Community Investment Survey (CIS) 2014

California Organized Investment Network, California Department of Insurance

June 2014

California admitted insurers hold approximately $6.5 trillion in assets in the United States. Of these holdings, between $5.2 billion in 2009 and $8.8 billion in 2012 were held in COIN Qualified Investments in low-to-moderate income areas, green, and rural investments in California.

CALIFORNIA ORGANIZED INVESTMENT NETWORK (COIN)

The California Organized Investment Network (COIN) was established in 1996 as a unit within the California Department of Insurance (CDI), and its mission is to guide insurers on making safe and sound investments that yield environmental benefits throughout California and/or social benefits within the State's underserved communities. More information about COIN is found at http://www.insurance.ca.gov/0250-insurers/0700-coin/.

Insurance Commissioner Dave Jones made COIN a top priority upon assuming office in 2011. Recognizing the need for more community investment by insurers, the Commissioner sent a letter to the Chief Executive Officers of insurance companies in February 2011 and strongly encouraged them to invest in underserved communities through COIN. Annual investment through COIN has continually increased each year since 2011.

COMMUNITY INVESTMENT SURVEY (CIS) 2014 DATA CALL

In 2013, COIN conducted the CIS 2014 Data Call to bring transparency to the amount of capital that insurers held in California community development investments between 2009 and 2012, including high impact, community infrastructure, green, and rural investments. Aggregate annual amounts of insurer community development, high impact, and green investments can be found at https://interactive.web.insurance.ca.gov/coinweb/index.jsp?content=insurerSimpleSearch

EXECUTIVE SUMMARY

Insurers that wrote $100 million or more in California premiums made 85% of COIN qualified investments between 2009 and 2012. COIN recommends limiting its scope from all insurers to those that write $100 million or more in California premiums, reducing insurer reporting to acquired investments made in the current year, extending the CIS Data Call, and a third party analysis of what insurer community investments would be in California if insurers were subject to the Community Reinvestment Act.

RECOMMENDATIONS

1. Extend the CIS Data Call from January 1, 2015 until January 1, 2020.
2. Limit CIS Data Call reporting to those insurers that write annual California premiums of $100 million or more.
3. Reduce CIS Data Call reporting to investments acquired in the current year.
4. Evaluate the potential for insurers to make community development investments in California if they were subject to the Community Reinvestment Act.

QUICK FACTS
CIS 2014 DATA CALL

COIN began in 1996

AB 925 (Ridley-Thomas, 2006) established the CIS Data Call in 2007

CIS 2014 Data Call requires insurers to report their investments in low-to-moderate income areas, green, and rural investments in California

CIS Data Call ends 1/2015

Without extending the sunset, insurers may decrease their community investments to pre-COIN levels

CIS 2014: 2009-2012 COIN investments

- 1,044 insurers responded
- 100% insurer response rate
- 19,153 investments
- 9,988 were rejected
- 48% were COIN qualified

High Impact Investments

2009: $943.3 million
2010: $1.1 billion
2011: $1.5 billion
2012: $2.4 billion

Guided Investments

2012: $1.3 billion

Green Investments

2009: $538.4 million
2010: $1.1 billion
2011: $1.5 billion
2012: $2.3 billion

Total Qualified Investments

2009: $5.2 billion
2010: $6.3 billion
2011: $7.5 billion
2012: $8.8 billion

COIN QUALIFIED INVESTMENTS

COIN qualified investments are insurer investments verified by COIN to provide a positive environmental or social impact to low-to-moderate income (LMI) households or areas, as well as rural communities in California. The types of investments that are qualified by COIN are outlined below.

1. **High Impact Investments** are investments sourced and/or structured by COIN for insurers, or insurer investments that are innovative, responsive to community needs, not routinely provided by insurers, or have a high degree of positive impact on the economic welfare of LMI households or areas in California.

   In 2012, a total of four High Impact Investment Bulletins were approved by COIN and marketed to all 1,044 insurers. Only one of these High Impact Investment Bulletins, the COIN CDFI Tax Credit Program, was funded by insurers. The CDFI Tax Credit Program received $8.3 million in funding from 15 insurers in 2012.

   Example: California Automobile Insurance Company invested $1.8 million in a COIN CDFI Tax Credit equity investment with Enterprise Community Investment that yielded competitive returns and the below benefits.
   - 326 units of permanent low income housing
   - 134 homeless shelter units
   - 16 transitional supportive housing units for the homeless

HIGH IMPACT HOLDINGS AT YEAR END			
Year	Count	COIN Qualified Holdings at Year End	Percent Change, Year Over Year
2009	275	$ 943,296,888	-
2010	321	$ 1,075,800,650	14%
2011	364	$ 1,544,057,829	44%
2012	436	$ 2,405,714,963	56%

Types of High Impact Investments

A. **High Impact Bulletins** are investments that COIN investment officers have vetted for their social or environmental impact and financial safety and soundness. COIN notifies insurers of bulletins and sends them email reminders of remaining investment availability. Though COIN lacks a formal marketing program, Commissioner Jones and members of the COIN Advisory Board promote the bulletins through their meetings with insurer executives. COIN could host investment forums through which insurer investment executives, asset managers, community development financial institutions (CDFIs), and targeted California investment funds could potentially develop ideas and partnerships for investments. More information about COIN's High Impact Bulletins can be found online. http://www.insurance.ca.gov/0250-insurers/0700-coin/InvestmentBulletins.cfm

B. **CDFI Tax Credit Investments** are equity, equity-like debt instruments, and 0% interest deposits invested into a COIN Certified CDFI. Each year, COIN allocates a state tax credit of 20% on qualified investments with a minimum value of

QUICK FACTS
COMMUNITY DEVELOPMENT INVESTMENT POLICY STATEMENTS

AB 41 (Solorio, 2010)

Insurance Code Section 926.3: (a) It is the policy of the State of California that:

(1) Insurers should, where practicable, be supportive of community development investments and community development infrastructure investments, and insurers should be encouraged to invest in prudent community development investments and community development infrastructure investments that benefit California and California's LMI communities;

(2) Every admitted insurer that writes a substantial amount of insurance in the state should consider community development investments and community development infrastructure investments; and

(3) The California Organized Investment Network is a part of the department, and has the responsibility to pursue active measures to encourage community development investing by admitted insurers.

$50,000 and duration of 60 months. The total annual available COIN CDFI tax credit is $10 million, which leverages up to $50 million of private investment into COIN certified CDFIs.

AB 32 (Pérez, 2013) increased the cap on the annual aggregate amount of qualified investments made into COIN certified CDFIs from $10 million to $50 million, which will yield an estimated 3,128 jobs and an economic impact of $460.4 million for California between the 2013 to 2016 period, after which it is scheduled to sunset. In the 2014 calendar year, COIN will allocate up to $18 million in tax credits, leveraging $90 million in COIN qualified tax credit investments.

2. **Guided Investments** are investments sourced and/or structured by COIN for insurers in accordance with COIN's programmatic guidelines and market conditions. Sourcing and structuring investment opportunities for insurers through the Guided Investment Program has proven very effective at securing insurer investment for critical community development and green investments.

An example of a Guided Investment is the Topaz Solar Energy project, which is a COIN Guided Investment that received $681.7 million of insurer investment.

Topaz Solar Energy Project, 2012

- Received $681.7 million of investment from 27 insurer investors
- Created 400 full-time positions in a rural area of San Luis Obispo County
- Produces 550 megawatts of solar power, enough to power 160,000 average California homes
- Supports California Renewable Portfolio Standards, which require at least 33% of each California investor-owned utility's retail electricity sold must be procured from renewable energy sources by 12/31/20.

Although 27 insurers invested in the Topaz Solar Energy Project, only 11 insurers reported $189.9 million in investments in it (vs. actual $681.7 million investment). That means that only 41% of insurers who invested in Topaz Solar Energy Project actually reported these investments to COIN in the CIS 2014 Data Call.

COIN and insurers could potentially double the 2012 annual amount of guided investments sourced, structured, and reported, investments from $1.3 billion to $2.6 billion in 2015. To accomplish this, COIN needs to:

- Further develop the COIN investment platform to increase the supply of Guided Investments available and improve their visibility.

  COIN has taken steps to partner with Bloomberg to create an investment filter for COIN qualified investments that would allow insurers and external fund managers to easily identify, compare, and report COIN qualified investments. COIN staff will continue to source and structure investment opportunities for insurers.

- Limit COIN to working with large insurers that write more than $100 million in annual California premiums.

  Large insurers made 85% of COIN qualified investments between 2009- 2012, and have the greatest capacity to make COIN investments. By focusing on large insurers, COIN will reduce the number of insurers it works with by 80% (from 1,044 insurers to 208), allowing COIN more time to source and structure investments.

- Dedicate investment staff to support insurers, work with community groups, and source/structure investments.

  With new staff now dedicated to the tax credit initiatives, COIN's Investment Officers will have more time for this function.

3. **Green Investments** emphasize renewable energy projects, economic development, and affordable housing focused on infill sites so as to reduce the degree of automobile dependency and promote the use and reuse of existing urbanized lands supplied with infrastructure for the purpose of accommodating new growth and jobs.

GREEN INVESTMENT HOLDINGS AT YEAR END		
Year	COIN Qualified Holdings at Year End	Percent Change, Year Over Year
2009	$ 538,433,959	-
2010	$ 1,078,246,362	100.26%
2011	$ 1,512,904,735	40.31%
2012	$ 2,310,556,874	52.72%

Green investments (AB 1011, Jones, 2010) were added to the CIS Data Call to also include investments that can help communities grow through new capital investment in the maintenance and rehabilitation of existing infrastructure. Capital in green investment provides for the reuse and reinvention of city centers, existing transportation corridors, and community spaces. Projects include offering energy efficiency improvements and renewable energy generation, such as solar and wind power, mixed-use development, affordable housing opportunities, multimodal transportation systems, and transit-oriented development that can advance economic development, jobs, and housing.

An example of a COIN Qualified Green Investment and of a Guided Investment is the Genesis Solar Energy Project described below.

Genesis Solar Energy Project

- Located in a low-income area of Riverside County
- Solar electric generating facility that will create renewable energy and provide jobs in a high unemployment area
- 250 MW solar energy generating facility
- Expected to create 800 jobs during construction and maintain 40-70 full-time employees once operational.

Parabolic trough solar thermal technology

Source: California Energy Commission

In 2012, 27 insurers invested a total of $659.6 million in the Genesis Solar Energy Project, but only 24 insurers reported $411.1 million in investments in Genesis Solar Energy Project. That means that 89% of insurers who invested in Genesis Solar Energy Project reported these investments to COIN.

QUICK FACTS
GREEN INVESTMENTS

AB 1011 (Jones, 2010) added green investments to the CIS Data Call that:

- Reduce the degree of automobile dependency
- Promote the use and reuse of existing urbanized lands
- Help communities grow through new capital investment in the maintenance and rehabilitation of existing infrastructure
- Offer energy efficiency improvements

Examples of Green Investments:

- Reuse and reinvention of city centers
- Existing transportation corridors and community space
- Solar and wind power
- Mixed-use development
- Affordable housing
- Multimodal transportation systems
- Transit-oriented development

Green Investments:

2009: $538.4 million

2010: $1.1 billion

2011: $1.5 billion

2012: $2.4 billion

4. **Rural Investments** are those investments made in areas of California with a population of 50,000 or fewer people and not contiguous to an urban area, as defined by the USDA Rural Development Business and Industry Loan Guarantee program.

RURAL INVESTMENT HOLDINGS AT YEAR END			
Year	Count	COIN Qualified Holdings at Year End	Percent Change, Year Over Year
2009*	20	$ 53,589,161	-
2010	27	$ 161,979,789	202.26%
2011	31	$ 125,840,499	-22.31%
2012	41	$ 301,206,937	139.36%

*2009 percent changes are not included because rural investments were not reported in the CIS 2009 Data Call

Rural Investment Example, Schedule B: A $3.2 million investment into the rural community of Holt, California yielded competitive returns in 2009 and created the following benefits:

- Water efficiency, annual crop, and agricultural benefits to the Holt, California rural community

5. **Community Development Investment** includes, but is not limited to, investments in California in the following:

- Affordable housing
- Community facilities or community service providers directly benefiting LMI individuals, families, or areas
- Economic development: job creation/retention/improvement, provision of needed capital to LMI, individuals, families, or areas, including urban or rural communities, or businesses or nonprofit community service organizations that serve these communities
- Activities that revitalize or stabilize LMI communities
- Investments in or through COIN Certified CDFIs or other California CDFIs

6. **Community Development Infrastructure** investments are California public debt (including all debt issued by the State of California or a California state or local government agency) where all or a portion of the debt has as its primary purpose community development, or that directly benefits LMI communities.

Example from Schedule D:

In 2012, multiple insurers invested into San Bernardino City Unified School District that has 94% student eligibility for Free or Reduced-Price Lunch. Source: http://www.cde.ca.gov/ta/ac/ap/

QUICK FACTS
TYPES OF INSURER INVESTMENTS

Relating Schedules to Asset Classes and Examples

- **Schedule A** includes real estate directly owned by an insurer
- **Schedule B** includes long-term mortgage loans

  Example: $3.2 million investment into the rural community of Holt, California yielded competitive returns in 2009 and created the following benefits: Water efficiency, annual crop, and agricultural benefits to the Holt, California rural community
- **Schedule BA** includes all other unrated long-term investments
- **Schedule D** includes long-term stocks and bonds

  Example: In 2012, multiple insurers invested into San Bernardino City Unified School District that has 94% student eligibility for Free or Reduced-Price Lunch.
- **Schedule E** includes short term cash and cash equivalents

DATA CALL PROCESS

In August, 2013, COIN sent all 1,044 California admitted insurers the CIS 2014 Data Call. COIN spent more than 20,000 hours assisting insurers to identify community development and green investments before the CIS 2014 due date of January 1, 2014. All insurers responded, and a combined total of 19,153 investments were submitted to COIN.

1. Investment Verification

All data call investments submitted were evaluated for their compliance with the requirements set forth in CIC 926.1 and the definitions in the COIN Statistical Plan. COIN used the following sources to verify insurer investments:

1. Investment databases: Bloomberg, Preqin, LoopNet, ERISA, NAIC iSite
2. Investors and vendors: insurer investment executives, external fund managers, investment advisors
3. Satellite maps: Google and Bing
4. Community organizations and CDFIs
5. Government: Federal Financial Institutions Examination Council Geocoding System, 2010 Census, State of California Department of Housing and Community Development, and city and county community development departments
6. California Department of Insurance: Financial Analysis Division and Statistical Analysis Division

In addition, COIN reviewed its internal records of insurer investments through the COIN CDFI Tax Credit program and found that one insurer, UnitedHealth Group, made a $2.8 million high impact COIN investment in 2012, but did not report it in the CIS 2014 Data Call.

2. Rejected Investments

COIN rejected those investments that did not satisfy the definition of a COIN qualified investment according to CIC 926.1, or that did not provide required reporting information as indicated in the CIS 2014 Statistical Plan. Prior to the publication of this report, COIN sent a letter to all insurers with rejected investments and provided them with the opportunity to respond with additional information if they felt the rejected investment(s) should qualify.

The majority of investments that were rejected were non-green or non-rural investments made outside of LMI areas or with no direct benefit to LMI persons. In some cases, insurers reported investments that had never been filed in their annual statements or were made in 2008 and had been previously reported in the CIS 2009 Data Call. Throughout the CIS 2014 Data Call process, COIN has communicated with insurers' investment, government relations, and data call reporting staff to request additional information before determining whether or not investments would be rejected by COIN. COIN requested additional information from insurers regarding their rejected investments and has made every effort to provide insurers with an opportunity to provide additional information regarding their reported investments. The COIN team has spent hundreds of hours corresponding with insurers about investments they planned to submit or had submitted. Below are the reasons why COIN may have rejected an investment:

1. Missing information: address on Schedule B real estate investments, city or area, or investment type
2. Insurer did not actually make the reported investment and/or the investment reported could not be found on the company's balance sheet or annual statement
3. No benefit to LMI individuals or communities: the majority of the population or area served by the investment is not LMI, or the number or percentage of LMI households served was not or cannot be identified
4. Philanthropy, grants, in-kind gifts, or other forms of charity are not investments
5. Investments that were not made between 2009 and 2012

Examples of Rejected Investments

Example 1:

In 2012, an insurer reported a $240 thousand commercial mortgage loan located at 6613 Bay Laurel Place, Avila Beach, CA, 93023. This property is located inside of the San Luis Bay Estates, which is a gated community that has a private access road to the 18-hole Avila Beach Resort Golf Club.

Example 2:

In 2012, an insurer reported $94.2 million in real estate located at 515 S Figueroa St, Los Angeles, CA, 90071. The business at this location is called the Manulife Plaza which is a 21 story upscale office building located in the center of the Los Angeles Financial District.

Example 3:

In 2012, an insurer reported $148.4 million in real estate located at 865 S Figueroa St, Los Angeles, CA, 90017. The business at this location is called the Tower Company of the West (TCW) Tower which is a 39 story upscale office building located in the Los Angeles Financial District.

Example 4:

In 2012, an insurer reported a $6.1 million commercial mortgage loan located 725 Arizona Ave, Santa Monica, CA, 90401. The business is a state-of-the-art casting studio with private patios and a sundeck with ocean views.

Of the 19,153 investments reported in the CIS 2014 Data Call, 9,988 were rejected. Since 52% of investments submitted to COIN were determined to not actually benefit LMI communities or provide a positive environmental impact, it is critical for COIN to work closely and on a regular basis with insurer investment staff to identify COIN qualified investments. For example, COIN could qualify investments as insurers make them or source and structure investments for insurers through COIN's Guided Investment Program. A rejection rate of 52% indicates that insurers have substantially over reported the number and dollar amount of the community development, rural, and green investments they made in California between 2009 and 2012. This further underscores the necessity of future CIS data calls and the evaluation of insurer investments by COIN staff.

3. Over Reporting of California Community Development Investments

Over reporting of insurer California community development investments is not just limited to the CIS 2014 Data Call. Each data call prior to this one has greatly misreported insurer community developments in California due to two factors.

The first factor is that insurers report investments to COIN that they held, and not investments actually made, in a given year. For example, an insurer might submit a 10-year investment of $10 million to COIN as an annual investment in the CIS Data Call and in previous data calls COIN would report this as a unique investment and add it to the total of insurer COIN qualified investments (see Example 1 below). The second factor is that COIN has in previous data calls added up annual aggregate insurer COIN qualified investments to determine the total amount insurers have invested through COIN since the program's inception.

Example 1: An Insurer makes a $10 million investment of a 10-year term into affordable housing in 2005

- $10 million investment is reported annually by the insurer to COIN in years 2005 through 2015
- COIN conducts the CIS 2009 Data Call for investments made in 2007 and 2008
- Insurer reports the $10 million investment in 2007 and again in 2008
- COIN reports in the CIS 2009 Data Call that the insurer invested $20 million
- COIN repeats this mistake with the other 1,000 or so reporting insurers
- Insurers over reported community development investment by up to four times for the CIS 2014 data call that included 2009 through 2012.

Below is another example that illustrates how insurer investments have been over reported by insurers and COIN. Annual holdings may represent prior investments made by insurers as well as acquired investments in that year. Therefore, aggregating the annual holding numbers multiplies the level of over reporting (Example 2).

Example 2: COIN Qualified Holdings at Year End

COIN QUALIFIED HOLDINGS AT YEAR END		
Year	Dollar Amount	Percent Change, Year Over Year
1996	$ 190,680	-
1997	$ 641,279,754	336211.93%
1998	$ 744,289,796	16.06%
1999	$ 936,829,205	25.87%
2000	$ 1,016,048,620	8.46%
2001	$ 1,062,249,230	4.55%
2002	$ 1,053,349,084	-0.84%
2003	$ 1,234,971,113	17.24%
2004	$ 2,056,201,171	66.50%
2005	**$ 2,953,142,955**	**43.62%**
2006	$ 3,158,682,344	6.96%
2007	**$ 2,559,193,064**	**-18.98%**
2008	$ 1,568,675,941	-38.70%
2009	$ 5,248,720,148	234.60%
2010	$ 6,329,618,799	20.59%
2011	$ 7,485,918,436	18.27%
2012	$ 8,810,543,529	17.69%
2013	**TBD**	**-**

CIS Data Call years are in BOLD

The above table shows annual aggregate insurer COIN qualified investments reported by COIN. Annual aggregate insurer investments include multi-year investments reported several times over. To determine the total amount of California community development investments made by insurers, COIN mistakenly totaled the annual holdings and over reported insurer investments through COIN as totaling $19 billion since COIN's inception.

QUICK FACTS
OVER REPORTING OF CALIFORNIA COMMUNITY DEVELOPMENT INVESTMENTS

- Each data call prior to this one has greatly misreported insurer community developments in California due to:
- **Factor 1:** Insurers report investments to COIN that they held, and not investments actually made, in a given year
- **Factor 2:** COIN has in previous data calls added up annual aggregate insurer COIN qualified investments to determine the total amount insurers have invested through COIN since the program's inception

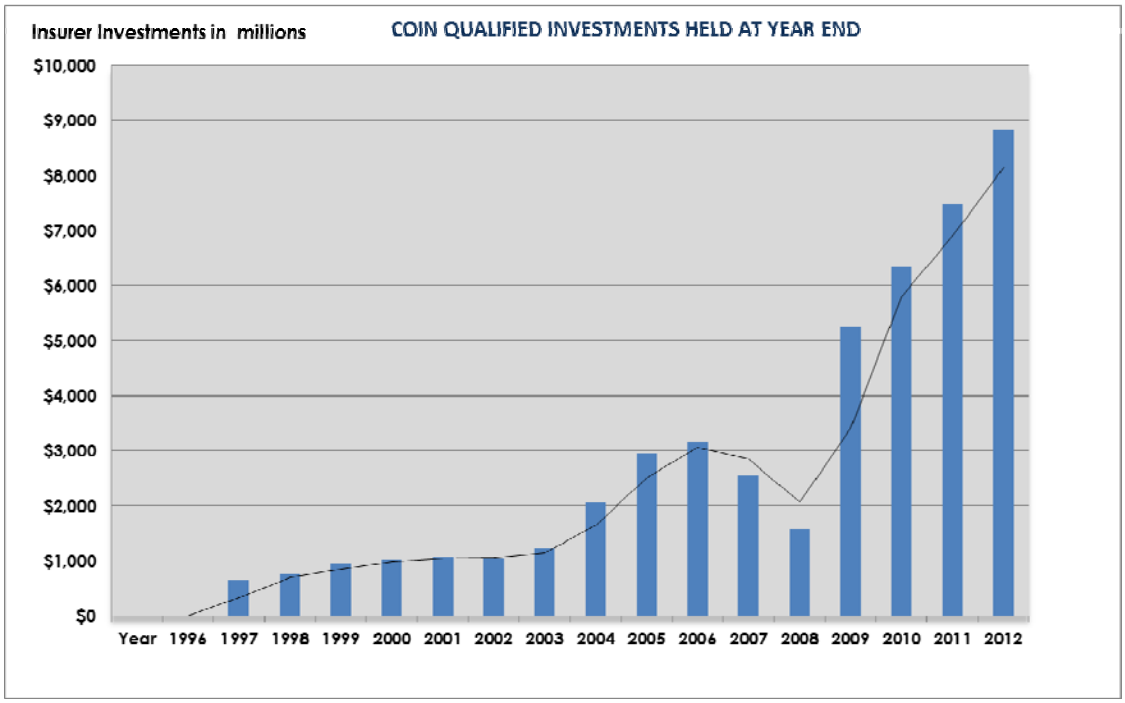
4. Limitations of the CIS 2014 Data Call Results

Conducting a two-year CIS Data Call typically requires the work of approximately four full-time investment officers over a one-year period. The CIS 2014 Data Call analysis took more than 20,000 hours to analyze all investments submitted for community development, green, and rural investments in addition to preparing, coordinating, and reporting the COIN qualified investments. However, COIN utilized resources from other Department of Insurance units to help analyze all submitted investments.

KEY FINDINGS ON HOLDINGS AND IMPACT

1. COIN Qualified Investment Trends

Insurers invest premium dollars to build their reserves for future claim payments, run their companies, earn a profit, and make returns for their owners. Invested premium dollars add up to a substantial amount of insurance company investments. Insurer investments must be safe and sound, and diversified to mitigate risk. Insurance companies must be able to liquidate their investments to pay claims. Therefore, insurers tend to make investments that have predictable levels of risk and return. Note that health insurers pay claims with regular frequency. Property & casualty, and title insurers also have a shorter investment horizon, whereas life insurance companies have a longer investment horizon. A trend line of increased investments occurred from 2009 to 2012 due to improving capital markets beginning in 2010 to 2011, post the recession. Additionally, Commissioner Jones made COIN a top priority upon assuming office in 2011, which is another reason why the number of community development investments started to rise.



2008: Great Recession
2009: Economic Recovery Begins
2010: Green Investments Added
2012: Rebuilding of COIN

In late 2011, Commissioner Jones hired a Managing Director to rebuild COIN. In 2012, a new Investment Officer joined the COIN team and began to restructure the COIN CDFI Tax Credit program. The amount of community investment insurers made since 2011 has continually increased and is expected to continue to increase under the leadership of Commissioner Jones, Speaker Emeritus Pérez, and new COIN staff, despite severe limitations on access to capital in the financial markets during the last downturn. COIN has also grown in scope to include green investments (AB 1011, Jones, 2010), an advisory board (AB 624, Pérez, 2011) and a quintupling of the annual available amount of COIN CDFI Tax Credit Investment (AB 32, Pérez, 2013). COIN's Advisory Board is led by the Insurance Commissioner and comprises several leaders from the insurance industry and consumer advocacy, economic development, legal, and community development organizations. The COIN Advisory Board guides COIN on its policies and procedures for securing and investing insurance capital for community development investment in California. In 2013, the COIN Advisory Board held quarterly meetings and many subcommittee meetings. The COIN Advisory Board subcommittees have been instrumental to COIN staff.

QUICK FACTS
COIN INVESTMENT HOLDINGS BY LINE OF BUSINESS

Life insurers held $7.1 billion in COIN qualified holdings at year end 2012

Property & Casualty insurers held $1.7 billion in COIN qualified holdings at year end 2012

Health insurers held $31.3 million in COIN qualified holdings at year end 2012

Fraternal insurers held $9.9 million in COIN qualified holdings at year end 2012

Title insurers held $400,000 in COIN qualified holdings at year end 2012

2. How Insurers Invest and Qualified Investments by Line of Business

Insurance companies must be able to liquidate their investments to pay claims. Therefore, insurers tend to make investments that have predictable levels of risk and return. Property and casualty and title insurers have a shorter investment horizon, whereas life insurance companies have a longer investment horizon. All insurance companies that received the CIS 2014 Data Call responded. These groups and companies write 85% of the California insurance premiums:

- 1,044 insurer companies
- 451 reported their investments as part of a group
- 119 groups and 261 companies reported qualifying investments

2012 CALIFORNIA PREMIUMS, 2012 TOTAL ASSETS, AND 2012 COIN QUALIFED INVESTMENTS BY LINE OF BUSINESS

Type of Buisness	CA Premiums	Total Assets	COIN Qualifed Investments
Life	$ 57,389,600,574	$ 5,116,828,276,158	$ 7,087,087,178
Property & Casualty	$ 51,603,379,547	$ 1,228,412,346,598	$ 1,681,848,924
Health	$ 6,340,211,999	$ 3,963,075,967	$ 31,348,717
Title	$ 1,334,161,567	$ 7,848,139,712	$ 400,000
Fraternal	$ 495,430,418	$ 113,713,040,062	$ 9,858,710

3. COIN Qualified Investments by Line of Business

When the Commissioner meets with an insurance executive, COIN prepares a report that provides an overview of the insurer's premiums, rank among other insurers in the same line of business, and COIN qualified investment rank. COIN also provides a summary of COIN Investments, including high impact investments by line of business, and California market share/economic impact information. Additionally, COIN provides information on the potential of an insurer to make COIN investments using a leeway calculation, an amount that reflects the maximum capacity of the insurer to make Schedule BA investments through COIN into investments unrated by the NAIC and privately held funds (i.e. private equity, LIHTC, venture capital, joint ventures, and LLCs). Lastly, COIN provides recommendations on other high impact investments and the COIN CDFI Tax credit program with contact information. COIN investments are only a small percentage of the insurer's $6.5 trillion investment holdings.

Life Insurers: Life insurance companies provide end-of-life benefits and some offer disability benefits. Life insurers tend to hold longer-term investments like real estate, mortgage loans, and bonds because their horizon for the payment of claims is longer. In 2012, Life insurers held $5.1 trillion in assets and in California wrote $57.4 billion in premiums, which constituted 49% (the largest share) of the California insurance market. Life insurers held the most COIN qualified investments at the end of each year from 2009 to 2012. The value increase annually is attributable to investments held and also due to a rise in investment valuations from 2009 through 2012.

COIN QUALIFIED INVESTMENTS, LIFE			
Year	Count	Dollar Amount	Percent Change, Year Over Year
2009	1123	$3,535,213,080	-
2010	1369	$4,566,925,325	29.18%
2011	1550	$5,758,449,872	26.09%
2012	1702	$7,087,087,178	23.07%

2009 percent change, year over year is left blank intentionally due to lack of 2008 data

Property & Casualty (P&C) Insurers: Property & Casualty insurance companies provide protection against loss or damage of property and accidents. P&C companies focus on short-term investments, because their assets must be available to pay claims. In 2012, P&C insurers in California wrote $51.6 billion in premiums and constituted 44% (the 2nd largest share) of the California insurance market. From 2009 to 2012, P&C insurers did not meaningfully increase or decrease their year-end COIN investment holdings.

COIN QUALIFIED INVESTMENTS, P&C			
Year	Count	Dollar Amount	Percent Change, Year Over Year
2009	767	$1,700,408,877	-
2010	814	$1,738,552,264	2.24%
2011	840	$1,695,422,357	-2.48%
2012	831	$1,681,848,924	-0.80%

2009 percent change, year over year is left blank intentionally due to lack of 2008 data

Health Insurers: Health insurance companies provide insurance for medical payments. Health insurers hold a mixture of long-term and short-term investments because they are continuously paying claims. In 2012, health insurers in California wrote $6.3 billion in premiums and constituted 5% of the California insurance market. COIN qualified investments held at year-end by health insurers increased each year from 2009 to 2012. The number of investments declined although the value rose.

COIN QUALIFIED INVESTMENTS, HEALTH			
Year	Count	Dollar Amount	Percent Change, Year Over Year
2009	41	$ 9,742,102	-
2010	40	$ 14,190,610	45.66%
2011	38	$ 22,227,740	56.64%
2012	24	$ 31,348,717	41.03%

2009 percent change, year over year is left blank intentionally due to lack of 2008 data

Fraternal Insurers: Fraternal insurance companies provide insurance protection to members of fraternal benefit societies. Fraternal insurers hold their assets in a mixture of long-term and short-term investments because they provide a variety of benefits to fraternal organizations including life and property insurance. In 2012, fraternal insurers in California wrote $495 million in premiums and were less than 1% (the smallest share) of the California insurance market. COIN qualified investments held at year-end by fraternal insurers rose significantly in value in 2010 and marginally in 2012.

COIN QUALIFIED INVESTMENTS, FRATERNAL			
Year	Count	Dollar Amount	Percent Change, Year Over Year
2009	4	$ 3,356,088	-
2010	5	$ 9,950,601	196.49%
2011	5	$ 9,718,467	-2.33%
2012	7	$ 9,858,710	1.44%

2009 percent change, year over year is left blank intentionally due to lack of 2008 data

Title Insurers: Title insurance companies protect the owner's or lender's financial interest in real property against loss due to title defects, liens, or other matters. Since title insurers hold a high percentage of their assets in cash and cash equivalents they could improve their level of social impact in California by investing into COIN certified Community Development Financial Institutions. In 2012, title companies in California wrote $1.3 billion in premiums and constituted 1% of the California insurance market. Title companies only held COIN qualified investments in 2011 and 2012, which increased year over year. Since title insurer companies have a very short investment horizon, they mostly hold cash and cash equivalents in short term investments.

COIN QUALIFIED INVESTMENTS, TITLE			
Year	Count	Dollar Amount	Percent Change, Year Over Year
2009	0	$ -	-
2012	0	$ -	-
2011	1	$ 100,000	-
2012	4	$ 400,000	300.00%

4. COIN Qualified Investments by Schedule

An insurer files annual reports with each state in which it does business. These annual reports provide a snapshot of the financial condition of the company and their investment holdings, and they categorize insurer investments into "schedules" that loosely correspond with asset classes. Insurers invest premium dollars to build their reserves for future claim payments, run their companies, earn a profit, and make returns for their owners. Insurer investments must be safe and sound, and diversified to mitigate risk. Insurance companies must be able to liquidate their investments to pay claims. Therefore, insurers tend to make investments that have predictable levels of risk and return.

Comparing Schedules to Asset Classes

- Schedule A includes real estate directly owned by an insurer
- Schedule B includes long-term mortgage loans
- Schedule BA includes all other unrated long-term investments
- Schedule D includes long-term stocks and bonds
- Schedule E includes short term cash and cash equivalents

Detailed Holdings by Schedule

Schedule A: Real estate directly owned by an insurer includes: 1) properties occupied by a company; 2) properties occupied by an insurer and held for the production of income; 3) properties occupied by an insurer and held for sale; and 4) leasehold improvements to these properties.

SCHEDULE A COIN HOLDINGS							
	Reported		Rejected		Qualified		
Year	#	Dollar Amount	#	Dollar Amount	#	Dollar Amount	Percent Qualified
2009	28	$ 403,807,404	25	$ 371,190,873	3	$ 32,616,531	8%
2010	33	$ 518,547,189	30	$ 485,926,588	3	$ 32,620,600	6%
2011	40	$ 619,363,037	36	$ 530,878,477	4	$ 88,484,560	14%
2012	47	$ 674,198,241	42	$ 584,063,416	5	$ 90,134,825	13%

Schedule B: Long-term mortgage loans. Qualified investments submitted were long-term mortgage loans for affordable housing, small businesses, or warehouse and community facilities benefitting LMI census tract areas/households and/or individuals.

SCHEDULE B COIN HOLDINGS							
	Reported		Rejected		Qualified		
Year	#	Dollar Amount	#	Dollar Amount	#	Dollar Amount	Percent Qualified
2008	137	$ 379,674,606	137	$ 379,674,606			0%
2009	1398	$ 4,574,679,513	672	$ 3,127,936,814	726	$ 1,446,742,699	32%
2010	1649	$ 4,928,655,577	785	$ 3,313,662,088	864	$ 1,614,993,490	33%
2011	1714	$ 6,366,628,119	845	$ 4,342,519,221	869	$ 2,025,601,399	32%
2012	1775	$ 7,722,092,572	810	$ 5,205,031,655	965	$ 2,517,060,916	33%

Schedule BA: All other unrated long-term investments that include: 1) oil and gas production; 2) transportation equipment; 3) mineral rights; 4) fixed or variable interest rate investments that have the underlying characteristics of a bond, mortgage loan, or other fixed income investment; 5) joint ventures, general and limited partnership, and limited liability company interests; 6) surplus notes; 7) collateral loans; 8) capital notes and reverse mortgages; and 9) other long-term assets owned at the end of the current year.

SCHEDULE BA COIN HOLDINGS							
	Reported		Rejected		Qualified		
Year	#	Dollar Amount	#	Dollar Amount	#	Dollar Amount	Percent Qualified
2009	265	$ 828,564,325	12	$ 22,219,125	253	$ 799,358,687	96%
2010	313	$ 1,171,347,163	13	$ 29,309,049	300	$ 1,134,630,003	97%
2011	427	$ 1,414,370,456	16	$ 65,251,633	411	$ 1,341,691,473	95%
2012	437	$ 1,519,018,906	28	$ 30,685,757	410	$ 1,480,887,224	97%

Schedule D: Long-term stocks and bonds. This includes: 1) US Treasury securities; 2) US Government agency securities; 3) municipal securities; 4) corporate bonds; 5) class one bond mutual funds; 6) bank participations; 7) convertible debt; 8) certificates of deposit; and 9) commercial paper.

SCHEDULE D COIN HOLDINGS							
	Reported		Rejected		Qualified		
Year	#	Dollar Amount	#	Dollar Amount	#	Dollar Amount	Percent Qualified
2009	2186	$ 6,011,585,149	1250	$ 2,751,378,281	943	$ 2,968,991,119	49%
2010	2516	$ 7,696,350,038	1482	$ 3,990,099,640	1051	$ 3,546,361,317	46%
2011	2730	$ 8,699,629,506	1618	$ 4,408,219,147	1139	$ 4,029,025,288	46%
2012	2889	$ 9,716,193,186	1751	$ 4,804,154,413	1152	$ 4,716,473,391	49%

Schedule E: Short-term cash and cash equivalents with original maturities of three months or less and include: 1) demand deposits; 2) savings accounts; 3) short-term CDs; and 4) cash equivalents.

SCHEDULE E COIN HOLDINGS							
	Reported		Rejected		Qualified		
Year	#	Dollar Amount	#	Dollar Amount	#	Dollar Amount	Percent Qualified
2009	11	$ 6,755,002	2	$ 5,843,890	10	$ 1,011,112	15%
2010	11	$ 9,918,589	2	$ 9,005,199	10	$ 1,013,390	10%
2011	68	$ 23,033,780	58	$ 22,018,064	11	$ 1,115,716	5%
2012	79	$ 28,712,322	65	$ 26,845,850	16	$ 2,966,472	10%

INSURER RECOGNITION

The top five insurers reporting COIN qualified investments in the table below highlights the insurance companies that made the greatest value of qualifying investments. We included investments reported by insurers that met COIN guidelines. By working closely with insurers and community groups, and through the CIS data call, COIN facilitates the timely and accurate reporting of insurer community development investments in California.

TOP 5 INSURERS REPORTING COIN QUALIFIED INVESTMENTS				
Group	2012 Qualified Holdings	2012 CA Premiums	2012 Total Assets	Qualified Holdings, % of Total Assets
Metropolitan	$2,114,354,135	$ 3,490,250,196	$ 508,879,712,920	0.4%
Prudential	$1,888,116,601	$ 5,560,716,127	$ 418,977,586,242	0.5%
State Farm	$1,980,098,593	$ 5,462,689,752	$ 194,623,589,206	1.0%
Zurich (Including Farmers)	$ 144,346,573	$ 6,778,949,824	$ 81,542,625,628	0.2%
Wellpoint (Including Anthem Blue Cross)	$ 77,509,169	$ 5,323,314,107	$ 3,875,154,229	2.0%

DATA CALL HISTORY

Overview

In 1997, some insurers began to voluntarily report their California community development investments to COIN. Later, a letter from the Insurance Commissioner to chief executive officers of insurance companies in 2001 and a voluntary survey in 2005 (CIS 2005) compelled additional companies to report their community development investments. Insurers were required to report all of their California community development investments made since 2005 when reporting was mandated in January 2007, pursuant to California Insurance Code (CIC) Sections 926.1 and 926.2 that Assembly Bill 925 (Ridley-Thomas, 2006) established.

COIN Legislative History

Under Assembly Bill 925 (Ridley-Thomas, 2006), the first mandatory CIS Data Call in 2007 imposed specified reporting requirements on participating insurers to the Department of Insurance and required the Commissioner to provide certain information on these investments to the public. The 2007 CIS Data Call mandated that insurers report qualified investments they made during the 2005 and 2006 calendar years. This 2007 CIS Data Call was the first to collect information on high impact investments, which includes investments that are innovative; responsive to community needs; not routinely provided by insurers; or have a high degree of positive impact on the economic welfare of LMI individuals, families, or communities in urban or rural California (see CIC 926.2 (b)). The 2007 CIS Data Call was followed by another mandatory CIS Data Call in 2009, which required insurers to report their qualified investments made during the 2007 and 2008 calendar years.

The CIC was amended to include green investments in 2010. Assembly Bill 1011 (Jones, 2010) established green investments as qualified investments in the CIS Data Call and required the department of insurance to biennially post to its web site those insurers that make investments that qualify as green investments and the aggregate amount of identified insurer investments in green investments.

The current 2014 CIS Data Call, mandated under Assembly Bill 41 (Solorio, 2010), is the first to cover a four-year period, which spans from 2009 to 2012. The results of these four CIS Data Calls (2005, 2007, 2009, and 2014) provide COIN with a record of the qualified investments made by insurers in California as required by CIC Sections 926.1 and 926.2.

QUICK FACTS
COIN LEGISLATION

CDI established the COIN program in 1996.

AB 925 (Ridley-Thomas, 2006) established the CIS Data Call.

AB 1011 (Jones, 2010) amended CIC Sections 926.1, 926.2, and 12939 to include green investments.

AB 41 (Solorio, 2010) created the first Data Call to cover a four-year period from 2009 to 2012 and extended the sunset of the program to January 1, 2015.

AB 624 (Perez, 2011) created the COIN Advisory Board.

AB 53 (Solorio, 2012) deals with insurer procurement and supplier diversity, as well as emerging managers in the financial services

AB 32 (Pérez, 2013) quintupled the annual available amount of COIN CDFI Tax Credit Investments to $50 million annually.

AB 2128 (Gordon, 2014) is the current legislation that will extend the COIN programs through January 1, 2020.

CIS data calls capture insurer investments held up to one year prior to the data call. Annual insurer holdings in COIN qualified investments have steadily increased since the CIS data call in 2007, with the exception of 2008, during the great recession.

The current data call reporting method does not accurately portray insurers' COIN qualified investments. Investments are currently reported according to insurer holdings for the data call reporting years. This means that if an insurer made an investment in 2009 and held it in 2010, 2011, and 2012, the investment was reported four times. It also means both COIN and the insurer investor had to review that same investment four times. Reporting investments as snapshots in time and only in the year investments were made, as opposed to the years for which they were held, will decrease insurer workload by reducing the number of investments they must review and submit to comply with the data call. This will subsequently reduce COIN workload by decreasing the number of investments that COIN must evaluate, reject, and qualify. It will also help the data call results provide a more accurate portrayal of an insurer's investments because it will show the investments insurers made each year instead of the investments they have held.

RECOMMENDATIONS

Reducing the workload related to the CIS data call, while still retaining important checks and balances, would allow COIN investment officers to significantly increase the amount of investments sourced, structured, and presented to insurers. If more insurers invest in California, there would be more Californian premiums reinvested, and more job creation as LMI communities would benefit from insurer community development investments. Insurance companies collect more than $124 billion in written premiums annually from Californians, and the insurance economy is important to California and to community development investments. Nearly all Californians pay insurance premiums for some type of insurance, and these premiums should be reinvested back into California.

QUICK FACTS
RECOMMENDATIONS FOR DATA CALL

1. Extend the CIS Data Call from January 1, 2015 until January 1, 2020.
2. Limit CIS Data Call reporting to those insurers that write annual California premiums of $100 million or more.
3. Reduce CIS Data Call reporting to investments acquired in the current year.
4. Evaluate the potential for insurers to make community development investments in California if they were subjected to the Community Reinvestment Act.

1. Extend the CIS Data Call from January 1, 2015 until January 1, 2020

California Insurance Code 926.2 requires each admitted insurer to provide information by January 1, 2014, to the Insurance Commissioner on all of its green investments, community development investments, and community development infrastructure investments in California. In this report, the California Department of Insurance has used information from the CIS-2014 Data Call to provide information to the public about how the insurance industry invests back into California.

Assembly Bill 2128 (Gordon, 2014) was introduced to extend the repeal date of the CIS data call. We recommend that the bill also establish a higher reporting threshold for the CIS Data Call. This new recommended threshold would require admitted insurers with annual written premiums in California equal to, or in excess of, $100 million dollars, to the Commissioner on all their green, community development, and community development infrastructure investments. This recommendation would greatly narrow the scale of the CIS Data Call from all admitted insurers to approximately 200 insurers with premiums written of $100 million dollars or more.

In 2013 COIN reported its findings from the Community Development Investment Policy Statement (CDIPS) Data Call, in which 206 insurers reported their Community Development Investment Policy Statements (AB 41, Solorio, 2010). Of these, only 6 insurers, or 3% of those insurers responding to the survey, had specific goals for community development. The majority of insurers that do business in California reported no community development investment goals.

Insufficient investment in California's low income communities impairs economic vitality, leads to job loss, inhibits the performance of schools, and diminishes the quality of housing. Increased marketing efforts, such as networking events and a COIN Investment Summit, may increase awareness of insurers to the network of COIN Certified CDFIs, and the success that CDFIs are having with different programs that they run. The investment summit may also provide insurers with a better understanding of how easy it is to make COIN qualified investments and facilitate reporting for upcoming data calls. COIN is working to increase insurer awareness of community development projects.

2. Limit CIS Data Call Reporting to Insurers that Write Annual California Premiums of $100 Million or More

In the CIS 2014 Data Call, insurers that wrote in excess of $100 million reported 85% of the total Investments. Limiting CIS Data Call reporting to large insurers reduces the total number of insurers that are required to report to about 200 insurers, an 80% decrease from the 1,044 admitted insurers that are currently required to report. Small and mid-size insurers have limited capacity to make community development investments. With only large insurers reporting in the CIS Data Call, the number of insurers that the COIN team interacts with and notifies of data call deliverables, evaluation, and other communications will decrease by 80%. Fewer insurers reporting in the CIS Data Call will make it possible for COIN to shift its focus to sourcing and structuring community development projects and green investments for the large insurers.

3. Reduce CIS Data Call Reporting to Investments Acquired in the Current Year

Through the CIS Data Call, COIN has observed that the insurance industry currently overestimates its level of community investment by reporting investments that do not qualify or that were not acquired in the reporting year. COIN currently measures the success of the insurance industry in making community development investments by tracking both the number of companies who make these investments and the specific dollar amount of these investments. Both of these metrics are important to COIN in determining the success of the insurance industry in making green and community development investments. COIN proposes simplifying the data call. Requiring insurers to report only their annual acquired investments may reduce insurer and COIN data call time by 40%, eliminate duplication, and improve reporting accuracy.

4. Evaluate the Potential for Insurers to Make Community Development Investments in California if They Were Subject to the Community Reinvestment Act

Insurers need an incentive to participate in COIN's programs because unlike banks, insurers do not have a Community Reinvestment Act (CRA) requirement. The purpose of the Community Reinvestment Act is to encourage depository institutions to help meet the credit needs of the communities in which they operate, including LMI neighborhoods. Each insured depository is evaluated periodically to determine its compliance with the law. The examinations are conducted by the federal agency responsible for supervising the institution. These agencies include The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of Currency. Overall CRA ratings are assigned using a four-tiered rating system for financial institutions.

CONCLUSION

The CIS Data Call is critical to understanding the amount and type of insurer capital in green, LMI, or rural community investments in California. Mandatory reporting of community development investments provides current investment holding information and benchmarks for the California Department of Insurance because this data would not otherwise be available. The information from the CIS-2014 Data Call is important

QUICK FACTS
REASONS FOR DATA CALL

- Helps track insurer investments to make sure insurance companies are reinvesting CA premiums in CA Community Development and/or Green Projects
- Keeping investments in CA helps create jobs in CA and promotes the development of LMI affordable housing
- Need the data call to continue to receive current investment holding for analysis and benchmarking
- Data call helps raise awareness of the COIN program among insurance companies and facilitates meetings with key members in the insurance industry
- Promotes green investments into renewable energy and encourages the reduction of CO2 emissions
- Increases the amount of guided, qualified, and High Impact investments made by insurers

because it allows the California Department of Insurance to track whether the insurance premiums that are collected by insurers are reinvested back in the State of California. Therefore, mandatory reporting of these investments provides motivation for insurers to invest in California over other states.

Currently, the COIN program is the only incentive that insurers have to invest in green, LMI, or rural community investments in California. As has been demonstrated in this report, LMI households and rural communities directly benefit from these investments from the insurance industry. The investments made in green projects and in these disenfranchised communities allow for job creation and therefore help to mitigate unemployment issues within the state. COIN's investment structure is also highly efficient and low cost relative to investment fund managers and/or charities, which makes it easy for insurers to see both the value and returns of making community development investments in California. The COIN program helps facilitate the voluntary participation of insurers in these community development investments which greatly benefit the State of California.

In the future, COIN plans to conduct a survey of insurers, CDFIs, and investment funds to gather information on their experience working with COIN and their feedback on how to improve the COIN program. COIN's CDFI Tax Credit Program has been featured in a report by Pacific Community Ventures, the UC Berkeley Institute for Research on Labor and Employment, the UC Berkeley Institute of Urban and Regional Development, and the Annie E. Casey Foundation titled "Big Ideas for Jobs, Social Impact Investing and Job Creation: Assessing the Potential of an Expanded Tax Credit for Capitalizing CDFIs, In California and Beyond", and COIN looks forward to further evaluation of its programs by distinguished universities and foundations. The COIN program is a unique, innovative model – the only one of its kind in the nation. COIN promotes a mutually beneficial relationship between the private insurance industry and local community development organizations that are working to benefit California's underserved markets.

COIN ADVISORY BOARD MEMBERS

Darrell Teat, COIN Advisory Board Chair, and Managing Director at Nehemiah Community Reinvestment Enterprise
Michael Hickey, COIN Advisory Board Vice Chair and Government Relations Counsel, MetLife
Douglas Bystry, CEO, Clearinghouse CDFI
Stefan Dobrus, CFO, CSE Insurance Group
Paulina Gonzalez, Executive Director, California Reinvestment Coalition
Pat GoPaul, Senior Vice President, Impact Community Capital
Maurilio Leon, Chief Operating Officer, Community Housing Opportunities Corp.
Vanessa Rodriguez, Vice President, Fiona Hutton Associates
Beth Sirull, Executive Director, Pacific Community Ventures
Anthony Tomich, Vice President ERISA, Farmers Insurance
Edouard Jozan, Director, Investment Management, Allianz
Nicholas Roxborough, Partner, Roxborough, Pomerance, Nye & Adreani, LLP

CONTRIBUTORS

COIN Staff

- Stacie Olivares-Castain
- Sukh Randhawa
- Roxane Herrera

COIN Fellows

- Guanjin Lin
- Alejandro Rico

COIN Interns

- Taline Agopian
- Jiuyang Xu
- Novejot Sandhu

CDI Staff

- Community Programs: Charlie Brenneman, Naveen Habib, Chris Shultz, and Regina Wright
- Statistical Analysis Division: Debbie Buenconsejo, Jean Choi, and Luciano Gobbo
- Financial Surveillance Branch: Tomoko Stock and Joyce Zeng
- Information Technology Division: Michael Bonomi, Heidi Harrison, Scott Porco, and Charles Lundberg

CONTACT INFORMATION

SUKH RANDHAWA
INVESTMENT OFFICER, COIN
O: 916-492-3529
Sukhbir.Randhawa@insurance.ca.gov

STACIE OLIVARES-CASTAIN
MANAGING DIRECTOR, COIN
O: 213-346-6869
Stacie.Olivares-Castain@insurance.ca.gov