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CONSENT

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Bill No: SB 528  
Author: Rubio (D)  
Introduced: 2/14/23  
Vote: 21

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SENATE INSURANCE COMMITTEE: 7-0, 4/12/23  
AYES: Rubio, Nguyen, Alvarado-Gil, Dodd, Jones, Niello, Portantino

SENATE APPROPRIATIONS COMMITTEE: Senate Rule 28.8

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**SUBJECT:** California Earthquake Authority

**SOURCE:** Author

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**DIGEST:** This bill clarifies confusing and outdated sections of the California Earthquake Authority's (CEA) statute regarding potential assessments of the insurance industry, and consolidates a Legislative reporting requirement.

**ANALYSIS:**

Existing law:

- 1) Establishes the California Earthquake Authority, a privately financed, publicly managed entity to sell only earthquake insurance.
- 2) Requires CEA to submit an annual operating report to the Legislature and the Insurance Commissioner (IC), as specified.
- 3) Requires CEA to submit a report to the Legislature not more than 120 days following an earthquake that results in the payment of claims by the CEA.
- 4) Defines "participating insurer" as an insurer licensed to transact insurance in California that voluntarily joins CEA by agreeing to financial assessments and other commitments as a condition of participating.

- 5) Establishes a capital structure for the CEA based on several “layers” of financing. Generally, a lower layer must be exhausted before claims paying capacity can be drawn from a higher layer.
- 6) When it was created, included two potential participating insurer assessments at different attachment points in the financial layers available to pay claims if needed, with sunset dates based on different criteria.
- 7) Established a third industry assessment layer (new industry assessment) in 2008 that sunset in 2019.

This bill:

- 1) Deletes the separate 120 day reporting requirement for any earthquake event that results in claims and incorporate reporting on seismic events triggering the payment of claims into the CEA’s annual report.
- 2) Deletes statutory language providing for the new industry assessment and its roll-off mechanism which terminated in 2019.

## **Background**

*Reporting requirement:* The CEA is currently required to file an annual report to the Legislature detailing its operating condition including, but not limited, to its financial condition, its available capital and liabilities, the amount of reinsurance it has under contract, a description of its rates and rating plans, an assessment of how well it is meeting its mandate of making residential property insurance and residential earthquake insurance more available, the relative residential market share of participating and non-participating insurers. In addition to that annual comprehensive operational report, the CEA is required to submit a report to the Legislature not more than 120 following a seismic event that results in the payment of claims by the CEA, regardless of size of the event, and within one year of a major seismic event. The CEA has only submitted four reports under the 120 day/any claims requirement since its creation in 1996. The American River Canyon earthquake (Napa, Solano, Sonoma) in 2014 resulted in \$700 million in total damage, but only 514 claims totaling \$3.8 million to the CEA.

*Industry assessment:* In order to ensure that both homeowners’ and earthquake insurance were readily available in California, and to avoid a withdrawal of insurers from the California homeowners’ insurance market following the Northridge earthquake, the Legislature created the CEA, operative on December 1, 1996, allowing the transfer of the obligation of homeowners’ insurers to offer

earthquake insurance from participating insurance companies to the CEA. CEA participating insurers retained the process of offering and selling CEA insurance products to the public, but the risk of those policies would be borne by the CEA. Also as part of the process, the mandatory earthquake coverage requirements were reduced into a more limited “mini-policy” that could be provided by the CEA or private insurers, and would be actuarially sound, yet catastrophic in nature.

The CEA’s claim paying capacity relies on several layers, including accumulated capital, reinsurance, bond proceeds, and statutory insurance industry assessments that have been shrinking over time. SB 430 (Machado, Ch. 303, Statutes of 2007) created a new assessment authority of up to \$1.78 billion for the CEA (Insurance Code section 10089.31) that replaced an expiring authority to assess its participating insurers under specified conditions to help pay claims in the event of a major earthquake. It could only be accessed if the CEA had exhausted all capital, reinsurance, bonds, policyholder assessments and other available resources to pay claims, and that authority sunset after 10 years. Only one insurer assessment remains of up to \$2 billion that falls lower in the claims paying structure and is reduced by the amount the CEA’s available capital exceeds \$6 billion. The CEA to date has never had to utilize its authority to impose assessments on its participating insurers

This bill deletes several provisions of CEA’s statute related to the 2008 industry assessment layer that have expired.

**FISCAL EFFECT:** Appropriation: No Fiscal Com.: Yes Local: No

**SUPPORT:** (Verified 4/24/23)

California Earthquake Authority

**OPPOSITION:** (Verified 4/24/23)

None received

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