

Per California Code of Regulations, title 2, section 548.5, the following information will be posted to CalHR's Career Executive Assignment Action Proposals website for 30 calendar days when departments propose new CEA concepts or major revisions to existing CEA concepts. Presence of the department-submitted CEA Action Proposal information on CalHR's website does not indicate CalHR support for the proposal.

A. GENERAL INFORMATION

1. Date

September 23,
2020

2. Department

California Earthquake Authority ("Authority")

3. Organizational Placement (Division/Branch/Office Name)

Legal and Compliance Department

4. CEA Position Title

Deputy General Counsel for Risk Transfer

5. Summary of proposed position description and how it relates to the program's mission or purpose.
(2-3 sentences)

Summary of Proposed Position: The Authority requests approval to establish the Deputy General Counsel for Risk Transfer position for the Legal & Compliance Department at Career Executive Assignment (CEA) Level C. This proposed position will manage all legal aspects of the Authority's annual \$10+ billion risk transfer programs for both earthquake insurance and Wildfire Fund administration functions.

Program Mission: This new CEA-C position is essential to the Authority's core mission and purpose of managing two multi-billion dollar catastrophe risk programs – one for residential earthquake insurance, and a second program for wildfires caused by utility companies – with aggregate claim-paying capacity of more than \$40 billion.

6. Reports to: (Class Title/Level)

General Counsel (a statutorily created contract position/Executive Team member reporting to CEO)

7. Relationship with Department Director (Select one)

- Member of department's Executive Management Team, and has frequent contact with director on a wide range of department-wide issues.
- Not a member of department's Executive Management Team but has frequent contact with the Executive Management Team on policy issues.

(Explain): The Deputy General Counsel for Risk Transfer directly communicates with General Counsel, CEO, CFO and other Executive team members to provide legal expertise that significantly impacts the business operations of the Authority.

8. Organizational Level (Select one)

- 1st
- 2nd
- 3rd
- 4th
- 5th (mega departments only - 17,001+ allocated positions)

B. SUMMARY OF REQUEST

9. What are the duties and responsibilities of the CEA position? Be specific and provide examples.

The Authority's Deputy General Counsel for Risk Transfer is a key advisor to the executive leadership and management teams on the single most important aspect of the Authority's business—the procurement of risk transfer agreements (reinsurance, capital market contracts, debt issuances, and insurance-linked securities and Catastrophe Bonds) in order to ensure that the Authority has the required claim-paying capacity. In collaboration with the CFO and Risk Transfer officer, the incumbent will have significant responsibility for the development, implementation, evaluation, and modification of risk-transfer policies and projects required to accomplish the goals of the Authority.

The Deputy General Counsel for Risk Transfer will report directly to the General Counsel, but will be required to exercise a high degree of independence (1) to develop, prepare and implement the long-term and short-term risk transfer program goals and policies of the Authority, (2) to supervise and manage other legal team staff who support and will support the Risk Transfer programs; and (3) will personally perform the most difficult, complex and sensitive legal work of the Authority to properly document the many reinsurance and related contracts under which the Authority will pay hundreds of millions of dollars each year.

The following are examples of the work duties to be undertaken by the incumbent Deputy General Counsel for Risk Transfer:

- Develop and periodically amend the Authority's written Policies and Guidelines for Risk Transfer and participate in explaining these to Executive Staff and the Authority's Governing Board (designees of the Governor, Insurance Commissioner and Treasurer). This function requires deep reinsurance business expertise, coupled with highly sophisticated governance and administrative law skills.
- Following a catastrophe event, control the enforcement of the Authority's right to payment under in-force risk transfer agreements to ensure adequate claim paying resources, including initiating and prosecuting any necessary reinsurance arbitration proceedings.
- Advise and educate the Authority's governance bodies – Governing Board (for earthquake) and California Catastrophe Response Council (for Wildfire Fund matters) – on risk transfer options and programs.
- Direct all legal aspects of preparing marketing presentations and information collateral to the sale of the Authority's insured risks into the international reinsurance marketplace.
- Direct the legal aspects of procurement of services from reinsurance intermediaries/brokers.
- Represent the Authority in market presentations to potential risk transfer counterparties in markets in London, Bermuda, Asia, and the United States.
- Participate and provide legal advice on brokerage and risk transfer pricing strategies.
- Negotiate reinsurance agreements and prepare related transactional documents, including complex collateral trust agreements.
- Act as senior legal advisor on the development of capital markets alternative risk transfer programs, such as the issuance of insurance-linked securities, transformer reinsurance, and catastrophe bonds.
- Provide legal advice to the Authority's Risk Transfer Committee
- Act as the predesignated Acting General Counsel (or Chief Counsel) under the Authority's Business Continuity Plan in the absence or unavailability of the General Counsel.

B. SUMMARY OF REQUEST (continued)

10. How critical is the program's mission or purpose to the department's mission as a whole? Include a description of the degree to which the program is critical to the department's mission.

- Program is directly related to department's primary mission and is critical to achieving the department's goals.
- Program is indirectly related to department's primary mission.
- Program plays a supporting role in achieving department's mission (i.e., budget, personnel, other admin functions).

Description:

The Authority manages two separate statutory insurance funds (the CEA Fund and the Wildfire Fund) that bear certain risks of losses from catastrophic earthquakes and wildfires. The core mission of the Authority is to manage the financial aspects of those risks, principally through effective risk transfer programs. The responsibilities of the Deputy General Counsel for Risk Transfer are directly and inextricably linked to that core mission and are essential to the achievement of that mission. Without highly sophisticated legal resources to facilitate risk transfer, the Authority will be unable to achieve its core mission of maintaining the claim-paying capacity it requires to meet its mission.

B. SUMMARY OF REQUEST (continued)

11. Describe what has changed that makes this request necessary. Explain how the change justifies the current request. Be specific and provide examples.

The Authority is a not-for-profit insurance company established by the California legislature in 1995-1996. The Authority is the largest residential earthquake insurer in the country and one of the largest in the world. In addition to the insurance function of financing repair and rebuilding should a catastrophic earthquake occur in California, the Authority also educates and financially helps residents strengthen their homes to reduce the impact and cost of earthquake losses.

Since its inception in 1996, the Authority has grown to cover more than 80% of the residential earthquake insurance market which includes the additional private insurers that have come on board as Authority participants. The Authority has experienced almost explosive growth since 2016. Today, the Authority has 24 participating insurers and covers more than 1.1 million policies throughout California, with more than \$18 billion in claim-paying capacity and more than \$850 million in annual premium revenue. The Authority is the largest purchaser of catastrophe reinsurance in the United States, and the second largest in the world. Although the Authority is publicly managed, its business purpose is comparable to that of a private-sector residential-property-insurance company. That means the organization requires professional reinsurance expertise on-staff to fulfill its mission.

In July 2019, the Legislature enacted AB 1054, an urgency measure to address the instability in the state's public utility market related to utility-caused wildfires. AB 1054 created a new \$21 billion insurance fund – the Wildfire Fund – and assigned to the Authority the duty to stand-up and administer the Wildfire Fund. The Authority's duty to maintain catastrophe related claim-paying has grown to nearly \$40 billion.

In sum, the combination of the growth of the Authority's earthquake insurance business, coupled with the assignment to act as Administrator of the California Wildfire Fund, has required the Authority to seek to upgrade certain key positions to properly staff up to ensure it can meet its mission.

C. ROLE IN POLICY INFLUENCE

12. Provide 3-5 specific examples of policy areas over which the CEA position will be the principle policy maker. Each example should cite a policy that would have an identifiable impact. Include a description of the statewide impact of the assigned program.

- The CEA position will direct the legal and policy aspects of developing new reinsurance and risk transfer markets to ensure the Authority can meet its rapidly increasing amounts of risk transfer it requires. The growth and development of new markets and alternative legal structures for risk transfer will allow the Authority to absorb its increased risk exposure, thereby allowing the Authority to mitigate premium increases to policyholders.
- The CEA position will play a vital role in executing risk transfer strategies and policies for the Wildfire Fund for the purpose of extending the durability of the Wildfire Fund. The more durable the Wildfire Fund is, the more stable the State's utility markets will be, and the less likely it will be that any of the three largest utility companies in California are required to file for bankruptcy protection.
- The CEA position will establish post-catastrophe collection policies and procedures that will ensure that the two catastrophe insurance funds are able to collect the billions of dollars in reinsurance recoveries necessary to pay claims.

C. ROLE IN POLICY INFLUENCE (continued)

13. What is the CEA position's scope and nature of decision-making authority?

The proposed position will have executive level decision-making authority on the legal and policy aspects of the execution on the Authority's risk transfer programs as noted above.

14. Will the CEA position be developing and implementing new policy, or interpreting and implementing existing policy? How?

Both. Please see prior responses and duties. The Deputy General Counsel for Risk Transfer will be both implementing new policies (Wildfire Fund) and enhancing existing policies (earthquake risk transfer).