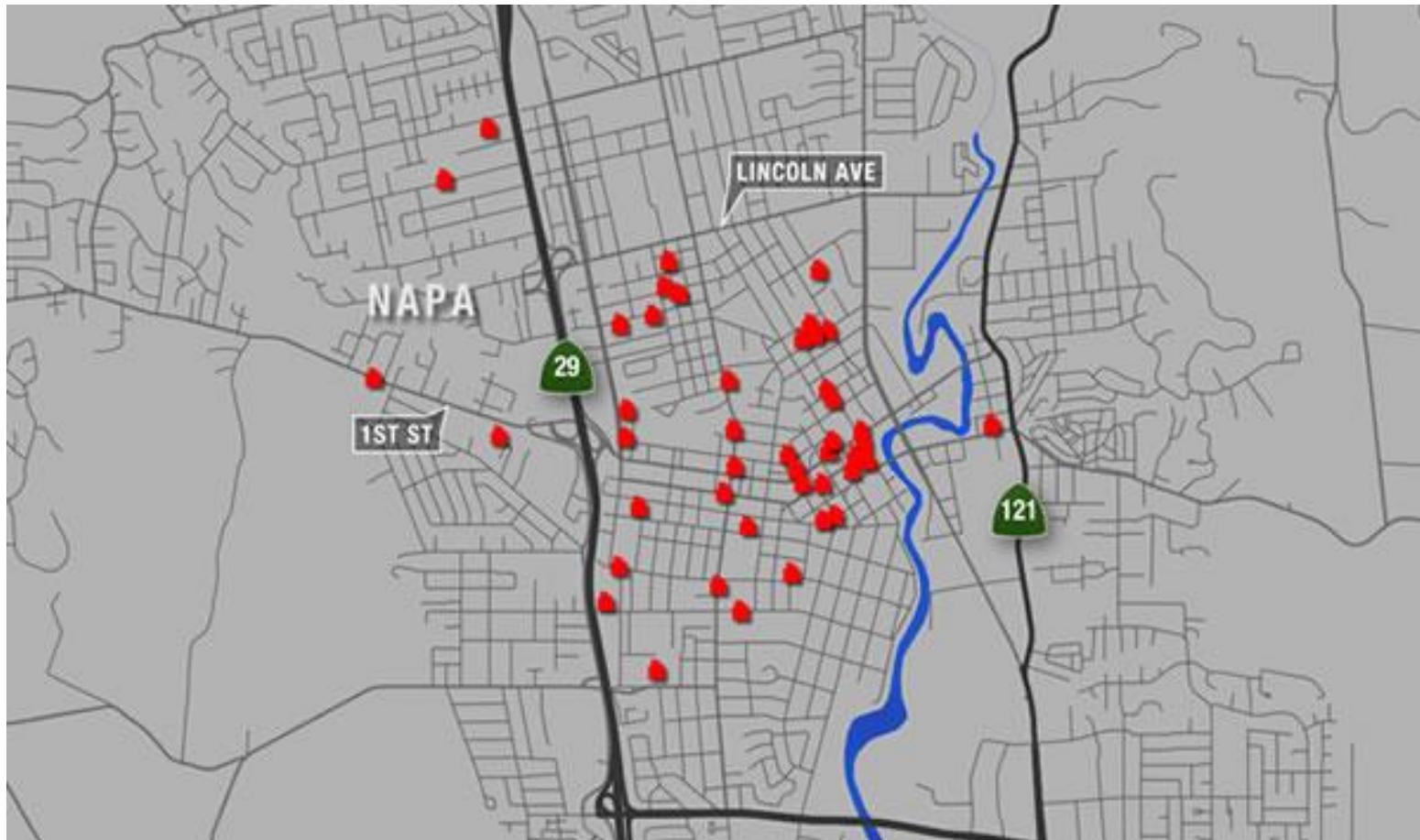
Mitigation

mit·i·ga·tion/ ,mitə'gāSHən/

Noun: The action of reducing the severity, seriousness, or painfulness of something.

Earthquakes

Over 100 Red-Tagged Houses After 2014 South Napa M6.0 Earthquake



Source: ABC7 News

Population 79,000

27,758 Houses

500 yellow tagged

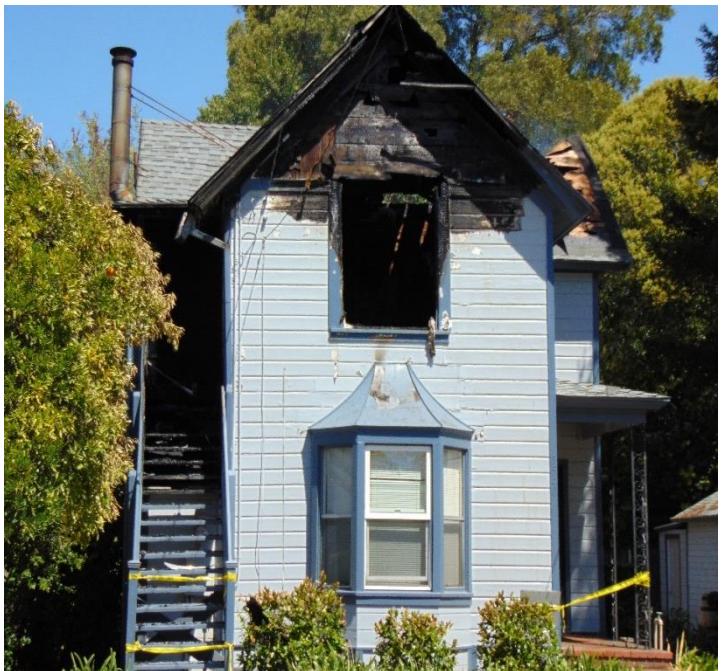
800 damaged

Damage to Cripple Wall Houses in South Napa Earthquake

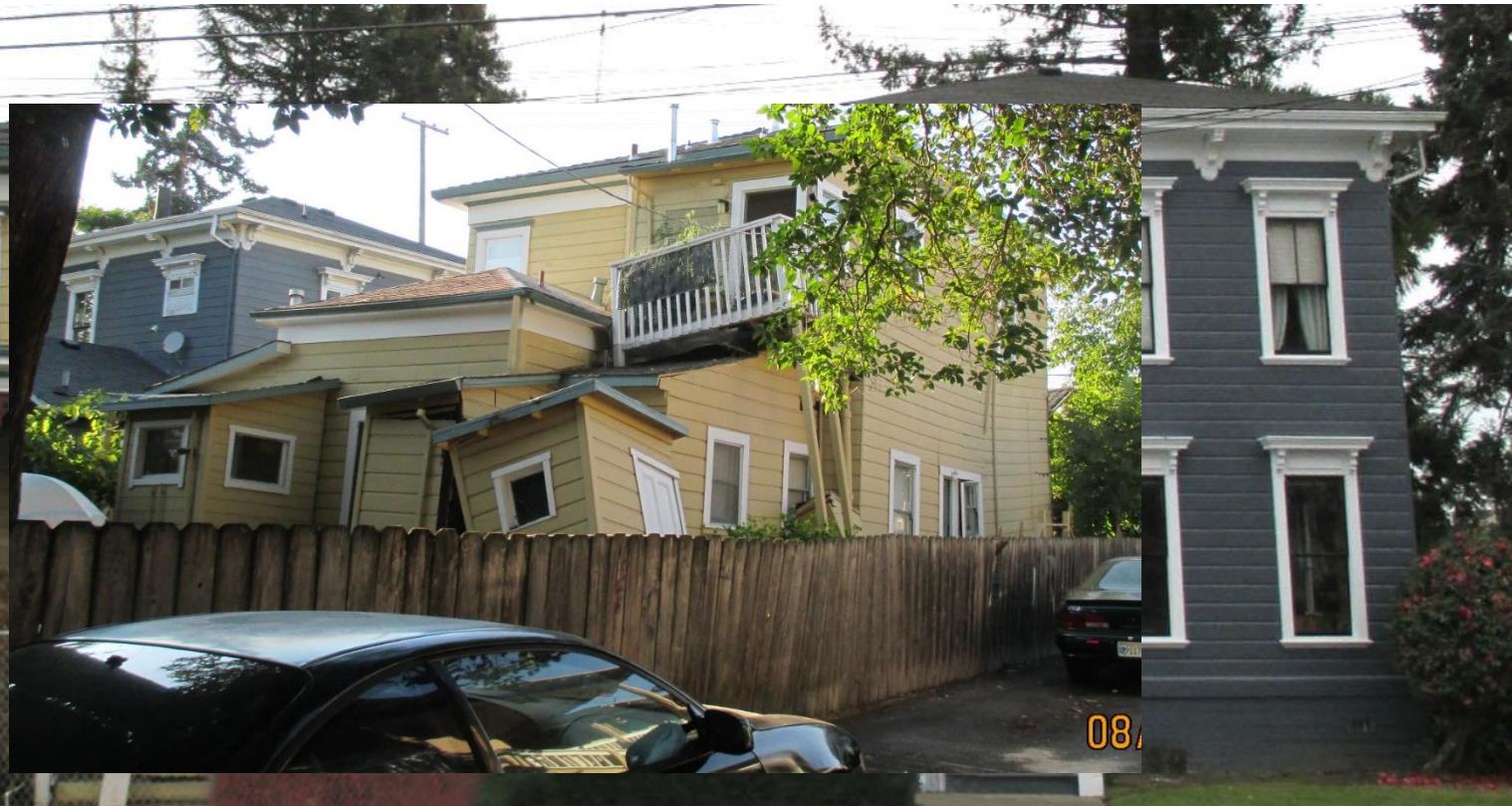


> 1.2 Million Vulnerable Houses in California





Seismic Retrofit Works



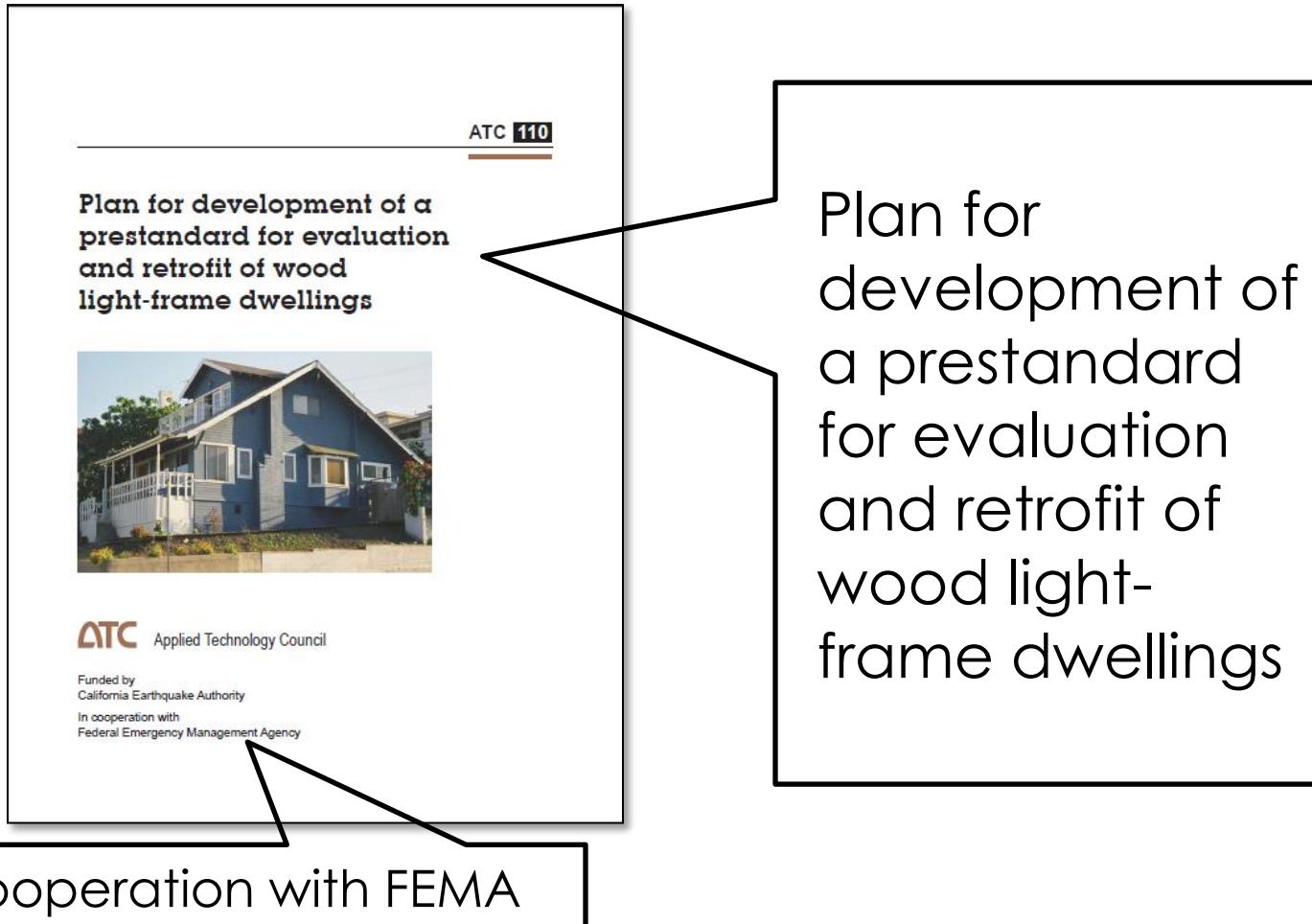
Seismic Retrofit Works

- Homeowner remains in the home during recovery
- Damage is mostly cosmetic (patch and paint)
- Cost savings is substantial \$10,000s to \$100,000s just to put the house back on the foundation

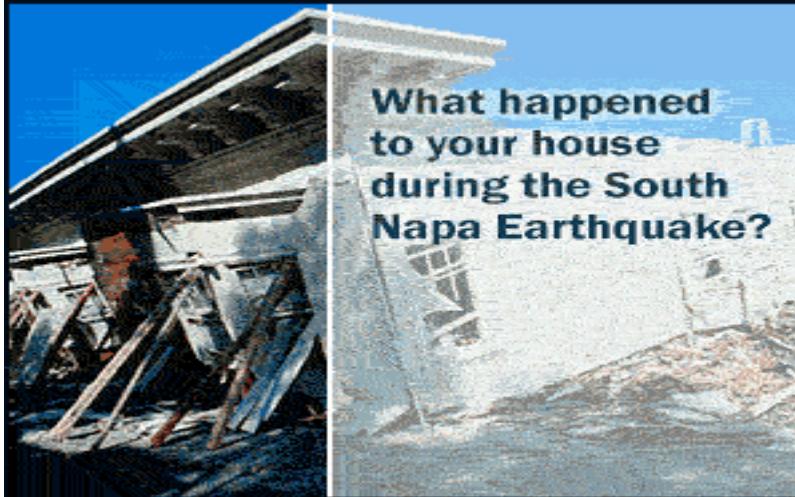


Guidelines – ATC 110 Prestandard

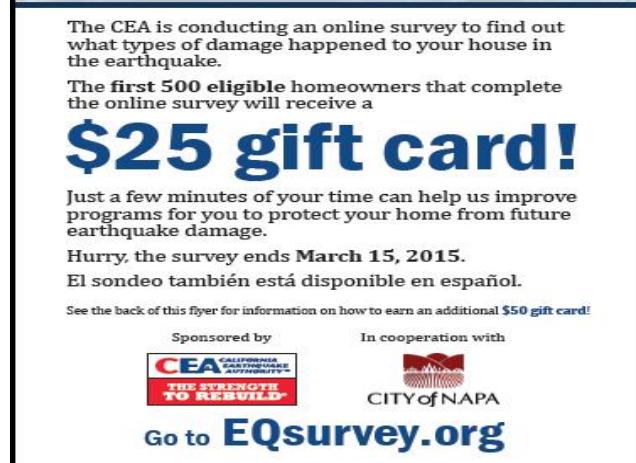
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Research – 2014 South Napa M6.0 Earthquake

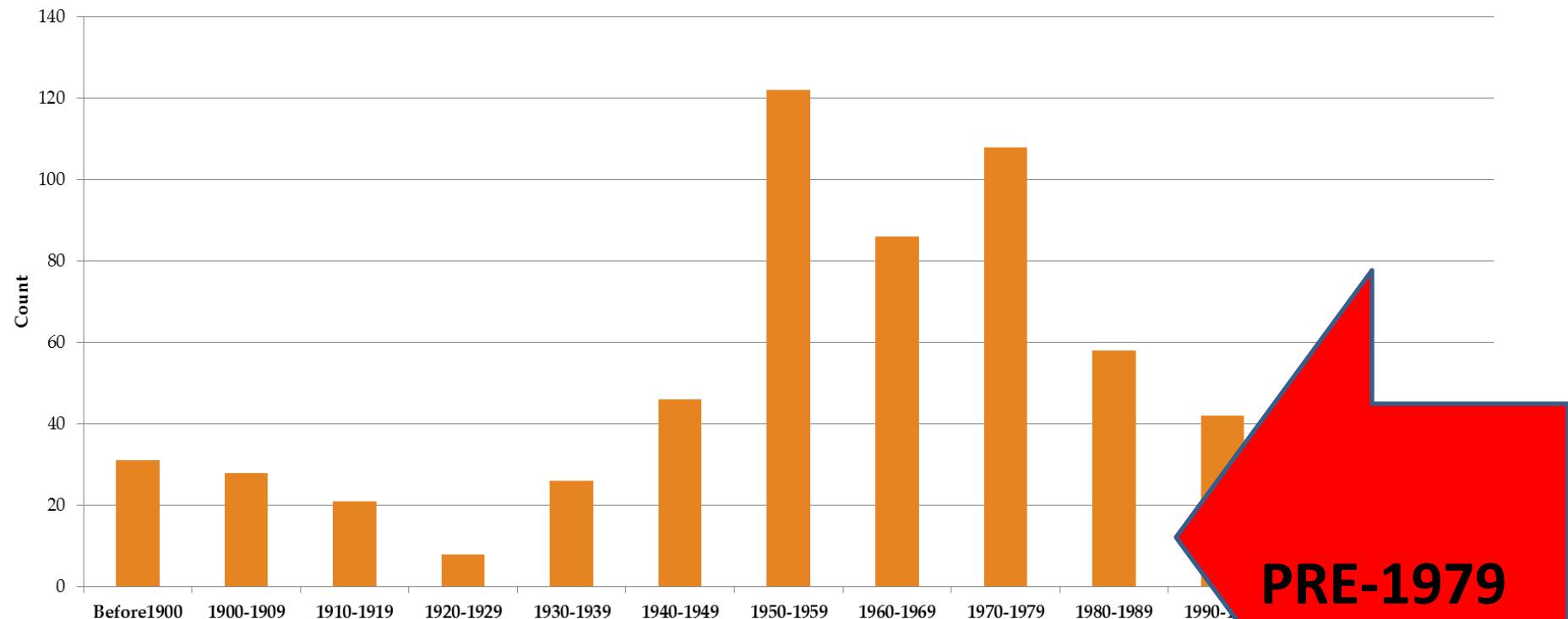


- Phase 1 – Online questionnaire
- Received over 600 responses



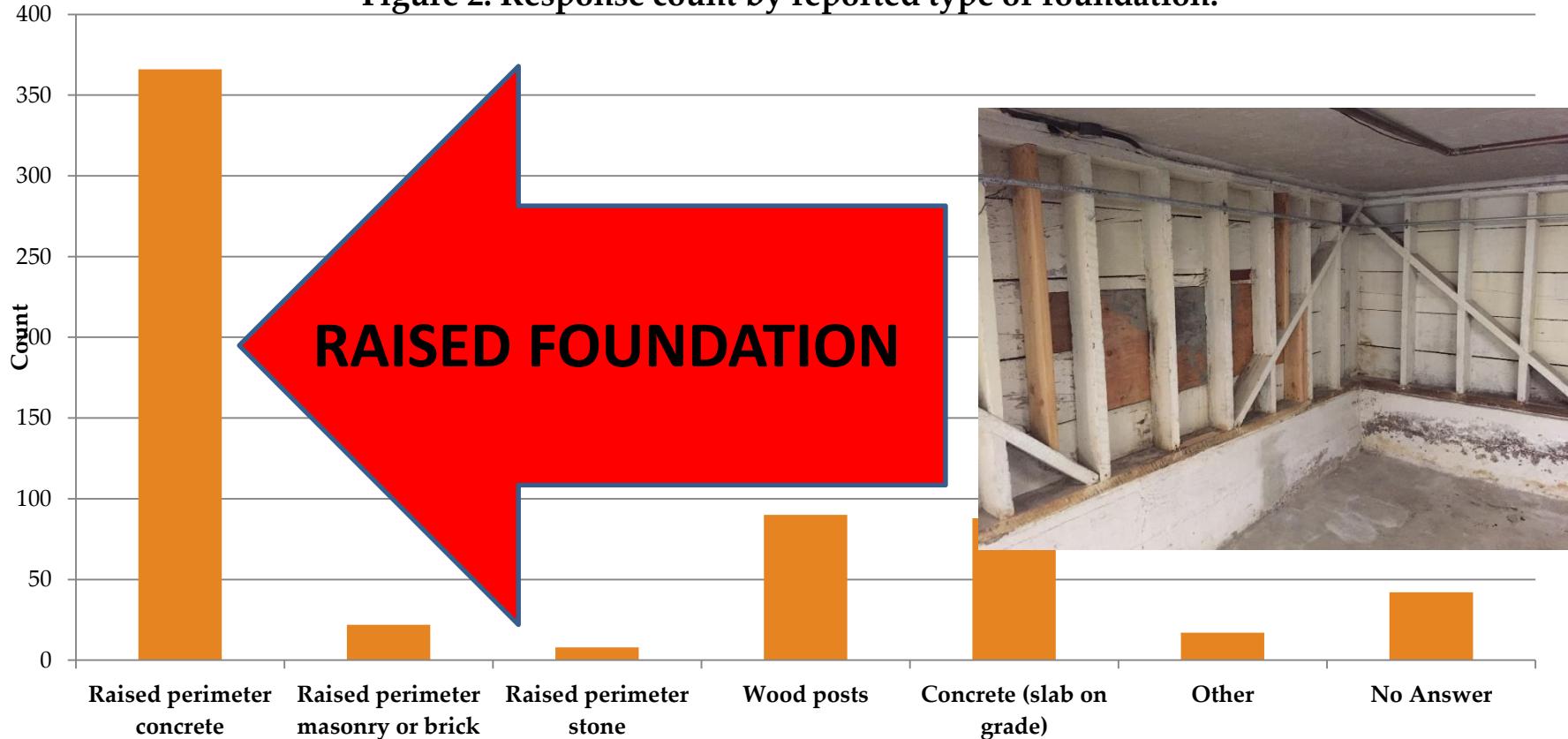
Research – South Napa Earthquake

Figure 1. Response count by reported age of house.



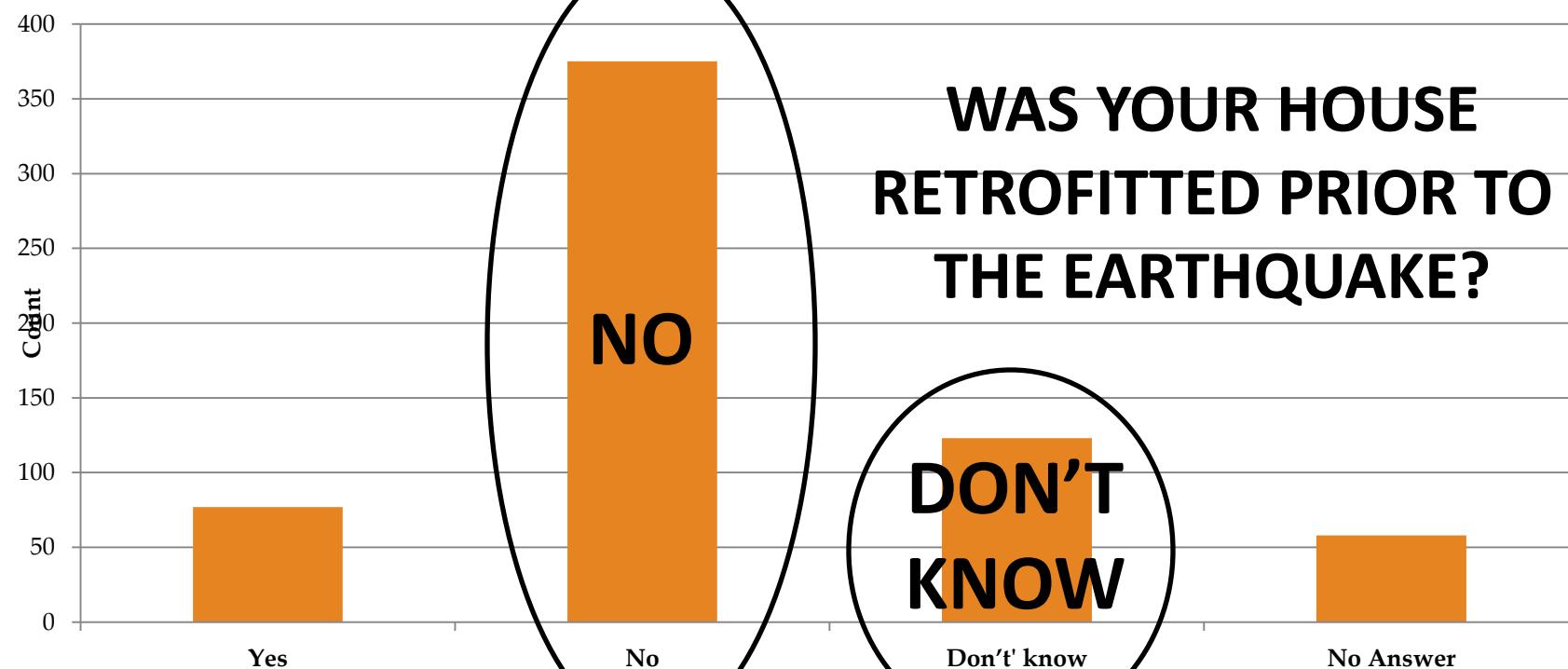
Research – South Napa Earthquake

Figure 2. Response count by reported type of foundation.



Research – South Napa Earthquake

Figure 3. Count of respondents reporting house was retrofitted prior to the August 24, 2015 earthquake.



Research – South Napa Earthquake

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Research – South Napa Earthquake

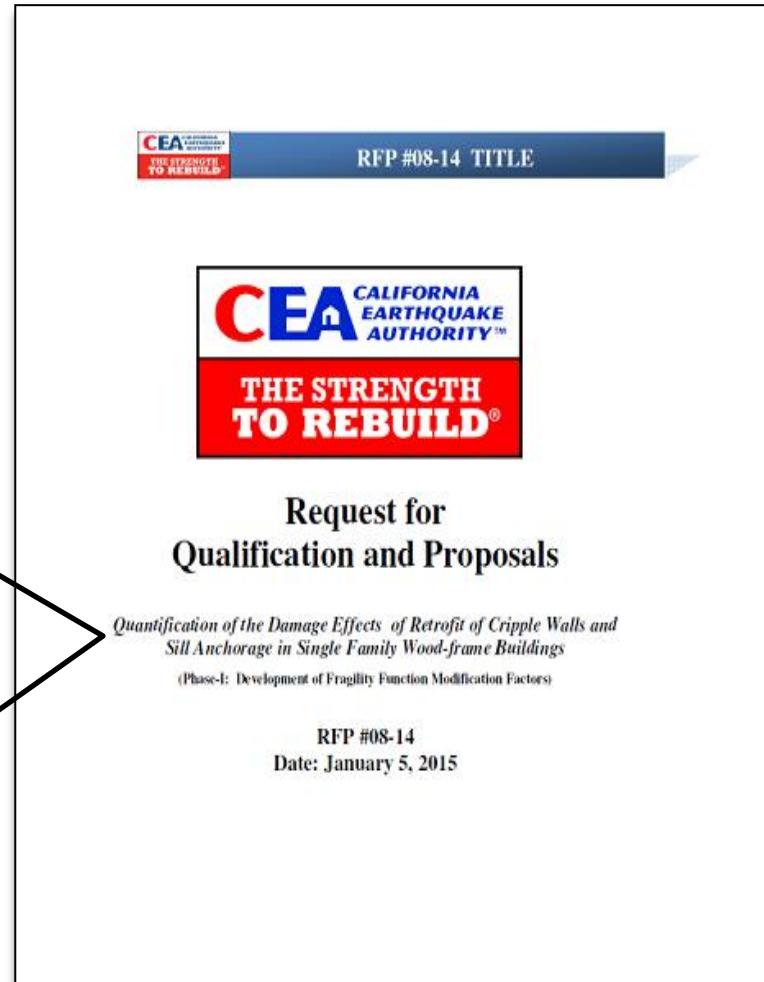
Phase 2 - Site Visit / Interview:

- Confirm responses
- Confirm what a “retrofit” is or isn’t
- Get additional information about retrofit decisions



Research – Mitigation Discount

Quantification of
the Damage
Effects of Retrofit
of Cripple Walls
and Sill
Anchorage in
Single Family
Wood-Frame
Buildings



Research – Mitigation Discount

- Contract with program manager under development
- Analytical (computer) modeling
- Element testing (walls, materials, etc.)



Incentives - CEA Loss Mitigation Fund

- Created in 1996
- Grows by 5% of investment income (\$5M max) each year
- 2015 – Approx. \$24 Million

California Residential Mitigation Program (CRMP)

Managed jointly by the CEA and CalOES through a
Joint Powers Agreement



CRMP - First Incentive Program



Earthquake Brace + Bolt: Funds to Strengthen Your Foundation

- Reimburse Up to \$3,000
- Qualifying EBB Houses
 - In program zip codes
 - Constructed pre-1979
 - Low slope site
- 2015: Seven Cities and 28 Zip Codes
 - Oakland, San Francisco, San Leandro, Los Angeles, Pasadena, Santa Monica, Napa
 - Goal: 650 retrofits



2015 EBB Numbers

- 130 Completed Retrofits
- 173 Permits
- 200-plus FEMA-Trained Contractors



EarthquakeBraceBolt.com



Homeowners



Contractors



Building Officials

EBB – Additional Funding

- July 2015 - State of California General Fund - \$3 Million (State tax exemption)
- Applied for FEMA HMGP for Napa - \$300,000
- Applying for FEMA PDMG for Napa - \$250,000

Questions?