

# KBRA Affirms Rating for California Earthquake Authority's Series 2022A Revenue Bonds

New York (September 14, 2023)

KBRA affirms the A+ long-term credit rating (LTCR) for the California Earthquake Authority's (CEA) Series 2022A Revenue Bonds. The Outlook is Stable.

## Key Credit Considerations

The rating on the revenue bonds is based on KBRA's assessment of the CEA's financial strength as an essential earthquake insurance provider in the state of California as well as key structural aspects of the bonds. As of June 30, 2023, the CEA has multiple sources of claims paying capacity (CPC) totaling \$19.7 billion, which approximates a modelled 1-365-year return period loss event and provides ample coverage of a recast of the top two historical events, the San Francisco and Northridge earthquakes. The CEA is the leading insurer for residential earthquake risk in California and has demonstrated deep knowledge and technical capabilities for this highly specialized insurance peril and has maintained a sophisticated and diversified risk transfer program. A high quality investment portfolio with a strong liquidity profile is a favorable credit factor. Balancing these strengths is the potential for operational risk, as there has not been a major earthquake in California since Northridge, and as historical earthquake events and data are limited, modeled earthquake losses could be subject to significant model error. In addition to model error, there is the potential of significant unmodelled events. Given the impact of market conditions which has contributed to an overall hardening of the global reinsurance market relative to an increasing exposure base, reinsurance costs for the CEA have increased and could pose challenges to place future risk transfer programs.

The California Earthquake Authority Revenue Bonds benefit from a pledged security interest in future premiums collected on CEA earthquake policies across the state as well as a pledge of the CEA's Available Capital as defined under the California Insurance Code. The CEA issues Revenue Bonds to enhance its CPC, diversify its capital structure, and reduce the cost of its risk transfer program.

## Rating Sensitivities

Significant CPC growth relative to PMLs over the long-term, a favorable change in the composition of CPC, reduced reliance on risk transfer mechanisms, available capital becoming the predominant source of claims funding and favorable regulatory and/or legislative changes may result in positive rating action.

Material changes in risk management strategies including, but not limited to, reduced CPC relative to current minimum coverage of 1-350-year PML, a decline in risk transfer ability or credit quality of the CEA's reinsurance program, deterioration of CPC from a meaningful loss event/series of events which is not promptly replenished, regulatory and/or legislative changes negatively affecting the function and scope of the CEA, liquidity event causing delay in claims payments, and breach of financial bond covenants may result in negative rating action.

To access rating and relevant documents, click [here](#).

## Methodologies

[Insurance: Insurer & Insurance Holding Company Global Rating Methodology](#)

[ESG Global Rating Methodology](#)



---

## Analytical Contacts

**Jack Morrison, Director (Lead Analyst)**

+1 646-731-2410

[jack.morrison@kbra.com](mailto:jack.morrison@kbra.com)

**Ethan Kline, Associate**

+1 646-731-1278

[ethan.kline@kbra.com](mailto:ethan.kline@kbra.com)

**Peter Giacone, Senior Managing Director  
(Rating Committee Chair)**

+1 646-731-2407

[peter.giacone@kbra.com](mailto:peter.giacone@kbra.com)

## Business Development Contact

**Tina Bukow, Managing Director**

+1 646-731-2368

[tina.bukow@kbra.com](mailto:tina.bukow@kbra.com)

## Disclosures

A description of all substantially material sources that were used to prepare the credit rating and information on the methodology(ies) (inclusive of any material models and sensitivity analyses of the relevant key rating assumptions, as applicable) used in determining the credit rating is available in the Information Disclosure Form(s) located [here](#).

Information on the meaning of each rating category can be located [here](#).

Further disclosures relating to this rating action are available in the Information Disclosure Form(s) referenced above. Additional information regarding KBRA policies, methodologies, rating scales and disclosures are available at [www.kbra.com](http://www.kbra.com).

## About KBRA

Kroll Bond Rating Agency, LLC (KBRA) is a full-service credit rating agency registered with the U.S. Securities and Exchange Commission as an NRSRO. Kroll Bond Rating Agency Europe Limited is registered as a CRA with the European Securities and Markets Authority. Kroll Bond Rating Agency UK Limited is registered as a CRA with the UK Financial Conduct Authority. In addition, KBRA is designated as a designated rating organization by the Ontario Securities Commission for issuers of asset-backed securities to file a short form prospectus or shelf prospectus. KBRA is also recognized by the National Association of Insurance Commissioners as a Credit Rating Provider.