

KEY FINDINGS - 2009 California Organized Investment Network (COIN)

DATA CALL

Insurer Community Development Investments Benefiting California's Low-to-Moderate Income (LMI) Communities

COIN is a program within the California Department of Insurance. The acronym stands for California Organized Investment Network. It is the first in the nation collaborative effort between the Department of Insurance, community development organizations, advocates and the Insurance industry. COIN seeks to provide leadership in increasing the level of insurance industry investments in California's underserved communities.

Pursuant to California Insurance Code Section 926.2, insurers admitted to do business in California are required to report the community development investments they made in California biennially. The first data call pursuant to this code section was executed on May 31, 2007 and covered 2005 and 2006.

The results of a previously voluntary data call in 2005 (the information from this data call was later made statutorily required by Insurance Code Section 926.2 (f)) together with the 2007 and 2009 statutorily required data calls and data gathered in previous voluntary data calls, provide us with a record of the community development investments insurers made in California for the last 12 calendar years (CY).

California Insurance Code Section 926.1, California Insurance Community Development Article 10.1 provides the following definitions:

(a)"Area median income" (AMI) means either of the following:

(1)The median family income for the Metropolitan Statistical Area (MSA), if a person or geography is located in an MSA, or for the metropolitan division, if a person or geography is located in an MSA that has been subdivided into metropolitan divisions.

(2)The statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

(b)"Community Development Investment" means an investment where all or a portion of the investment has as its primary purpose community development for, or that directly benefits, California low-income or moderate-income individuals, families, or communities. "Community Development Investment" includes, but is not limited to, investments in California in the following:

(1)Affordable housing, including multifamily rental and ownership housing, for low-income or moderate-income individuals or families.

(2)Community facilities or community services providers (including providers of education, health, or social services) directly benefiting low-income or moderate-income individuals, families or communities.

(3) Economic development that demonstrates benefits, including, but not limited to, job creation, retention or improvement, or provision of needed capital, to low-income, or moderate-income, individuals, families, or communities, including urban or rural communities, or businesses or nonprofit community service organizations that serve these communities.

(4) Activities that revitalize or stabilize low-income or moderate-income communities.

(5) Investments in or through California Organized Investment Network (COIN)-certified Community Development Financial Institutions (CDFIs) and investments made pursuant to the requirements of federal, state, or local community development investment programs or community development investment tax incentive programs, if these investments directly benefit low-income, or moderate-income, individuals, families, and communities and are consistent with this article.

(6) Community Development Infrastructure Investments.

(7) Investments in a commercial property or properties located in low-income or moderate-income geographical areas and are consistent with this article.

(c) "Community Development Infrastructure" means 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 for, or that directly benefits, low-income or moderate-income communities and is consistent with subdivision (b).

(d) "Geography" means a census tract delineated by the United States Bureau of the Census in the most recent decennial census.

(e) "Insurer" means an admitted insurer as defined in Section 24, including the State Compensation Insurance Fund, or a domestic fraternal benefit society as defined in Section 10990.

(f) "Investment" means a lawful equity or debt investment, or loan, or deposit obligation, or other investment or investment transaction allowed by the Insurance Code.

(g) "Low-income" means an individual income that is less than 50 percent of the AMI, or a median family income that is less than 50 percent of the AMI in the case of a geographical area.

(h) "MSA" means a metropolitan statistical area as defined by the Director of the Office of Management and Budget.

(i) "Moderate income" means an individual income that is at least 50 percent but less than 80 percent of the AMI, or a median family income that is at least 50 percent but less than 80 percent of the AMI in the case of a geographical area.

(j) "Nonmetropolitan area" means any area that is not located in an MSA.

The Response from the Insurance Industry

The 2009 Data Call covering 2007 and 2008 investments was sent to 1,336 companies: 1,281 responded; 55 did not. Those responding represent 96% of all companies and write 99% of the insurance business in California. 164 companies (12% of all companies doing business in California) reported qualifying investments. These companies write 56% of the California insurance business. The remaining 1,117 respondents reported no qualifying investments. Added to the 55 companies that did not respond, there are 1,172 companies with 44% of the California business reporting no qualifying investments in CY 2007 and 2008.

Insurers reported over 2,747 investments during 2007 and 2008 totaling close to \$6.4 billion that insurers thought might qualify. After careful review and dialogue with the insurers, COIN determined that 1,587 investments totaling \$4.6 billion meet the definitions in the Data Call for California Community Development Investments. In the 2009 data call insurers were given approximately \$500 million credit for reporting previous year's investments which were not reported in previous data calls.

\$4.6 Billion Qualifying Investments by Type of Investment

Commercial mortgages	\$2.2 billion (47% of the total amount)
Bonds	\$1.6 billion (34% of the total amount)
Limited Partnerships (LPs) and Liability Companies (LLCs)	\$789 million (17% of the total amount)
Certificates of Deposit	\$7 million (2% of the total amount)

Life Companies

	2007	2008
CA Premiums	\$65 billion	\$67.9 billion
Total Invested Assets	\$2.8 trillion	\$2.9 trillion

78 companies out of 462 (66% of the market share for Life companies) reported making 706 COIN qualifying investments totaling \$2.8 billion.

Given the differences in the nature of their business, some forms of investments are better suited to the asset/liability needs, and thus are more typical of Life companies than Property and Casualty companies. Thus, Life companies made virtually all of the \$2 billion in qualifying commercial mortgages, which comprised 71% of the Life company total qualifying investments. These represent commercial mortgages made in Low-to-Moderate Income (LMI) census tracts in California.

Property and Casualty (P&C) Companies

	2007	2008
CA Premiums	\$53.5 billion	\$53.4 billion
Total Invested Assets	\$1.1 trillion	\$1 trillion

83 companies out of 806 (with 44% of the market share for P&C companies) made 600 COIN qualifying investments totaling \$1.3 billion.

\$1 billion of their total qualifying investments were in the form of bonds, which comprised 78% of the P&C company total qualifying investments.

Title Companies

	2007	2008
CA Premiums	\$2 billion	\$1.4 billion
Total Invested Assets	\$6.9 billion	\$6.4 billion

One of 22 Title companies doing business in California (1% market share for Title companies) reported qualifying investments – one COIN qualifying investment totaling \$115..

Fraternal Companies

	2007	2008
CA Premiums	\$340 million	\$458 million
Total Invested Assets	\$80 billion	\$80 billion

These 46 companies serving fraternal organizations have \$458 million in total California premiums. Generally, their small size and exclusive focus on service to their membership make it more difficult for them to participate in California community development investing. Two companies collectively made \$3.5 million in qualifying investments.

Focus on High Impact Investments – They can Make a Significant Difference

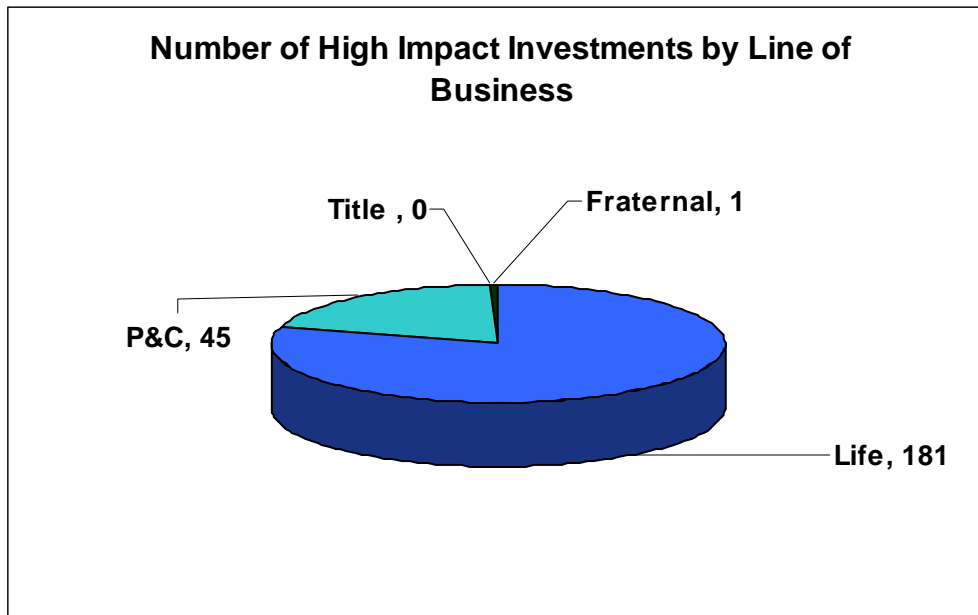
Although all community development investing should be recognized, within the arena of community development investing, there are some investments that merit additional recognition. These community development investments typically involve a non-profit or community development organization and/or meet a special or unmet capital need for low-to-moderate income families and communities. High impact investments differ from normal COIN investments since they are invested into COIN certified community organizations that have created investment bulletins.

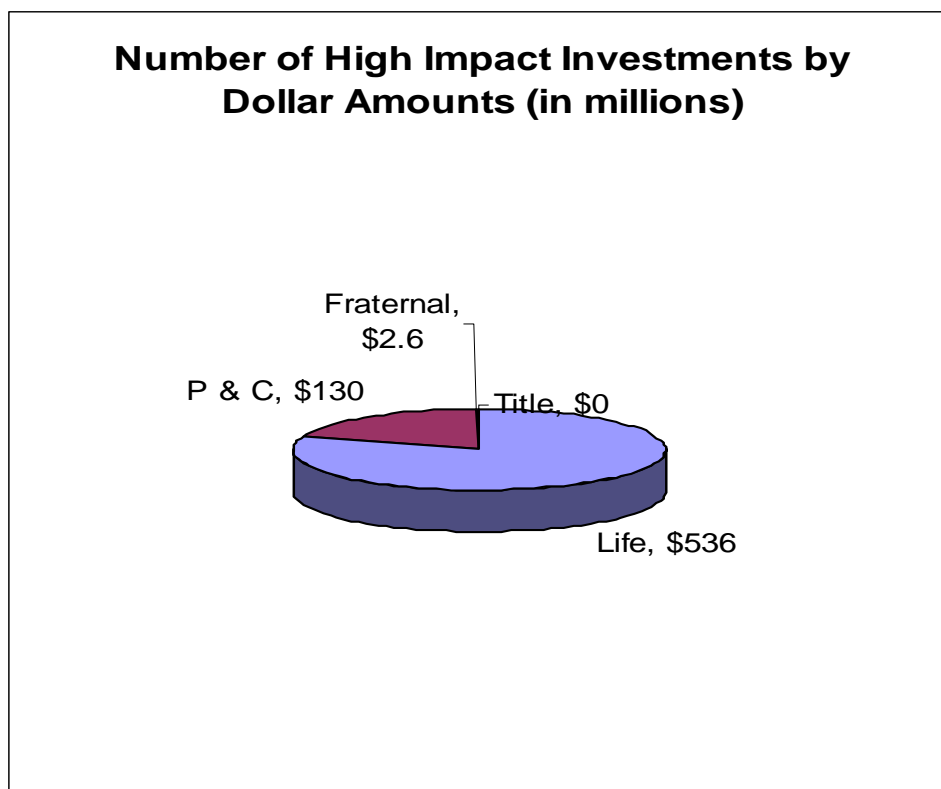
Insurance Code Section 926.2 (b) now provides:

“Insurers that make 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 low-income or moderate-income individuals, families, or communities in urban or rural California shall be identified.”

Included in the total \$4.6 billion and 1,587 investments, insurers made 134 high impact investments in 2007 and 93 high impact investments in 2008 (227 total high impact investments) totaling \$386 million during CY 2007 and \$284 million during CY 2008 (\$670 million total for both CYs). These comprised 17% of the total number of investments, and 16% of the qualifying dollars reported. Many companies learned about the concept of high impact investing for the first time in Spring 2007 when the instructions were issued for the 2007 Data Call.

High Impact Investments by Line of Business	
Life Companies	181 investments totaling \$536 million
Property and Casualty Companies.....	45 investments totaling \$130 million
Title Companies.....	0 investments
Fraternal Companies.....	1 investment totaling \$2.6 million





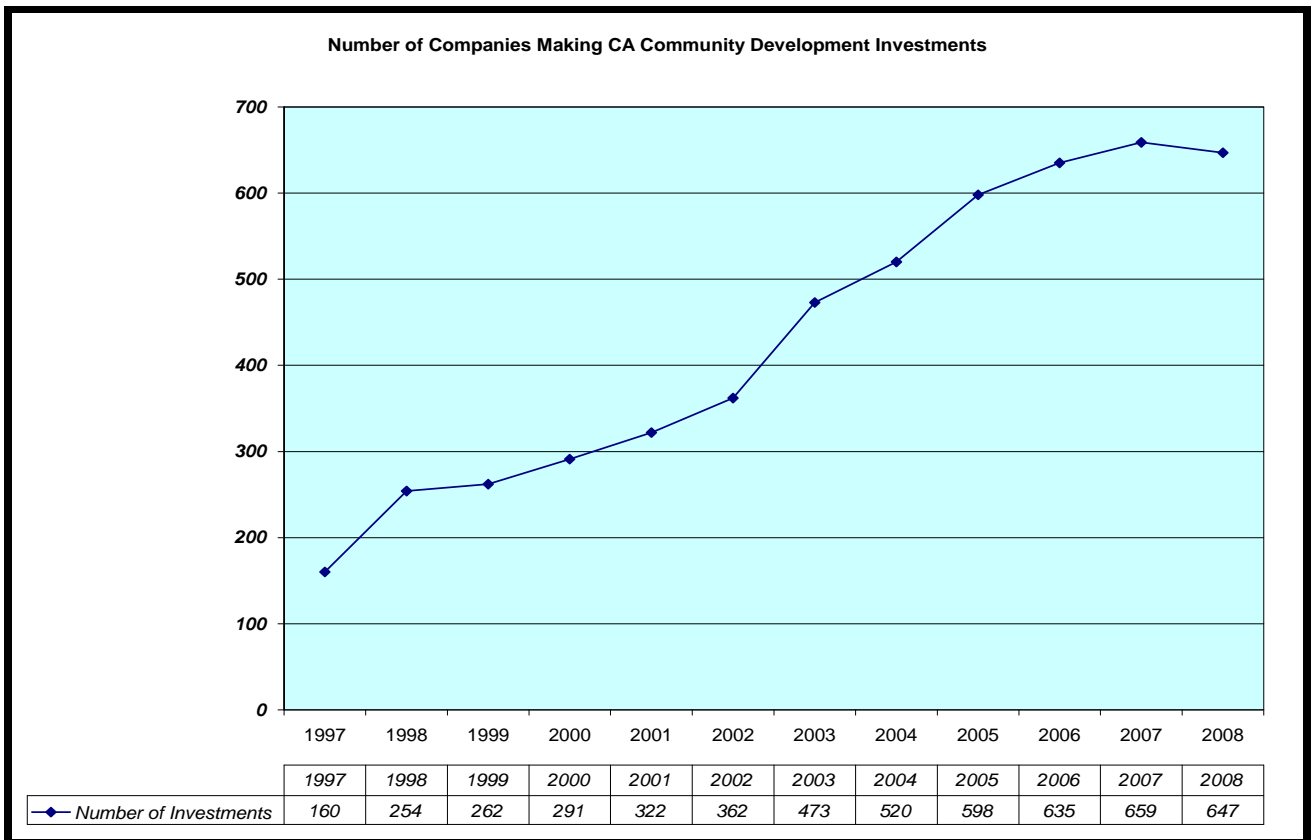
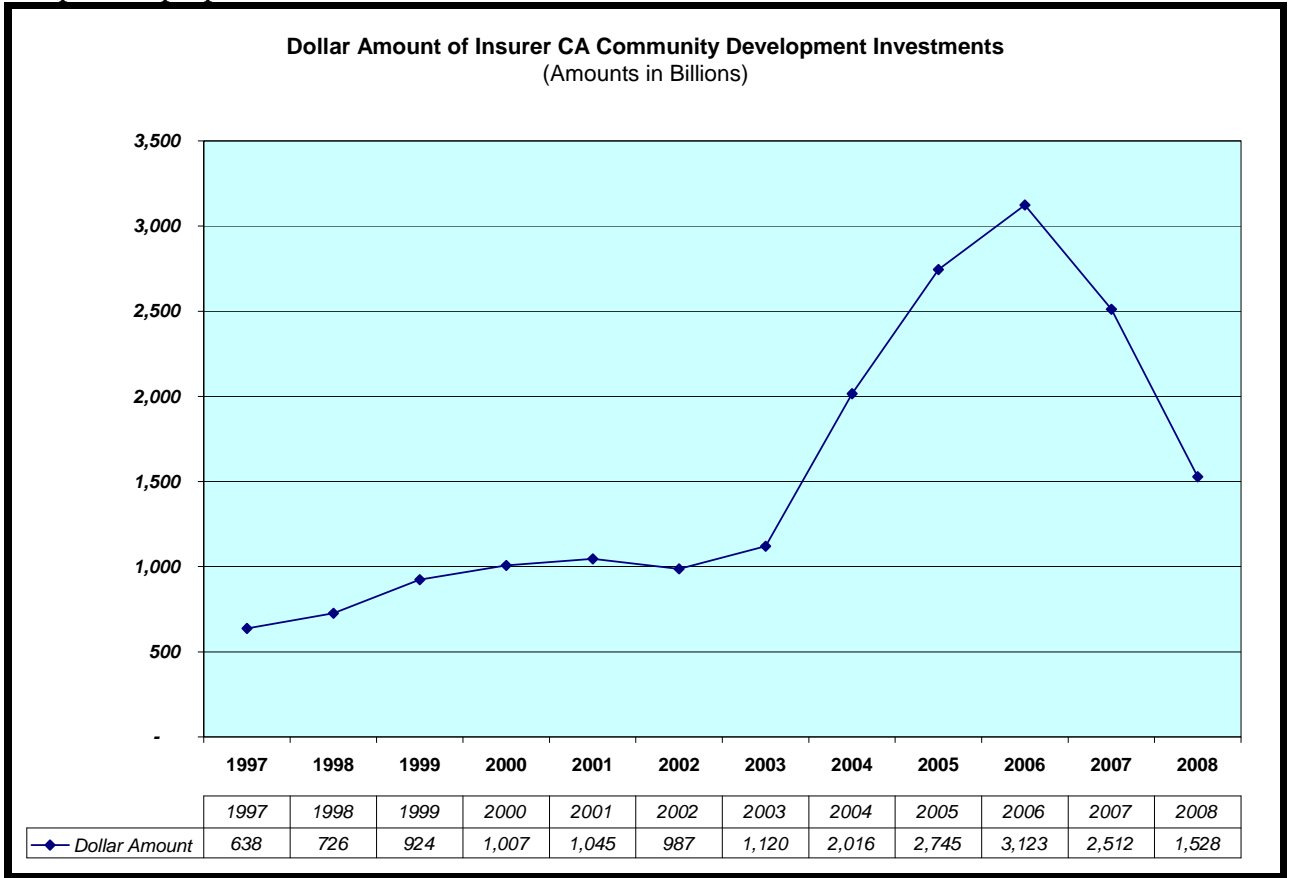
Types of high impact investments made included Low Income Housing Tax Credit (LIHTC) partnerships, which are critical to making rental housing affordable to low-income families. LIHTCs are complex long-term investments and were mostly made by Life companies. Other types of high impact investments were partnerships in special community development funds with “double bottom line” goals of financial and social benefit returns. Both Life and P&C companies made these investments. And primarily P&C companies invested in certificates of deposit in special community development banks and credit unions with a primary mission of serving the needs of low-income families and communities.

When assessing the extent of the impact on communities served, use of the funds and the number of investments can be as important as the dollar amount. Relatively small dollar size investments can have high impact because they are often leveraged by being relent multiple times (revolving funds), or used as seed money filling unmet capital needs that get projects started and later attract significantly larger investments. Other small size investments can provide significant benefit by funding alternatives to high-cost check-cashing services and payday lenders that have moved into low-income neighborhoods.

The Value of Periodic Data Calls

From 1997 through 2004, reporting was on an ad hoc basis. The 2005 data call was the first comprehensive, but not statutory, request for information from all insurers. It was followed in 2007 by the first report mandated by California law. While the data in the years preceding 2005 are not comprehensive for the industry, we utilize them for

comparison purposes.



Changes between the 2007 and 2009 Data Calls:

- The response rate increased from 78% to 96%

The information provided to insurers throughout the data call process helps educate them, and publicizing the results helps recognize the industry's good work while encouraging non-participants to join them in bringing much needed capital to economically disadvantaged California families and communities.

To date, \$18.8 billion in California Community Development Investments have been made and reported, with \$2.5 billion being reported for CY 2007 and \$1.6 billion for CY 2008 totaling \$4.1 billion.