



CLAIM MANUAL

CALIFORNIA EARTHQUAKE AUTHORITY

APPROVED BY THE INSURANCE COMMISSIONER, 12/17/2020

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INTRODUCTION

The purpose of this Manual is to assist claim representatives and claim managers in evaluating and supervising California Earthquake Authority (“CEA” or “Authority”) earthquake insurance claims.

The CEA is committed to assuring all of its claims are handled in a fair, timely, and consistent manner. To further its commitment, the CEA audits and reinspects claims to make sure they are properly investigated and appropriate procedures have been followed.

The CEA requires the Participating Insurer, its claim representatives and other employees, and all other personnel the Participating Insurer may retain in connection with its CEA business, to conform strictly to all laws and regulations that govern the adjusting of earthquake insurance claims in California. Nothing in this Claim Manual is intended to change the requirements placed on insurers and their claim representatives by the California Insurance Code, other applicable California Codes, applicable regulations, or any settled interpretation of any applicable law or regulation presented in authoritative case decisions. If a process or procedure directed or provided for in this Manual appears to conflict with any applicable California Insurance (or other) Code section or regulation, or with settled interpretations of applicable law, the Participating Insurer is to conform strictly to the statute, regulation, or authoritative case law.

This Manual does not create coverage when none is provided by the CEA insurance policy in force at the time of the loss. If there are any conflicts or inconsistencies between this Claim Manual and the language of the CEA insurance policy, the CEA insurance policy language will take precedence.

THE ROLE OF THE PARTICIPATING INSURANCE COMPANY

When an earthquake results in a claim against a CEA policy sold by a Participating Insurer (“PI”), a claim representative for that insurer handles the claim. The CEA reimburses the Participating Insurer for the indemnity dollars paid plus a loss adjustment fee.

Every Participating Insurer has executed an Insurer Participation Agreement, which describes that insurer’s relationship with the CEA. The Agreements are the same for every CEA Participating Insurer, and the Agreement states the Insurer is the CEA’s “agent” for purposes of performing CEA-related duties.

Acting as a claim-adjusting agent for the CEA, the Participating Insurer and its employees and contractors are responsible for investigating and adjusting claims made under CEA policies. Article II, Section 3.2, of the Insurer Participation Agreement reads, in part: “The Participating Insurer may perform Authority services on behalf of the Authority in any reasonable manner that is in compliance with the statutory, regulatory, and case law regarding claims handling practices; provided, however, where the Authority has promulgated specific procedures to govern its operations, the Participating Insurer shall conform its practices to those procedures.”

Participating Insurers and their representatives should handle all CEA claims in an expeditious and thorough manner, with the same care and diligence they use in handling their own, non-CEA business.

The terms “representative,” “claim representative,” “adjuster,” and “claim adjuster” are used interchangeably in this document and refer to the person handling the claim on behalf of the Participating Insurer, directly or indirectly.

When considering or adjusting a CEA claim, it is important to understand, as a general consideration, CEA policies may differ in approach or coverage from the coverages under a residential policy, which claim representatives may be more accustomed to seeing. For that reason, the CEA policy providing earthquake coverage for a claim by a CEA policyholder should be carefully reviewed and fully understood.

A. GENERAL CEA CLAIMS INFORMATION

1. CEA Claim Director – Duties and Responsibilities

The CEA has a Claim Director whose duties include:

- a) Maintaining and communicating CEA procedures for handling CEA claims;
- b) Ensuring the claim data sent from PIs to the CEA is accurate;
- c) Following up for accurate reserves;
- d) Approving claim reimbursement payment requests from PIs;
- e) Answering claims-related questions from PIs;
- f) Assisting Participating Insurers with earthquake claims training;
- g) Monitoring Participating Insurers' earthquake claims response procedures;
- h) Traveling to the site of the earthquake as needed;
- i) Chairing the CEA Claims Coverage Committee regarding policy and coverage interpretations (See section A10, page 21); and
- j) Initiating and coordinating reinspections and claim file reviews after an earthquake (See section A12, page 23).

2. Participating Insurer Claim Liaison – Duties and Responsibilities

Each Participating Insurer must designate a CEA Claim Liaison (and a backup) to work closely with the CEA Claim Director in coordinating all activities before and after an earthquake. The individual selected should be a property-claim professional, with the requisite knowledge and the authority within the Participating Insurer to resolve CEA claims and claim issues in a timely manner.

The PI CEA Claim Liaison will be the primary contact point for CEA-claims communication between the CEA and the PI.

The CEA can be contacted at ceaclaims@calquake.com, 916.661.5586, or toll free at 877.797.4300.

Following are the requirements, duties, and responsibilities of a PI's CEA Claim Liaison:

- a) California Earthquake Claims Accreditation. A CEA Claim Liaison must be California Earthquake Claims accredited. The earthquake accreditation process is described in the California Code of Regulations, Title 10, Chapter 5, Subchapter 7.5.1 - Insurance Adjuster Training for Evaluating Earthquake Damage. Those regulations may be reviewed at: [https://govt.westlaw.com/calregs/Browse/Home/California/CaliforniaCodeofRegulations?guid=IC89C3E10D49211DEBC02831C6D6C108E&originationContext=documenttoc&transitionType=Default&contextData=\(sc.Default\)](https://govt.westlaw.com/calregs/Browse/Home/California/CaliforniaCodeofRegulations?guid=IC89C3E10D49211DEBC02831C6D6C108E&originationContext=documenttoc&transitionType=Default&contextData=(sc.Default))
- b) CEA Claim Manual. A CEA Claim Liaison must be familiar with the CEA Claim Manual (available on the CEA website www.EarthquakeAuthority.com.)

- c) CEA Insurance Policies and Coverage. CEA Claim Liaisons must understand CEA insurance policies and how policy coverages function. Online CEA-coverage training is available on the CEA website at: www.EarthquakeAuthority.com.
- d) CEA Policy Deductibles. CEA Claim Liaisons must understand how to calculate CEA insurance-policy deductibles. CEA recommends training on the CEA policy-deductible calculation by practicing using the CEA’s online CEA Deductible Calculator, an Excel worksheet found on the adjuster page of the CEA website. (NOTE: A copy of the deductible calculation, made using this Excel deductible calculator, must be placed in every CEA claim file containing the documentary evidence of how the adjuster scoped and estimated earthquake damage and adjusted the CEA claim.)
- e) Reserves. Reporting claim reserves accurately is imperative, to permit the CEA to calculate its total, potential claim-payout. Participating Insurers must report all new CEA earthquake claims to the CEA, whether or not the Participating Insurer expects the claim to exceed the deductible. If the claim is expected to be under the deductible, it should be reported with a “zero dollars” reserve (or the lowest reserve amount allowed by the Participating Insurer’s claim system).
- f) Payment Authority. A CEA Claim Liaison has full authority to pay a CEA earthquake claim up to the CEA policy limit. The CEA Claim Director is available for consultation.
- g) Earthquake Damage Assessment and Repair for Residential Wood-Frame Buildings. Following an earthquake, each Participating Insurer and its claim personnel must be familiar with, and have a plan for the appropriate use of, the *General and Engineering Guidelines for the Assessment and Repair of Earthquake Damage in Residential Woodframe Buildings*, published by the Applied Technology Council. The document is available at www.ATCouncil.org or www.EarthquakeAuthority.com.
- h) Engineers. Participating Insurers must prepare and keep updated an approved list of engineers that can be used after an earthquake. Engineers used to assist in evaluating CEA earthquake claims must be professionally familiar with and use the *CEA-EDA Engineering Guidelines*, including Chapter 8: guidance on what to include in an engineering report that assesses earthquake damage.
- i) Independent adjusting companies. If needed, Participating Insurers should secure necessary claim-adjusting companies with catastrophe-claim expertise and assure any independent adjusters handling CEA claims are California Earthquake Claims accredited.
- j) Be aware of the occurrence of earthquakes. Register to receive official notifications of earthquakes on cell phones and tablets, by using the following link: <https://earthquake.usgs.gov/ens/>
- k) Daily reporting requirements. Some earthquake events may require a certain period of interim manual reporting immediately following an event, until data and systems

are in-sync. In these cases, the CEA will request that the CEA Claim Liaison report daily claim numbers to the CEA by email sent to ceaclaims@calquake.com. (The CEA estimates the usual duration of the interim reporting at 15 days.) The CEA requires the following information be reported at the end of each working day:

1. Date of the report;
 2. Name of Participating Insurer;
 3. Name of contact person at Participating Insurer (email and phone number);
 4. Total number of claims, and the status of each (open or closed), received from the earthquake (the total number of claims, not a tally by coverage);
 5. Of the total number of claims, the number closed;
 6. The current total dollar amount of all open reserves; and
 7. The current total dollar amount of all paid CEA claims, to date.
- l) Attend annual CEA claim-manager conference. Annual training is offered to all CEA Claim Liaisons and includes training on CEA policies and claim procedures, as well as other pertinent CEA-related topics.
- m) Annual CEA claim-response plan (cat plan). CEA Claim Liaisons must complete an annual claim-response questionnaire at year-end.

Duties of a CEA Claim Liaison

CEA Claim Liaisons must know when to consult with the CEA. Serving legally as agents for the CEA under the terms of the uniform Insurer Participation Agreement, Participating Insurers are responsible for investigating and adjusting claims made under CEA policies in a fair, prompt, and consistent manner.

There are, however, matters that must be referred to the CEA, including:

- i. **Any legal action filed on a CEA claim; any notice or knowledge of any legal action against the CEA, or against a Participating Insurer on a CEA claim; and any legal action where the name California Earthquake Authority or CEA appears.** A Participating Insurer must immediately notify the CEA Claim Director if that Participating Insurer obtains any formal or informal notice or knowledge of the initiation of any legal actions described in the heading of this paragraph, whether or not formally served on the Participating Insurer. In such cases, the Participating Insurer must immediately provide copies of all documents obtained by, received by, or served on the Participating Insurer to the CEA's Claim Director. No Participating Insurer is authorized to accept service of legal process on the CEA's behalf.
- ii. **Department of Insurance complaints or requests for assistance.** If a Participating Insurer receives notice of any policyholder or consumer complaint, or policyholder or consumer request for assistance, made to the California Department of Insurance (CDI) concerning the Participating Insurer's handling of or involvement in any CEA-related matter, the Participating Insurer must immediately provide a copy of the Department of Insurance complaint and any supporting or related documentation

to the CEA's Claim Director, and follow up with a telephone call to 916.661.5586 to ensure the documentation was received. The Participating Insurer may provide the appropriate response to the CDI without the CEA's prior approval of the response, but the Participating Insurer must send the CEA's Claim Director a copy of the response that was sent to the policyholder and the CDI. Until the complaint or other issue brought to the CDI's attention is finally resolved, the Participating Insurer must provide to the CEA's Claim Director by email a copy of all complaint-related correspondence to or from the CDI.

iii. **Taking claims to appraisal or Department of Insurance mediation.**

Participating Insurers must:

- a. consult with the CEA and obtain the CEA's prior approval before demanding appraisal or mediation (including mediation under the CDI's earthquake-claim-mediation program); and
- b. provide the CEA with all details of the claim made, settlement demands and offers, and the reasoning for any position taken by the Participating Insurer.

iv. **Examination Under Oath (EUO).** Participating Insurers must notify and consult with the CEA, and obtain the CEA's prior approval, before giving notice to an insured that the Participating Insurer wishes to take his or her EUO. The Participating Insurer must provide the CEA with the details of the claim, any settlement demands, and the reasons why the Participating Insurer believes an EUO would be appropriate. In the event an EUO is set, it must be handled in accordance with California Insurance Code section 2071.1.

3. **Adjuster Training Requirements**

Consistent claim handling by its Participating Insurers is a top priority of the CEA and must be a top priority of each Participating Insurer. Participating Insurers are responsible for ensuring their employed claim representatives, and any and all independent adjusters that they hire or contract with, are properly trained to handle residential earthquake insurance claims in California.

Except in limited situations, the CEA does not specify the claim-handling forms a Participating Insurer must use. Each Participating Insurer may use any appropriate property claim-handling form or forms, including, as appropriate, those consistent with the forms that it uses for its own non-earthquake property claims.

Notwithstanding the foregoing, to the extent the CEA has provided specific forms to be used on CEA claims for certain situations, including the under-deductible denial letter and the Full Denial letter, addressed in section E23, page 76, those must be used in the form directed by the CEA.

This Claim Manual is a resource to train claim representatives on the handling of CEA claims.

Training on the CEA Policy

Not less frequently than every three years, and in any case within one year after the approval by the Insurance Commissioner of any revised version of this Claim Manual, Participating Insurers must provide detailed training on CEA policy coverages and limits to their claim representatives who will be handling claims for the CEA. Participating Insurers must also require those claim representatives to complete the online training offered by the CEA before those claim representatives may handle any CEA claim; that online training is available on the CEA website at www.EarthquakeAuthority.com.

a) Fair Claims Settlement Practices Regulations: Training

It is the responsibility of each Participating Insurer to assure its employed or hired/contracted claim representatives, including any independent claim representatives, are trained on the California Fair Claims Settlement Practices regulations (California Code of Regulations, Title 10, Chapter 5, Subchapter 7.5) (the “Fair Claims Regulations”). Any conflict between a provision of this CEA Claim Manual and any of those regulations must be resolved through strict compliance with the regulation.

The CEA requires that Participating Insurers follow the time and notice provisions set forth in Section 2695.7 of the Fair Claims Regulations.

Each Participating Insurer must strictly follow all requirements of Section 2695.3 of the Fair Claims Regulations (File and Record Documentation). The CEA does not maintain a physical file for individual claims; each Participating Insurer must maintain a physical or electronic claim file required for compliance with Section 2695.3 of the Fair Claims Regulations

All requirements of Sections 2695.4 and 2695.5 of the Fair Claims Regulations (Representation of Policy Provisions; Benefits and Duties upon Receipt of Communications) are the responsibility of the Participating Insurer. Should the CEA receive any written or oral inquiry referring to an alleged violation of Section 2695.5 (a), such as a Department of Insurance complaint, it will forward any such inquiry to the Participating Insurer for any needed response. The Participating Insurer must provide the CEA with a copy of all such responses, to the attention of the CEA Claim Director.

Fair Claims Regulations Section 2695.6 requires annual certification of written claim-handling standards and training of all claim representatives used by the Participating Insurer; all persons who handle CEA claims are covered by the certification requirement. The CEA will regard the Participating Insurer’s claim-related Certifications as its own; the earning and provision of the Annual Certifications are required to be delivered each year, no later than February 1st, to the CEA and are subject to audit by the CDI.

In order to meet the requirements of the Fair Claims Regulations, Participating Insurers are to note in the claim file and in their computerized claim systems each instance where a claim or coverage is declined in whole or in part. The complete California Department of Insurance Regulations can be viewed online at <http://www.insurance.ca.gov/0250-insurers/0500-legal-info/0200-regulations/>

b) Insurance Adjuster Training for Evaluating Earthquake Damage

The CEA requires each Participating Insurer that handles CEA claims to comply with the California Department of Insurance regulations that set forth standards governing the training of insurance adjusters in evaluating damage caused by earthquakes and the procedures for reporting unaccredited adjusting.

These regulations can be found in the California Code of Regulations, Title 10. Chapter 5, Subchapter 7.5.1 *Insurance Adjuster Training for Evaluating Earthquake Damage*.

c) Unique Issues when Handling Earthquake Damage – Earthquake Damage Assessment and Repair Guidelines

Participating Insurers are encouraged to use the Earthquake Damage Assessment and Repair Guidelines - Volume One General Guidelines (www.ATCouncil.org or www.EarthquakeAuthority.com) as a source of training material that can be used to train claim representatives on the unique issues in evaluating earthquake damage to residential structures. Some examples of information available:

1. Where to get and how to use an earthquake-shaking-intensity map – ShakeMap.
2. When evaluating a structure, what to look for, where to look, and when to call an engineer. The document also offers suggested repair guidelines.
3. What a complete engineer's report should include.
4. Glossary and acronyms/abbreviations of common earthquake-related technical terms.

4. Types of CEA Policies

The CEA offers earthquake insurance for qualifying residential properties located in the State of California. The CEA offers several earthquake insurance products:

a) Basic Earthquake Insurance Policy – Homeowners – Form BEQ-3B (2020 revision) (form applicable to new and renewal business incepting July 1, 2020 and thereafter)

This policy insures owners of dwellings (site-built homes), manufactured homes, and mobilehomes, and provides the following coverages:

1. Dwelling: The limit of insurance for Coverage A: Dwelling and Coverage B: Extensions to Dwelling have a combined single limit (CSL) in the CEA policy, as listed on the policy's Declarations page (BEQ-3B DP (01-2019 edition)) that is the same as the Coverage A limit of insurance listed on the Declarations page of the Participating Insurer's companion homeowner/fire policy.

Dwelling deductible options are 5%, 10%, 15%, 20%, or 25% of the CSL.

2. Coverage C: Personal Property limits are selected by the policyholder in one of the following amounts:

\$5,000, \$25,000, \$50,000, \$75,000 \$100,000, \$150,000, or \$200,000

Losses under the Personal Property coverage may be paid only when the dwelling deductible has been met.

3. Coverage D: Loss of Use limits are selected by the policyholder in one of the following amounts:

\$1,500, \$10,000, \$15,000, \$25,000, \$50,000, \$75,000, or \$100,000

Coverage D: Loss of Use does not have a deductible.

4. Optional Coverage for Exterior Masonry Veneer (CEA 03A (01/2016)): This endorsement, which may be selected at the policyholder's option for an additional premium, deletes the policy exclusion for exterior masonry veneer and provides coverage for exterior masonry veneer in an amount up to the Coverage A & B CSL stated on the Declarations page. NOTE: This optional coverage is not available for manufactured homes or mobilehomes.
5. Optional Coverage for Breakables (CEA 04A (01/2016)): This endorsement, which may be selected at the policyholder's option for an additional premium, deletes the policy exclusion for breakable items and provides coverage for breakable items up to the Coverage C: Personal Property limit of insurance stated on the Declarations page.
6. The policy includes \$10,000 of Building Code Upgrade coverage as additional insurance to the Coverage A & B CSL. For an additional premium, Building Code Upgrade coverage may be increased from \$10,000 to either \$20,000 or \$30,000 for dwellings (site-built homes), manufactured homes, and mobilehomes.

b) Basic Earthquake Insurance Policy – Homeowners Choice – BEQ-3C (2020 revision) (form applicable to new and renewal business incepting July 1, 2020 and thereafter)

This policy insures owners of dwellings (site-built homes), manufactured homes, or mobilehomes. Dwelling coverage is mandatory on a Homeowners Choice policy. The consumer has the option to add Personal Property or Loss of Use coverage, or both — or neither: a policyholder may have a Homeowners Choice policy that has dwelling coverage only, without personal property or loss of use coverage.

1. Dwelling: The limit of insurance for Coverage A: Dwelling and Coverage B: Extensions to Dwelling have a combined single limit (CSL) in the CEA Homeowners Choice policy, as listed on the policy's Declarations page (BEQ-3C DP (01-2019 edition)), that is the same as the Coverage A limit of insurance listed on the Declarations page of the Participating Insurer's companion homeowner/fire policy.

Deductible options are 5%, 10%, 15%, 20%, or 25% of the CSL.

2. The Homeowners Choice policy includes \$10,000 of Building Code Upgrade coverage, as additional insurance to the Coverage A & B CSL. For an additional premium, Building Code Upgrade coverage may be increased from \$10,000 to either \$20,000 or \$30,000 for dwellings (site-built homes), manufactured homes, and mobilehomes.

The Homeowners Choice policyholder may purchase the following coverage options separately or in combination:

3. The policyholder may add Coverage C: Personal Property, with limits available in the following amounts:

\$5,000, \$25,000, \$50,000, \$75,000, \$100,000, \$150,000, or \$200,000

Deductible options are 5%, 10%, 15%, 20%, or 25%. Note: The Coverage C deductible is waived if the dwelling deductible is met. The Coverage C deductible percentage must be less than or equal to the Coverage A deductible percentage.

It is possible that damage to items covered by Coverages A & B might not exceed the A & B deductible. But there still may be coverage under Coverage C: Personal Property: if Coverage C Personal Property damage exceeds the Coverage C deductible, the Coverage C deductible is applied and the claim can be paid for the covered personal property, up to the policy limit.

Again, bear in mind that on a Homeowners Choice policy, the Coverage C deductible is waived when the Coverage A & B CSL deductible is met. For that reason:

- If the Coverage A and B deductible is met after a Coverage C payment has been made, the policyholder is entitled to a payment in the amount of the Coverage C deductible previously deducted from the claim settlement.

4. The policyholder may add Coverage D: Loss of Use, with limits available in the following amounts:

\$1,500, \$10,000, \$15,000, \$25,000, \$50,000, \$75,000, or \$100,000

There is no deductible on Coverage D: Loss of Use.

5. Optional Coverage for Exterior Masonry Veneer (CEA 03A (01/2016)): This endorsement, which may be selected at the policyholder's option for an additional premium, deletes the policy exclusion for exterior masonry veneer and provides coverage for exterior masonry veneer, up to the Coverage A & B CSL Dwelling and Extensions to Dwelling limit of insurance stated on the Declarations page. NOTE: This optional coverage is not available for manufactured homes or mobilehomes.
6. Optional Coverage for Breakables (CEA 04A (01/2016)): This endorsement, which may be selected at the policyholder's option for an additional premium, deletes the policy exclusion for breakable items and provides coverage for breakable items up to the Coverage C: Personal Property limit of insurance stated on the Declarations page.

c) Basic Earthquake Insurance Policy - Renters - Form BEQ-4B (2020 revision) (form applicable to new and renewal business incepting July 1, 2020 and thereafter)

This policy insures tenants of rental premises, regardless of premises type. The CEA Participating Insurer's companion policy may be, or be similar to, a Renters (HO-4), Manufactured Home/ Mobilehome (tenant policy), Dwelling Fire (contents only), or Landlord (contents only) policy.

This policy provides Coverage C: Personal Property and Coverage D: Loss of Use.

1. Coverage C limits are available in the following amounts:

\$5,000, \$25,000, \$50,000, \$75,000, \$100,000, \$150,000, or \$200,000

Deductible options are 5%, 10%, 15%, 20%, or 25% of the Coverage C limit.

2. Coverage D limits are available in the following amounts:

\$1,500, \$10,000, \$15,000, \$25,000, \$50,000, \$75,000, or \$100,000

Coverage D: Loss of Use does not have a deductible.

3. Optional Coverage for Breakables (CEA 04A (01/2016)): This optional endorsement deletes the policy exclusion for breakable items and provides coverage for breakable items, up to the Coverage C: Personal Property limit of insurance stated on the policy's Declarations page (BEQ-4B DP (01-2019 edition)).

d) Basic Earthquake Policy - Common Interest Development - Form BEQ-6B (2020 revision) (form applicable to new and renewal business incepting July 1, 2020 and thereafter)

In California, a "common interest development" can be a community apartment project, a condominium project, a planned development, or a stock cooperative, all as defined in California Civil Code sections 4100-4125. Since people commonly equate "common interest development" with a "condominium/condo," this Manual uses the term "condominium" or "condo" interchangeably with "common interest development."

This policy insures owners of common interest development units. Coverage for Building Property, Personal Property with Loss of Use, and Loss Assessment are sold separately. The CEA Participating Insurer's companion policy will be, or be similar to, a Condominium Unit Owners (HO-6) policy.

Three coverage options may be purchased, separately or in combination, at the policyholder's option, as follows:

1. Option One – Coverage A: Building Property

\$25,000, \$50,000, \$75,000, or \$100,000 limit.

Deductible options are 5%, 10%, 15%, 20%, or 25%.

Coverage A includes up to \$10,000 of Building Code Upgrade coverage as additional insurance — there is no option to increase this limit.

2. Option Two – Coverage C: Personal Property and Coverage D: Loss of Use. With this option, the policyholder will have coverage for both Coverage C and Coverage D, available in the following amounts:

- Coverage C: \$5,000, \$25,000, \$50,000, \$75,000, \$100,000, \$150,000, or \$200,000

Deductible options are 5%, 10%, 15%, 20%, or 25%.

- Coverage D: \$1,500, \$10,000, \$15,000, \$25,000, \$50,000, \$75,000, or \$100,000

Coverage D: Loss of Use does not have a deductible.

3. Option Three – Coverage E: Loss Assessment

With this option, the policyholder has a choice of limits: \$25,000, \$50,000, \$75,000, or \$100,000.

Deductible options are 5%, 10%, 15%, 20%, or 25%.

4. Optional Coverage for Breakables (CEA 04A (01/2016)): This endorsement, which may be selected at the policyholder's option for an additional premium, deletes the policy exclusion for breakable items and provides coverage for breakable items, up to the Coverage C: Personal Property limit of insurance stated on the policy's Declarations page (BEQ-6B DP (01-2019 edition)).

5. Reporting Claims to the CEA

A Participating Insurer must report to the CEA each claim from CEA policyholders, whether or not the Participating Insurer expects the claim to exceed the deductible.

The CEA is aware that a policyholder may contact their agent or insurance company after an earthquake solely to make an inquiry, and then the policyholder may later decide not to file a claim. Many companies call these "record only" claims. The CEA does not require that these "record only" inquiries be reported. But once investigation or adjusting work has begun, the claim must be reported to the CEA, regardless of whether a payment is made.

6. Claim Representatives and Handling Claims to Conclusion

The Participating Insurer must make every effort to assure that the original claim representative assigned to a claim will handle the claim to conclusion.

If reassignment of claims to another claim representative is necessary, the Participating Insurer must have procedures in place to facilitate a proper and complete transfer of the files, including, without limitation, instructions in each file on what remains to be done to complete the handling of that claim.

California Insurance Code section 10082.3 pertains to a related issue:

“Adjusters: If, within a six-month period, the company assigns a third or subsequent adjuster to be primarily responsible for a claim, the insurer, in a timely manner, shall provide the insured with a written status report. For purposes of this section, a written status report shall include a summary of any decisions or actions that are substantially related to the disposition of a claim, including, but not limited to, the amount of losses to structures or contents, the retention or consultation of design or construction professionals, the amount of coverage for losses to structures or contents and all items of dispute.”

7. Companion Policy Required

CEA policies are sold and issued solely through Participating Insurers.

By law (California Insurance Code section 10089.20), a CEA earthquake policy is valid only if a companion insurance policy, written by the same company that issued the CEA policy, is in force covering the same property. The CEA policy is legally void if no companion policy issued by the same Participating Insurer is in force at the time of the loss, regardless of whether a formal notice of cancellation of the CEA policy had been sent or received by the time of loss.

CEA insurance policies reinforce this requirement—and so notify policyholders—in the Important Notices, Agreement, and Definition sections of the CEA policy.

8. Claim Reserving

The aggregated reserves on reported claims provide the CEA's first estimate of severity of an earthquake and the CEA's ultimate, aggregate insured exposure for the event. A claim representative must quickly and efficiently set a reserve that represents his/her best estimate of a claim's ultimate cost. Reserved amounts should be adjusted as soon as new information is learned that would affect the ultimate claim cost. When there is a legitimate question of coverage, the reserve should be set at the estimated value of damage, minus the deductible amount, until the coverage question is resolved.

If the claim amount is expected to be less than the relevant CEA policy deductible, that claim amount should be reported with a zero reserve, or the lowest reserve amount allowed by the Participating Insurer's claim-processing system.

9. Calculating Deductibles for CEA Claims

CEA policy deductibles—their structure and amount—may differ substantially from those provided by standard fire insurance policies. To assist in calculating deductibles, the CEA offers an Excel Deductible Calculator that is accessed via the CEA website at www.EarthquakeAuthority.com.

[CEA Deductible and Payment Calculator 2019](#) (ZIP): After an earthquake, policyholders filing claims are anxious to complete repairs as soon as possible. The CEA provides adjusters with an easy and quick tool to calculate deductibles and claim payments.

A copy of the deductible calculator worksheet must be included in all CEA claim files.

All new earthquake damage that has an associated repair or replacement estimate or scope must be included on the Excel deductible spreadsheet, even if the claim is not expected to exceed a deductible. This information is important for CEA data analysis and product development, and your cooperation will help the CEA improve coverage choices for consumers in the future. The CEA’s claim department or audit department may ask to review the Excel deductible spreadsheets as part of routine or post-event audits.

The Excel spreadsheet has a menu of CEA product types for easy access to the proper Deductible and Payment Calculator:



It is important that the adjuster selects the correct icon before entering claim data.

The top section of the spreadsheet is used to enter policyholder and coverage information. The coverage, limit, and deductible options are selected using drop-down menus, to help avoid errors.

| Policy Information | | | |
|---------------------------------------------|----------------|-----------------------|-----------------------|
| Insured Name (Last, First, Middle Initial) | | Claim Number | |
| Adjuster Name (Last, First, Middle Initial) | | Policy Number | |
| | | | |
| Policy Coverage Information | | | |
| Coverage | Coverage Limit | Deductible %: | Deductible \$ |
| Coverage C - Personal Property | \$ 5,000 | 15% | \$ 750 |
| Breakables Coverage | No | See Personal Property | See Personal Property |
| Coverage D - Loss of Use | \$ 1,500 | No deductible. | No deductible. |

The middle section of the worksheet is used to enter covered damages:

| Event Damage Information | | | |
|-----------------------------------------------------------------------------------------------------------|----------------------|---------------------|--------------|
| Coverage C - Personal Property | | | |
| Deductible Remaining | \$ 750 | Coverage Remaining: | \$ 5,000 |
| Coverages | Total Covered Damage | Allowable Loss | Payment |
| Personal Property | | \$ - | No loss. |
| Breakable Personal Property | | No coverage. | No coverage. |
| Breakables Coverage only available if 'Breakable Coverage' = Yes (policyholder purchased endorsement 04A) | | | |
| Sublimits | | | |
| Business Property | | \$ - | No loss. |
| Beverages in Glass | | \$ - | No loss. |

The bottom spreadsheet section displays what the adjuster can authorize as payment:

| | | Total Coverage C Payment | \$ 2,250 |
|--------------------------------|----------------------|--------------------------|----------|
| Coverage D - Loss of Use (ALE) | | | |
| Deductible Remaining | No deductible. | Coverage Remaining: | \$ 1,500 |
| Coverages | Total Covered Damage | Allowable Loss | Payment |
| Loss of Use (ALE) | \$ 2,000 | \$ 2,000 | \$ 1,500 |
| | | Total Coverage D Payment | \$ 1,500 |
| | | Total Claim Payment | \$ 3,750 |

10. Policy and Coverage Interpretations

The CEA has established the following process for receiving, answering, and resolving CEA policy coverage questions.

- a) The Participating Insurer should first attempt to resolve policy and claim coverage questions by consulting this Claim Manual and by using the expertise of its senior claim professionals and claim management.
- b) Policy coverage questions that remain unresolved should be referred to the CEA on the CEA Coverage Review Form. —The Participating Insurer must provide a narrative report under each of the applicable headings. Attachment 3 to this Claim Manual comprises an example of a blank Coverage Review Form, as well as a (sample) completed form.
- c) The Coverage Review Form should be submitted to the CEA Claim Director with a copy of all claim-file materials necessary for a proper review of the coverage issue. Participating Insurers must use overnight courier service or mail, or must email documents as attachments, to send files to the CEA for review.
- d) If important to explain or understand the coverage question, the file must include photographs of damage, documentation of amount of loss, transcribed statements of interested parties, a policy declarations page, policy endorsements, related paper or electronic correspondence, and copies of notes, including electronic notes. Incomplete files can delay claim determinations, and delayed claims can result in regulatory or legal scrutiny.
- e) Upon receiving a coverage question from a Participating Insurer, the CEA Claim Coverage Committee reviews the question, and the CEA Claim Director then notifies the Participating Insurer of the CEA's coverage decision. Decisions of general interest or general applicability across all CEA claims will be distributed to all Participating Insurers.

It will be the responsibility of the Participating Insurer to communicate the coverage decision to the policyholder and, when appropriate, to other interested parties.

The CEA Claim Director will endeavor to respond as quickly as possible, given resource constraints following larger earthquake events. The Participating Insurer should notify the CEA Claim Director if there are circumstances requiring a specific response date (other than the response dates required by the California Fair Claim Settlement Practices Regulations).

If a Participating Insurer has not received a response from the CEA within 15 days after submitting a coverage question, the Participating Insurer should follow up with the CEA Claim Director. During a coverage review, the Participating Insurer's claim representative must communicate with the claimant, in writing, as provided in the Fair Claim Settlement Practices Regulations section 2695.7(c)(1).

In order to help achieve the CEA’s crucial goal of claim-handling consistency across all Participating Insurers, no Participating Insurer should submit a question regarding a CEA claim or CEA policy/coverage interpretation to its own counsel for legal review or legal opinion before submitting the question to the CEA in the manner described immediately above; the CEA’s express written consent must be obtained before a Participating Insurer is authorized to seek a non-CEA-sourced legal opinion on the question. In some circumstances, the CEA may have already issued a coverage opinion pertaining to the topic in question and may be able to share the conclusions of that opinion with the Participating Insurer.

11. Mediation – California Department of Insurance: Earthquake Mediation Program

The California Department of Insurance (“CDI”) website reads, in part:

Why Use Mediation?

One of the responsibilities of the California Department of Insurance (Department) is to help consumers who are having difficulty getting their residential property or earthquake insurance claims resolved. California Insurance Code Chapter 8.9 was enacted in October 1995 as a result of Senate Bill No. 882. This law made it possible to establish a program for the mediation of certain disputes over residential earthquake damage claims arising out of the Northridge earthquake of 1994 and any subsequent earthquakes. In 2004, Senate Bill No. 64 was enacted as an urgency measure to expand the mediation program to include residential property insurance losses other than earthquake. The program will be available for those losses that occurred after September 30, 2003, and for which the Governor declared an emergency. This program uses mediation to bring you and your insurance company together in an informal meeting with a qualified mediator.

(Residential Property and Earthquake Claims Mediation Program: www.insurance.ca.gov)

The CEA realizes that during an earthquake-catastrophe response, the claim representative and the policyholder may disagree on some matters, such as the scope of repairs or the amount of payment for repair costs for the covered loss.

Participating Insurers are encouraged to incorporate the requirements of the CDI Earthquake Mediation program into their CEA claim-handling procedures.

Upon notice of a demand by any party for mediation, the Participating Insurer must provide a detailed report to the CEA Claim Director, describing the claim made, any settlement demands and settlement offers made, and a full account of the reasoning behind the position taken by the Participating Insurer.

Upon their receipt, the Participating Insurer must communicate all mediation-related dates to the CEA Claim Director. Participating Insurers must handle all CDI-mediation communication requirements, including those directly with the CDI, and will immediately upon their receipt provide copies of all written mediation-related materials to the CEA Claim Director.

The Participating Insurer, at its cost, must provide the most knowledgeable member of its staff to help prepare for, and to attend, the mediation. Notice of the mediation must be given to the CEA Claim Director sufficiently in advance of the mediation-commencement date to enable the CEA to make an informed decision about whether to send a CEA staff member or representative to attend.

12. Reinspections and Claim File Reviews

The CEA uses both physical claim reinspections and claim-file reviews to monitor and determine whether CEA claims are being handled by Participating Insurers in a prompt, consistent, and fair manner. A physical claim reinspection includes a visit by a CEA representative to the physical site of the insured risk in order to evaluate the earthquake-damaged structure, while a claim-file review is generally accomplished by examining the claim file and all supporting electronic and paper records.

a) Reinspections and Claim-File Reviews Performed by the Participating Insurer

1. The CEA expects Participating Insurers to have their own claim-related quality assurance programs, including a program for field reinspections of claims and reviews or audits of claim files. These programs should be documented and described in the earthquake-response plan each Participating Insurer submits to the CEA annually. (See section B2, page 26, for information regarding the Earthquake Response Plan.)
2. Reinspections: It is often important to reinspect claims early in the claim-handling process to enable the viewing and evaluation of the damage before repairs are completed. A Participating Insurer must always obtain the policyholder's advance permission to conduct an on-premises reinspection.

The reinspection program should provide for an orderly examination of a statistically valid sample of claims arising from an earthquake. The CEA Claim Director or the Claim Director's designee may be available to join Participating Insurer inspectors when conducting CEA-earthquake-claim-related reinspections. Requests for CEA participation in a reinspection should be made through the Claim Director, who will try to accommodate these requests according to available resources. Reinspection reports (including written documentation, photo or video evidence, and conclusions) should be retained, since the CEA may request copies of any review.

3. Claim-file reviews: In addition to physical-site claim reinspections, Participating Insurers must have a regular claim-file quality review/assurance program. The Participating Insurer must apply the same quality of review, including examining the same number and assortment of claim files, as it would for a reinspection of its own property claims. Claim-file-review reports (including written documentation, photo or video evidence, and conclusions) should be retained, since the CEA may request copies of any review.

b) Reinspections and Claim-File Reviews Performed by the CEA

The CEA may conduct field reinspections of claims or claim-file reviews, or both, after an earthquake. Field reinspections are generally performed on open claims, and claim-file reviews may be performed on open or closed claim files.

The purpose of these reinspections and claim-file reviews is to:

1. Monitor and promote adherence to CEA policy coverage;
2. Verify the accuracy of claim settlements; and
3. Determine whether claims are being handled in accordance with the California Fair Claims Settlement Practices Regulations and other applicable laws, regulations, and rules.

Reinspections: All CEA claim reinspections will be conducted separately from, and in addition to, any Participating Insurer claim reinspections. Before the claim reinspection process begins, the CEA will ask for a complete copy of the claim file for each claim it wishes to reinspect. The CEA re-inspector may be either a CEA employee or an independently contracted individual or company. The CEA will endeavor to reinspect a representative sample from each Participating Insurer and to look at claims under each type of CEA earthquake policy.

Claim-file reviews: The CEA may elect to conduct claim file reviews, which may be done at the Participating Insurer's office. The CEA also may request that copies of the claim files be sent to the CEA office for review.

In either case, the CEA will try to give reasonable notice to the Participating Insurer.

CEA will communicate any issues discovered by the reinspections or claim file reviews to the Participating Insurer.

c) Claim-File Review Elements

CEA claim-file reviews may include, in addition to other elements, an evaluation of some or all of the following elements, depending on what is appropriate to the facts and circumstances of the claim under review:

1. Promptness of first contact;
2. Development of initial information;
3. Timely and thorough completion of the scope of damage (listing of damage);
4. Use of CEA-EDA General Guidelines inspection checklist on claims that were inspected;
5. Repair estimate of damages;
6. Use of CEA Excel Deductible Calculator that has an associated repair or replacement estimate or scope;
7. Statements from the policyholder, if warranted;
8. Reserve calculations and reserve adequacy;

9. Coverage information and how it applies to the claim;
10. Effective use of a diary to permit and support timely claims handling;
11. Timeliness of communication with insured regarding claim status;
12. Alertness to fraud and prompt notice given to appropriate parties;
13. Appropriate use of engineers or other experts;
14. Completeness of documentation of the amount of loss [Statement of Loss];
15. Timeliness of claim payments;
16. Quality of written adjuster or claim-related communications to the policyholder;
17. Proper CEA approval of denial letter (as to form) if claim was denied;
18. Compliance with the CEA Claim Manual;
19. Compliance with California Fair Claims Practices Regulations;
20. Earthquake claim handling accreditation of adjuster(s) (independent or company);
21. Periodic guidance on open files by Claim Management;
22. Effectiveness of Participating Insurer's reinspection program and claim-file reviews.

13. Overlapping or Coexistent Insurance Coverage

To help resolve issues of overlapping or coexistent insurance coverage, the claim representative should follow the Other Insurance provisions in the CEA policy. Further help can be found in Fire, Casualty, & Surety Bulletins (FC&S), which is a coverage-related information service provided by the National Underwriter Company.

Pay attention to the Other Insurance wording in the CEA policy. This is discussed in more detail in the Condominium section D2c (page 55) of this Manual.

14. ISO ClaimSearch® - Property Insurance Loss Register ("PILR")

The CEA requires that every CEA earthquake claim be entered into ISO ClaimSearch. The ISO ClaimSearch system is a national repository where claims can be reported. When a newly reported earthquake claim matches up with a previously reported earthquake claim for the same property address, a report is generated.

CEA claims are handled by many different Participating Insurers, and policyholders sometimes move from company to company. Participating Insurers regularly find ground to deny CEA claims received after small earthquakes, because the damage being claimed is determined to have been caused by something other than an earthquake.

By having CEA claims in ISO ClaimsSearch, CEA Participating Insurers will be notified of prior earthquake claims, allowing the claim representative to evaluate whether un-repaired prior damage is being claimed in the new CEA earthquake claim.

B. PRE-EARTHQUAKE DISASTER RESPONSE PREPARATION

1. Pre-Earthquake Planning - General

Response planning before an earthquake occurs is important. The CEA Claim Director is available to assist the Participating Insurer Claim Liaisons with pre-earthquake training and planning.

2. Participating Insurer Earthquake Response Plan

Each Participating Insurer is responsible for planning its own CEA-specific earthquake claim handling and catastrophe response methods, based on the Participating Insurer's thoughtful answers to a CEA questionnaire that the CEA Claim Director sends to CEA Claim Liaisons at each year-end.

The questions are crafted to determine if the Participating Insurer has:

- a) Processes to assure that staff and independent adjusters are trained before they are needed for earthquake catastrophe-claim-handling duty. Participating Insurers are responsible for ensuring that their employed claim representatives, and all independent adjusters hired or contracted, are properly trained to handle residential earthquake claims in California. (See section A3 for adjuster training.)
- b) Procedures for the first 48 hours of earthquake-catastrophe response:
 1. Processes for accepting new earthquake claims;
 2. Plans for deploying properly trained and accredited initial-response adjusters;
 3. Plans for claim management, including the ability to determine affected policies-in-force;
 4. Resources available: buildings, cars, computers, and other needed equipment; and
 5. Logistical coordination for the response.
- c) Procedures for handling first reports of CEA claims and other phone-related support programs, such as, without limitation, available national catastrophe call centers.
- d) Procedures for long-term earthquake catastrophe response:
 1. Plans for a sufficient number of properly trained and accredited earthquake adjusters;
 2. Plans for the long-term management of CEA earthquake claims;
 3. Resources available: buildings, cars, computers, independent adjusters, and other required resources;
 4. Logistics: detailed descriptions of how response activities will be coordinated.
- e) Procedures for how experts (including engineers) will be used and details on pre-earthquake arrangements for these services.

C. POST-EARTHQUAKE RESPONSE

1. CEA Claim Director

Following the occurrence of an earthquake that is expected by CEA to give rise to a significant number of CEA claims presented, the CEA Claim Director or other CEA personnel may travel to the general area of the earthquake and make themselves available to consult with the Participating Insurers' CEA Claim Liaisons.

2. Participating Insurer Catastrophe Claim Managers

The Claim Director will meet with the Participating Insurer Claim Liaisons at a location convenient to the earthquake site on an as-needed basis; the meetings can serve as a forum to resolve issues, such as:

- a) Updating the CEA Claim Director on the progress each Participating Insurer has made in establishing its catastrophe office;
- b) Identifying and sharing information about problems encountered by the Participating Insurers;
- c) Informing the Participating Insurer representatives of the current status of the CEA's coordination with government agencies;
- d) Discussing general CEA-policy coverage issues; and/or
- e) Discussing particular aspects and structural elements being encountered on claims in the area.

3. Claim Counts

The CEA will not know about a claim until the Participating Insurer opens a new claim and that claim record is transmitted to the CEA data system.

To accommodate reporting by Participating Insurers either immediately after an earthquake that is expected to generate a significant number of claims, or when notified by the CEA Claim Director, Participating Insurers must manually report claim counts to the CEA. Daily claim count reporting will continue until the CEA's data systems are synchronized with the actual number of CEA claims. In the ordinary case, manual reporting is generally requested for about three weeks, although exceptions may be declared by CEA.

When notified by the CEA Claim Director, the following information is to be reported by email to the CEA at ceaclaims@calquake.com, with a copy by email to the Claim Director, by the end of each and every working day. This reporting practice must be maintained until the CEA Claim Director notifies Participating Insurers that it may be stopped.

- a) Date of the report;
- b) Name of Participating Insurer;

- c) Name of Participating Insurer's contact person, including email and phone number;
- d) Total number of claims and status (open, closed) received as a result of the earthquake (total claims, not a tally by coverage);
- e) Out of the total number of claims, how many are closed;
- f) The current total dollar amount of all open reserves;
- g) The current total dollar amount of all paid CEA claims, to date.

4. Catastrophe Offices

Although Participating Insurers must provide adequate staffing and operations, the establishment, number, and location of Participating Insurer catastrophe-response offices is left to the discretion of the Participating Insurer. Participating Insurers must provide the CEA with the address and telephone number of each catastrophe office as it is established, including the names of supervisorial and other key personnel.

Participating Insurers must make the reporting of new claims by CEA policyholders simple and direct. This ease of reporting may include the use of agents, the Internet, prominently publicized toll-free telephone numbers, and any other method reasonably calculated to create the expected result.

5. CEA Event Code and Date of Loss

Immediately following an earthquake where the CEA expects to receive claims against CEA policies, the CEA will assign an Event Code.

Event Codes have the form YYNNN, where YY is the last two digits of the year in which the earthquake event occurs, and NNN numbers events sequentially in 10-unit increments. The first two digits of the event code change with the new year, but the next three digits are sequential over all years.

- For example, if the last Event Code issued in 2018 was 18510, the first Event Code issued in 2019 would be 19520.

For naming claims where the CEA does not provide an Event Code, use YY999, where YY is the last two digits of the year for the claimed date of loss and 999 designates that this is a miscellaneous earthquake claim for that year.

The CEA will communicate the Event Code to all Participating Insurers as soon as possible after the occurrence of the earthquake event.

All claim-related data transmissions to the CEA must include an event code. Always use the date of loss (DOL) the policyholder gives you, but use judgment to determine if the claim being reported belongs with a specific earthquake Event Code. If the DOL given by the policyholder is for earthquake damage that occurred within 15 days after the earthquake in question, and the address of the policyholder's insured property is in the vicinity of the earthquake's location, it would typically be appropriate to code it to the Event Code for that earthquake.

6. New Claims Reported to the CEA

Presentation of claims directly to the Participating Insurer will result in the timeliest claim service, and most claims will be reported directly to Participating Insurers.

The CEA, however, may receive calls in which the policyholder or another interested party wishes to report a claim under a CEA policy directly to the CEA rather than to the Participating Insurer.

- In such cases, the CEA will encourage the caller to report the claim directly to the appropriate Participating Insurer and will be given the toll-free claim-reporting telephone number for the responsible Participating Insurer.
- If the caller cannot or will not report the claim to the responsible Participating Insurer, the CEA representative will complete a property loss notice form and email or otherwise transmit it to the appropriate Participating Insurer's claim department (see Attachment 7).

7. Pro Rata or Installment Claims Payments

Once an earthquake occurs, the CEA estimates probable losses based on in-force coverages and licensed or contracted earthquake-loss models. The CEA will then compare its preliminary overall loss-reserve estimate to the CEA's claim-paying capacity. In the ordinary case, when claim-paying capacity is clearly sufficient to handle expected loss, the Claim Payment Ratio ("CPR") will be, or be declared as, 100%, and claims are to be paid in full, without discount or pro rata calculation.

But in the case of a severe earthquake, or the case of several significant earthquakes over a short period, the law provides that under stated conditions, the CEA would be authorized to pay policyholder claims on a pro rata basis or in installments. In such circumstances, it is possible the CEA could declare a CPR of less than 100%.

If and when a CPR is declared by the CEA, the CPR determines what percentage of the claim is to be paid to the insured by the Participating Insurer. Participating Insurers can assume the CPR is 100% unless the CEA announces otherwise.

Note that the CEA may adjust the CPR during the claim-handling period arising after an earthquake, based on actual paid-claim amounts and the resources available to the CEA for claim payment. If the CEA adjusts the CPR upward, it will notify all Participating Insurers, and paid claims must be recalculated and additional payment forwarded to the insured, according to general procedures and information provided by the CEA.

Although the service and adjusting portion of a claim does not change the way Participating Insurers handle and service policyholder claims, payment to the insured and data transmission to the CEA will be adjusted based on the CPR. Upon the declaration of a CPR, the CEA will provide immediate written claim- and transmission-handling instructions to all Participating Insurers.

8. Media Communications

- a) Following an Earthquake. After an earthquake, the CEA will maintain communications with the Participating Insurers in order to provide the public with helpful, accurate, and timely information. Participating Insurers must work cooperatively with the CEA's Chief Communications Officer and communications and external affairs staff on matters of communication with the news media or outreach to the general public. The telephone numbers to use to establish contact with CEA are 916.661.5586 or 877.797.4300.
- b) No Public Comment on Specific Claims.

Although the CEA, supported by its Participating Insurers, has policies and procedures in place to support the payment of valid claims, neither the CEA nor any Participating Insurer is authorized or permitted by law to offer public comment on any aspect of a specific claim.

Generally, the CEA and the Participating Insurer are authorized and permitted to discuss a claim only with the CEA policyholder who is the claimant. Any questions or requests for exceptions to this directive must be transmitted immediately to the CEA Claim Director.

This protection of CEA policyholders from unwarranted release of information is the CEA's practice, not only because the CEA respects and wishes to protect the policyholder's privacy, but also because California's insurance-privacy laws prohibit insurance providers from publicly discussing details about a policyholder or their claim.

- c) CEA name, logo, trademarks: rules on usage.

The CEA maintains express and detailed guidelines on how the CEA name, logo(s), and trademarks must be depicted, if used by a Participating Insurer. All advertising and public outreach a Participating Insurer might engage in must be consistent with CEA guidelines, which have been provided to each Participating Insurer.

Copies of these guidelines are also available from the office of the CEA's Chief Communications Officer.

D. CEA POLICY INFORMATION

1. BASIC EARTHQUAKE INSURANCE POLICIES: HOMEOWNERS and HOMEOWNERS CHOICE

A CEA homeowners policy insures one-to-four-unit residential dwelling structures and manufactured homes and mobilehomes.

The CEA has two homeowner forms:

- Homeowners (Form BEQ-3B).
- Homeowners Choice (Form BEQ-3C).

(Wording appearing in italics in this Claim Manual is quoted directly from the policy. Words appearing in **boldface type** also appear in boldface in the policy—the boldface type means that the word or term is expressly defined in the CEA insurance policy.)

This section applies to both the standard Homeowners and Homeowners Choice policies. The main distinction between the Homeowners and the Homeowners Choice policies is that the Homeowners Choice policy's three coverage options can be purchased separately: that is, Coverage A & B CSL: DWELLING is required on a Homeowners Choice policy, but Coverage C: Personal Property and Coverage D: Loss of Use are optional coverages in a Homeowners Choice policy, and provide coverage only if purchased.

The separately purchased coverage-feature in a Homeowners Choice policy—and resulting different coverage limits and deductible percentages—means that the claim representative must be vigilant when confirming coverage, limits, and deductible amounts.

a) Introduction to the CEA Homeowners Policies

Both CEA Homeowners earthquake policies have a combined single limit for Coverage A: DWELLING and Coverage B: EXTENSIONS TO DWELLING. That CSL will match the amount of the Coverage A limit in the companion policy. Adjusters may find they need to explain this feature to the insured, because it is different from a typical fire-policy structure.

CEA policies have a helpful table of contents, which makes the policy easier to read and understand.

All claim representatives adjusting CEA claims must thoroughly read the specific policy in force at the time of the loss to determine the appropriate coverages, limits, and exclusions. Reviewing this Claim Manual is not a substitute for reading and understanding the policy itself.

b) Covered Losses

The CEA policy is a specified-peril policy. It insures against only one peril:

*...accidental, direct physical loss from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period...*

*“**Seismic event**” means one or more **earthquakes** that occur within a 360-hour period. The **seismic event** commences upon the initial **earthquake**, and all **earthquakes** or aftershocks that occur within the 360 hours immediately following the initial **earthquake** are considered for purposes of this policy to be part of the same **seismic event**.*

[360 hours equals 15 days.]

Be sure to read the complete policy definitions for “**earthquake**,” “**seismic event**,” and “**tectonic process**.”

For a claim to be covered by a CEA policy, the **earthquake** and the **seismic event** both must have commenced during the CEA policy period.

c) Deductibles

There are specific policy requirements and restrictions that relate to CEA deductibles, and there are coverages to which the deductible may not apply. Therefore, it is important to read the Deductible clause in the policy to determine which damage can be applied to the deductible (and in what amount), and which damage cannot be applied.

The deductible will be applied one time for each **seismic event**.

The deductible structure varies depending on the type of homeowner policy chosen:

| POLICY TYPE | DEDUCTIBLE |
|------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Homeowners Homeowner/Manufactured Home (Mobilehome) (BEQ-3B) | Adjuster must first determine if the CEA policy written/purchased is the standard Homeowners form. |
| Dwelling (Coverage A and Coverage B) | The policyholder selects/purchases deductible level: 5% to 25% of the Coverage A&B Combined Single Limit (CSL) of insurance. The first \$1,500 of emergency repairs is paid with no deductible. |
| Personal Property (Coverage C) | Nothing is paid for personal property damage until the dwelling deductible is met by covered damage to Coverage A&B property. |
| Loss of Use (Coverage D) | No deductible. Loss of Use can be paid if it was caused by a covered cause of loss. |

| POLICY TYPE | DEDUCTIBLE |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Homeowners Choice Homeowners/Manufactured Home (Mobilehome) (BEQ-3C)</p> <p>Dwelling (Coverage A and Coverage B)</p> <p>Personal Property (Coverage C) Optional coverage in a Choice policy</p> <p>Loss of Use (Coverage D) Optional coverage in a Choice policy</p> | <p>The adjuster must first determine if the CEA policy written/purchased is the Homeowners Choice form.</p> <p>The policy holder selects/purchases deductible level: 5% to 25% of the Coverage A&B Combined Single Limit (CSL) of insurance. The first \$1,500 of emergency repairs is paid with no deductible.</p> <p>If coverage purchased, policy holder selects/purchases deductible level for personal property: 5% to 25% of the personal property coverage limit selected. (Coverage C deductible is waived if the Coverage A deductible is met.) (Coverage C deductible percentage must be less than or equal to the Coverage A deductible percentage.</p> <p>No deductible. If coverage purchased, Loss of Use can be paid if it was caused by a covered cause of loss.</p> |

In a Homeowners Choice policy, Coverage C and Coverage D can be purchased separately, with different coverage **limits of insurance** and a separate personal property deductible. This flexibility requires the claim representative to be vigilant in claim handling. **Always check the Declarations page to confirm the coverage, limits, and deductible amounts.**

d) Loss Settlement is at Replacement Cost

With limited exceptions, both CEA Homeowners earthquake forms provide a **replacement cost** policy for real property, as well as for most personal property.

The Loss Settlement condition of the Homeowners policy for Coverages A and B (Condition 5) specifies that, once **dwelling** losses exceed the CSL deductible, settlement

a. ...will not exceed the smallest of the following:

- (i) the **replacement cost** at the time of loss;*
- (ii) if the damaged property has been actually repaired or replaced, the amount actually and necessarily spent to repair or replace the damaged property; or*
- (iii) the applicable **limit of insurance** or any applicable **sublimit(s)**.*

- b. *If the **dwelling** is rebuilt or replaced at another location, we will settle a loss to the property at an amount no more than the **replacement cost** of the covered loss to the property at the original **residence premises** location, up to the applicable **limit of insurance**. For these purposes, the construction of a new home at another location may be deemed to be the rebuilding of the **dwelling** at another location, and the purchase of an existing home at another location may be deemed to be the replacement of the **dwelling** at another location.*

Although most personal property is also settled at **replacement cost**, certain limited categories of personal property are settled at **actual cash value**, as described in Condition 6 of the Homeowners policy:

*We will settle losses to covered property described under Coverage C: PERSONAL PROPERTY . . . at **replacement cost**, except that we will settle losses to property in items (i), (ii), and (iii) of this paragraph, below, at **actual cash value** only.*

- (i) Property which by its inherent nature cannot be replaced;*
- (ii) Property not maintained in good or workable condition; or*
- (iii) Property that is outdated or obsolete, or property not useful for its intended purpose.*

Unlike some Participating Insurers' **companion policies**, the CEA Homeowners earthquake policies do not require actual repair or replacement in order for a claimant to collect the **replacement cost** under Coverage A: Dwelling, Coverage B: Extensions to Dwelling, or Coverage C: Personal Property. (Note, however, if the property has already been repaired or replaced at the time payment is made, the amount payable is limited to the amount actually spent on the repair/replacement.)

Losses covered under "Other Coverages - Building Code Upgrades" are generally not subject to this rule, however. As a general matter, these losses may be paid only if the covered property is actually repaired or replaced and the upgrade cost is thus actually incurred. The CEA Homeowners policies do permit pre-payment of code upgrade costs if, in the claim representative's professional judgment, it is clear:

- the property is going to be repaired or replaced; and
- the code upgrade cost is known (or it is known that code upgrade cost will exceed the Building Code Upgrades coverage limit); and
- making pre-payment will complete the claim process

Payment of losses under "Other Coverages - Building Code Upgrades" is treated somewhat differently if the **dwelling** is replaced at another location other than the insured location. (The policy provides that the construction of a new home at another location may be deemed to be the rebuilding of the dwelling at that other location, and the purchase of an existing home at another location may be deemed to be the replacement of the **dwelling** at that other location.) In these circumstances, consistent with Insurance Code section 2051.5(c) the claim payment should include an amount for Building Code Upgrades coverage calculated in accordance with the following policy provision:

*If the **dwelling** is rebuilt or replaced at a location other than the **residence premises** location shown on the **DECLARATIONS** page, we will pay no more under this coverage for building code upgrades than what the reasonable and necessary costs of such building code upgrades would have been had the **dwelling** been repaired or replaced at the **residence premises** location shown on the **DECLARATIONS** page, but only up to the **limit of insurance** for “OTHER COVERAGES: BUILDING CODE UPGRADES” shown on the **DECLARATIONS** page.*

e) Types of Building Property Insured – Dwelling Defined

Business and commercial buildings are never insured by the CEA policy.

CEA Homeowners policies cover the residence located at the address shown in the Declarations. The covered residence can be a one-, two-, three-, or four-unit dwelling, or a manufactured home or mobile home. “**Dwelling**” is specifically defined in the DEFINITIONS section of the policy, which provides:

*“**Dwelling**,” means the residential structure or mobile home at the location described in the **DECLARATIONS**. **Dwelling** does not include land, whether or not beneath the residential structure or mobile home, even if required for support. **Dwelling** does not include any structure other than the residential structure or mobile home unless the structure (1) shares a common wall or a continuous roof line with the residential structure or mobile home or (2) is attached to the residential structure or mobile home by a foundation that is continuous with or contiguous to the foundation of the residential structure.*

It is important to understand this definition because it is one factor that must be used to evaluate coverage. The claim representative is responsible for determining if the structure in question meets the requirements of a “**Dwelling**” as defined above. For example, if a CEA Homeowners policy insures a house with a garage, the policy covers the garage only if the facts show the garage:

- shares a common wall or a continuous roof line with the house; or
- is attached to the house by either a continuous foundation or a contiguous (touching) foundation.

f) Property Covered - Coverage A

CEA policies specifically describe the **dwellings** and related property covered under Coverage A: Dwelling. In addition, Debris Removal coverage as it relates to **dwelling** repairs is found in item 3 of this section.

The CEA policy provision regarding Debris Removal is like that found in most residential fire policies and is used when a claimant’s total covered losses exceed the policy limits. In cases where a claimant can document extra expenses for debris removal over and above the Coverages A and B CSL, an additional 5% of the CSL for Coverages A and B can be paid as additional insurance.

The CEA Homeowners policy states:

... **we cover:**

3. The reasonable expense **you** incur in removing from the **residence premises** the debris of that damaged property covered under “COVERAGE A: DWELLING,” including but not limited to the reasonable expense **you** incur for the transportation of such debris to landfills or disposal facilities and disposal of the debris at those facilities, or the transportation of such debris to suitable recycling facilities rather than landfills and disposal of the debris at those facilities. The combined single **limit of insurance** for “COVERAGE A: DWELLING” and “COVERAGE B: EXTENSIONS TO DWELLING” will be reduced by any amount **we** pay under this coverage, but in the event that **your** covered losses under COVERAGE A: DWELLING” and “COVERAGE B: EXTENSIONS TO DWELLING” exceed the combined single **limit of insurance** for “COVERAGE A: DWELLING” and “COVERAGE B: EXTENSIONS TO DWELLING” shown on the DECLARATIONS page of this policy, **we** will provide, as additional insurance, up to 5% of that combined single **limit of insurance** for the aggregate of the expenses **you** incur in removing from the **residence premises** the debris of (a) property covered under “COVERAGE A: DWELLING,” as provided for in this paragraph, and (b) property covered under “COVERAGE B: EXTENSIONS TO DWELLING,” as provided for under Item 5 of “COVERAGE B: EXTENSIONS TO DWELLING, Property Covered—Coverage B.”

g) Chimneys – Coverage A: \$10,000 Special Limit of Insurance

CEA Homeowners and Homeowners Choice policies cover chimney damage up to a \$10,000 sublimit, applicable to all damaged **chimneys** at the **dwelling**, regardless of number. Coverage A: Dwelling, Special Limits of Insurance – Coverage A, reads in part:

The **sublimit** of \$10,000 for loss or damage to any and all **chimney(s)** attached to or part of the **dwelling**, regardless of the number of **chimneys** covered. This **sublimit** of \$10,000 in coverage for loss or damage to **chimneys** will be reduced by any amount that **we** pay under “OTHER COVERAGES,” Item 1, “Emergency Repairs,” for Emergency Repairs to **chimneys** and by any amount that **we** pay under “Property Covered – Coverage A,” Item 3 for the removal of the debris of **chimneys**.

Recall that under Coverage A, up to \$1,500 of Emergency Repairs can be paid without applying the Coverage A policy deductible. Emergency Repairs made to a **chimney** result in an equal reduction of the \$10,000 **chimney sublimit**.

The CEA policy defines “**chimney**” as follows:

“**Chimney**” means the flue or vent and the building code-required structure that surrounds the flue or vent, including exterior chimney facings, from the firebox to the outside of that structure. **Chimney** does not include a hearth, a mantel, the firebox where combustion takes place, or the foundation that supports the **chimney**.

There are four important things to remember when evaluating **chimney** damage:

1. Because the **chimney** definition does not include the hearth, mantel, firebox, or the foundation that supports the **chimney**, claim representatives must not include the cost of these items in the estimate of **chimney** damage. Damage to these items, if any, should be included in the **dwelling** estimate.
2. The \$10,000 **chimney sublimit** covers all **chimneys** at the **dwelling**. In other words, the \$10,000 **sublimit** is not applied to each **chimney**, but is the total **limit of insurance** coverage for all **chimney** repair costs, no matter how many **chimneys** are damaged.
3. The **chimney** settlement provisions include three different **chimney** damage calculation methods, including one to cover the cost of replacing damaged chimneys with a non-masonry, earthquake resistant **chimney**. The least costly of the replacement methods will be the amount paid for covered losses. Condition 5-G states in part:

*To repair or replace a **chimney**, we will not pay more than the least of the following amounts:*

- (i) The **sublimit** of \$10,000 that applies to **chimneys**;*
 - (ii) The cost of replacement of a masonry **chimney** or **chimneys** with a non-masonry, earthquake-resistant **chimney** or **chimneys**; or*
 - (iii) The necessary amount actually spent to repair the damaged **chimney** or **chimneys**.*
4. A policyholder can also include in a **chimney** claim the cost to detach and reset a non-damaged satellite dish or antenna during, or to facilitate, earthquake-related **chimney** repairs (even though the repair or replacement of these items would not be included under the **sublimit** and, in fact, are not covered property under CEA policies).

h) Fungi – Coverage A: \$5,000 Special Limit of Insurance

The policy has a **sublimit** for damage from fungi, including earthquake-related fungi damage. The policy defines “**fungi**” as follows:

*14. “**Fungi**” means all types of fungus, including but not limited to mildew and mold, and all of their resulting spores and by-products, including mycotoxins and allergens, but not including cultivated edible mushrooms or other cultivated **fungi** intended for human consumption.*

The policy provides the following **sublimit**:

*2. \$5,000 for all loss or damage to the **dwelling** or to wall-to-wall carpeting attached to the **dwelling** caused by **fungi** the presence of which directly results from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, including, but not limited to, the cost to repair damage from **fungi** or to test for, monitor, abate, mitigate, remove, dispose of or remediate **fungi**.*

*This **sublimit** of \$5,000 in coverage for loss or damage caused by **fungi** will be reduced by any amount that **we** pay under “OTHER COVERAGES,” Item 1, “Emergency Repairs,” for Emergency Repairs resulting from **fungi**. Except for the coverage specifically provided for in this **sublimit**, this policy does not provide coverage for any loss that is caused directly or indirectly by, or that in any way results from, is contributed to by, or is aggravated by **fungi**.*

Note: payment to a claimant for Emergency Repairs resulting from **fungi** will result in an equal reduction to the \$5,000 **fungi sublimit**.

i) Equipment and Utility Service Structures - Coverage B: Extensions to Dwelling

Both CEA Homeowners policies cover equipment and utility service structures for electric, telephone, natural or bottled gas, heating, oil, water, septic, and sanitary sewage systems. To be covered, these items must be owned by the insured, located on the **residence premises**, and affect the habitability of the **dwelling**.

To determine coverage, the claim representative must be able to answer “yes” to all of the following four questions:

1. Does the insured own the item?
2. Is the damaged item one of the types of items listed in the policy?
3. Is the item physically located on the insured’s premises?
4. Does the item affect the habitability of the **dwelling**?

If the answer to one or more of these questions is “no,” then there is no coverage under Coverage B.

j) Walkways, Driveways, Decks, Patio Slabs - Coverage B: Extensions to Dwelling

The CEA policy allows payment only for damage to the ingress and egress portions of walkways, driveways, decks, and patio slabs. This coverage is found in COVERAGE B: EXTENSIONS TO DWELLING, Property Covered,” item 2, walkways, driveways, decks, and patios, which reads in part:

2. *Walkways, driveways, decks, or patios on the **residence premises** that are necessary for and regularly used for either (1) pedestrian ingress to or egress from the **dwelling** by any **insured** or (2) ingress to and egress from the **dwelling** by any non-ambulatory **insured**, but **we** cover only that portion of each covered walkway, driveway, deck, or patio that is reasonably necessary for ingress to and egress from **dwellings** by pedestrian or non-ambulatory **insured**.*

*Any portion of an otherwise-covered walkway, driveway, deck, or patio that is not reasonably necessary for and regularly used for pedestrian ingress to or egress from the **dwelling** by any **insured** or ingress to and egress from the **dwelling** by any non-ambulatory **insured**, and any walkway, driveway, deck, or patio not regularly used for any such purposes, is not covered.*

Remember that walkways, driveways, decks, and patio slabs are excluded from coverage under a CEA policy, except for the limited coverage described above.

The policy language excluding walkways, driveways, decks, and patios reads:

PROPERTY NOT COVERED—COVERAGE A AND COVERAGE B

We do not cover: . . .

10. *Except as provided under “COVERAGE B: EXTENSIONS TO DWELLING, Property Covered,” item 2, walkways, driveways, decks, and patios.*

The intent of this coverage is to allow for safe pedestrian passage to and from the **dwelling**. The scope of coverage is best understood by breaking down the coverage language:

1. *That portion* – only the relevant *portion* of the property is covered. Claim representatives are advised to consult the local city or county building codes for guidance in determining what “portion” of the property is considered necessary for safe ingress and egress.
2. *Necessary for and regularly used* –means a) needed to enter or leave the **dwelling**, and (b) routinely used by pedestrians. The claim representative must decide, after a meaningful discussion with the policyholder, whether a claimed walking surface is “necessary” and “regularly used.”
3. *Pedestrian* – indicates a person walking; coverage also includes ingress and egress from the **dwelling** by a non-ambulatory insured. Ingress and egress necessary for motor vehicles is not covered.
4. *To or from the dwelling* –means the policy covers regular pedestrian entry to and exit from the home to either a public sidewalk or a private or public street next to the home.

Questions about what portion of the walkway, driveway, or patio should be repaired or replaced must be addressed on an individual basis, according to the facts of the loss and the coverage available. The claim file must include a detailed drawing of the ingress and egress allowed, as well as documentation of how the claim representative determined dimensions and amounts paid. Coverage B walkway, driveway, deck, and patio losses are settled at **replacement cost**, for materials of like kind and quality. (See the definition of “**replacement cost**” in the policy.)

k) Bulkheads, Piers, and Retaining Walls - Coverage B: Extensions to Dwelling

The CEA policy covers:

*... those bulkheads, piers, and retaining walls on the **residence premises** that are integral to the stability of the **dwelling**. Except as provided for in “OTHER COVERAGES,” item 4, the cost of repairing, replacing or stabilizing the land under or around these devices is not covered.*

The coverage applies only to property located on the **residence premises** and in which the named insured holds an insurable interest. If any portion of a bulkhead, pier, or retaining wall is not entirely located on the residence premises, the claim representative must fully investigate, and base coverage on, the extent of the policyholder’s insurable interest.

l) Loss Assessment – Coverage B: Extensions to Dwelling

The CEA Homeowners policies include some coverage for **loss assessment** if the home is part of **common interest development** that is governed by an **association of owners**. If the home meets these criteria, there is \$10,000 of coverage for assessments made to affect the repair or replacement of property described in:

Property Covered—Coverage B,

Item 2: Walkways, driveways, decks and patios...

Item 3: Bulkheads, piers, retaining walls, and masonry fences.

The policy provides:

*4. If the **residence premises** is part of a **common interest development** and that **common interest development** is governed by an **association of owners**, then we cover your share of **loss assessments** that are legally and properly made against you by the **association of owners**, but only to the extent the **loss assessment** is made for the purpose of effecting the repair or replacement of property covered under Items 2 and 3, above, of this “Property Covered—Coverage B” section. This coverage for **loss assessments** is provided as a \$10,000 **sublimit** of the combined single **limit of insurance** for “COVERAGE A: DWELLING” and “COVERAGE B: EXTENSIONS TO DWELLING,” and the amount of coverage available under the combined single **limit of insurance** for “COVERAGE A: DWELLING” and “COVERAGE B: EXTENSIONS TO DWELLING” will be reduced by any amount we pay under this coverage for **loss assessments**.*

Note the coverage applies only to that portion of **loss assessments** made for repair or replacement of the property described in Items 2 and 3, above. If assessments are designated for other purposes, payment will be made on a percentage basis, as described in the policy:

*If a **loss assessment** is made as a result of a combination of (a) assessments made to effect the repair or replacement of property covered under Items 2 and 3 of this*

*“Property Covered—Coverage B” section and (b) assessments made for effecting other repairs or for other purposes, then we will pay only a pro rata portion of the **loss assessment** equal to that percentage of the entire assessment that is made to effect the repair or replacement of property covered under Items 2 and 3 of this “Property Covered—Coverage B” section, subject to the \$10,000 **sublimit**.*

The claim representative must provide in the claim file documentation of his/her coverage evaluation, including a copy of the **loss assessment** and any specific wording from the homeowner association CC&Rs relevant to a decision to pay the claimed loss.

m) Property Not Covered: Coverage A and Coverage B

The CEA Homeowners policies do not cover certain items of real property. Following are some examples of property not covered, but it is important to read the entire CEA policy for a complete list of exclusions.

n) Property Not Covered: Land

Carefully review Items 1 and 2 of this section of the policy pertaining to land exclusions. Always remember, in a CEA policy, some limited land coverage is provided under the Coverage A \$10,000 **sublimit**.

o) Property Not Covered: Awnings and Patio Coverings

The policy does not cover:

- 3. Awnings and patio coverings, or their support structures. For purposes of this exclusion, carports are not awnings or patio coverings.*

All structures comprising the patio covering, including posts supporting the covering, are excluded. Awnings and patio coverings are not covered, even if permanently attached to the **dwelling**.

But, if an awning is used as a carport, it is covered if it meets the requirements of a **“Dwelling”** as defined in the Homeowners policy.

A patio slab is not part of a covered loss, except for any portion of it that is necessary for ingress or egress as described in the policy.

p) Antennas, Satellite Dishes, Towers, and Brackets

The policy excludes:

antennas and satellite dishes and any towers, brackets or attachments that support or secure them ...

But remember, if it is necessary to detach and reset a non-damaged antenna or satellite dish, and brackets or attachments, during or to facilitate covered earthquake-related **chimney** or roof repairs, a policyholder can include that cost as part of the **chimney** or **Dwelling** claim.

q) Property Not Covered: Decorative or Artistic Features of the Dwelling.

The policy coverage reads in part:

We do not cover:

...

5. Any decorative or artistic features of the property, including the items of property specifically listed in this exclusion and any items of property, whether or not specifically listed in this exclusion, that are artisan-crafted or that are unique and cannot be replaced with a commercially-made, identical replacement that would be readily available for purchase in the open market. Such decorative or artistic features include, but are not limited to, works of art, murals, stained or leaded glass, mirrors, chandeliers, mosaics, statuary or sculpture, carvings, inlays, reliefs, fountains, aquariums, and their systems. If at the time of loss any decorative or artistic feature is serving a utilitarian purpose, the cost to repair or replace the decorative or artistic feature is not covered to the extent the cost of repair or replacement exceeds the cost of replacing it with a non-decorative, non-artistic functional replacement.

The claim representative should identify any artisan-crafted features of the home during the initial assessment of the damage and discuss any excluded items with the insured. The claim representative should also identify any artisan-crafted items with a utilitarian purpose and use the equivalent quality of other non-artistic items in the home to determine an appropriate cost to cover the artisan-crafted item's functional replacement. Since the determination is based on the claim representative's professional judgment, the claim file must include clear documentation reflecting a reasoned justification for the amount allowed.

A claim representative who is unsure if an item rises to the level of being "artisan-crafted" should involve his/her company CEA Liaison in the evaluation. The CEA Liaison can consult with the CEA, if necessary.

r) Property Not Covered: Exterior Masonry Veneer

The CEA Homeowners policies do not cover:

*Exterior masonry veneer. For purposes of this exclusion, stucco and exterior **chimney** facings are not exterior masonry veneers.*

The terms “masonry” and “veneer” refer to a nonstructural facing of brick, concrete, stone, tile, or other similar material attached to a backing for the purpose of ornamentation.

It is important to determine if the brick on a home is part of the structure of the **dwelling**, and not simply masonry veneer. If any structural part of the home is constructed of a masonry material (such as brick) then that part of the home is covered under the CEA policy.

Policyholders may purchase optional coverage for masonry veneer through the Coverage for Exterior Masonry Veneer endorsement (CEA 03A 01-2016). Addition of the endorsement will appear on the policy Declarations page. This optional endorsement includes masonry veneer coverage up to the policy limit for Coverage A. The Exterior Masonry Veneer endorsement reads in part:

THIS ENDORSEMENT AMENDS YOUR POLICY BY DELETING THE FOLLOWING PROVISION OF YOUR POLICY IN ITS ENTIRETY:

Item 6 of “Property Not Covered – Coverage A and Coverage B,” which reads as follows, is hereby deleted:

*6. Exterior masonry veneer. For purposes of this exclusion, stucco and exterior **chimney** facings are not exterior masonry veneers.*

***Your** policy will be deemed to omit the provision quoted above; which means that **your** policy will provide coverage for exterior masonry veneer in accordance with all other terms and conditions of the policy.*

Remember, if the policyholder has not purchased the Coverage for Exterior Masonry Veneer (CEA 03A 01-2016) endorsement, and the masonry veneer on the home is damaged or falls off, there is no coverage for that loss, and therefore, no requirement to pay for repair or replacement.

s) Plaster - Limited to the Cost of Sheetrock or Drywall

The policy does not cover plaster, unless the cost to repair or replace it is equal to or less than the value of an equivalent replacement with sheetrock or drywall. The CEA policy will cover plaster repairs only if the cost is less than repair or replacement with sheetrock or drywall.

t) Property Not Covered: Garages and Outbuildings

Detached garages and outbuildings are not covered unless the structure in question meets the requirements of a “**Dwelling**” as defined in the Homeowners policy. The definition of “**Dwelling**” includes structures that share a common wall or continuous roof line with the residential structure or mobilehome, or are attached by a foundation that is continuous or contiguous to the foundation of the dwelling. If a garage or outbuilding meets this definition, then it is covered under the Coverage A: Dwelling policy limit.

u) Property Not Covered: Landscaping

The CEA policy does not cover damage to:

Landscaping, trees, shrubs, lawns, or plants, even if damaged by necessary repairs to covered property.

If it is necessary to remove a landscape element in order to access a structure for repairs, the cost of the removal can be included in the claim, but the cost to replace the landscaping element is not covered by the CEA policy.

v) Property Not Covered: Swimming Pools, Spas, and Hot Tubs

The policy does not cover swimming pools, spas, or hot tubs and all of their components, whether they are personal property or part of the dwelling. Tile or other material linking or attaching the pool, spa, or hot tub to a deck or to the dwelling is not covered.

w) Dwelling Glass - Loss Settlement

Conditions:

5. Loss Settlement: Coverages A and B.

f. We will replace covered glass with safety glazing material when required by ordinance or law.

This applies when paying for broken building window glass, and building codes require that it be replaced with safety glass. The increased cost falls under the policy Building Code Upgrade coverage.

Note: the companion homeowner’s policy may have coverage for broken dwelling glass. If there is double coverage, see the provisions in the policy regarding Other Insurance.

x) Coverage C - Personal Property

Coverage C: Personal Property is included as part of the standard Homeowners policy, but is an optional coverage offered to Homeowners Choice policyholders. Remember, deductibles apply differently to personal property, depending on the type of policy the insured has chosen (See Section 9 – Calculating Deductibles for CEA Claims). **Always review the Declarations page to confirm the policy type, coverage, limits, and deductible amounts.**

y) Coverage C - Personal Property Subject to a Sublimit

The CEA policy covers certain types of personal property, but only up to the applicable sublimit:

1. \$250 in the aggregate on all money, bank notes, coins and medals, including any of these that are part of a collection.
2. \$250 in the aggregate on all securities, checks, cashier's checks, traveler's checks, money orders, and other negotiable instruments; accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, passports, and tickets.
3. \$3,000 in the aggregate on all computers and other electronic data processing equipment, including storage media and software used with that equipment, whether or not it is **business property**. Storage media or software that cannot be replaced with other property of like kind and quality on the current consumer retail market is not covered.
4. \$1,000 in the aggregate on all **business property** other than computers and other electronic data processing equipment, storage media and software.
5. \$3,000 in the aggregate on all jewelry, watches, furs, precious and semi-precious stones, but not more than \$1,000 for any one article.
6. \$3,000 in the aggregate on all **collectibles**, including but not limited to sports cards; **collectible** dolls, model trains, or toys; **collectible** postage stamps; **collectible** autographed items; memorabilia; and commemorative or otherwise **collectible** plates, spoons, or cups; regardless of whether any such item is a single item or part of a collection.
7. \$3,000 in the aggregate on all beverages contained in bottles or in other glass, ceramic, or pottery containers, including but not limited to wine, port, liquor, beer, and all other alcoholic or non-alcoholic beverages.

z) Coverage C - Personal Property Not Covered

Read the CEA policy for a complete list of personal property that is not covered.

Artwork and breakables are among the more common items damaged in an earthquake. These items are not covered by the CEA policy:

We do not cover:

...

7. *Artwork, including but not limited to paintings, drawings, or etchings; framing; sculpture or statues, photographs; and handmade, loom-crafted, and other non-machine-made tapestries and rugs.*

8. *Breakable items, consisting of the following:*
- a. *Glassware, crystal, china, ceramic, pottery, and porcelain items created as table settings, serving ware, or otherwise intended for use in serving or consuming food or beverage, whether currently being used for that purpose or not; and,*
 - b. *Figurines, vessels, vases, and other ornamental items made of crystal, china, pottery, ceramics, porcelain, glass, or marble.*

Policyholders may purchase optional coverage for breakable items by adding a Coverage for Breakables (CEA 04A 01-2016) endorsement. The endorsement provides coverage for the “Breakable items” listed above, up to the Coverage C limit. Personal Property sub-limits stated in the policy continue to apply. If purchased, the endorsement is listed on the **Declarations** page.

aa) Coverage D - Loss of Use

Coverage D: Loss of Use coverage is included as part of the standard Homeowners policy but is optional under the Homeowners Choice policy. Both policies offer the policyholder a choice of coverage limits, up to a maximum of \$100,000. **Always review the Declarations page to confirm the policy type, coverage, limits, and deductible amounts.** Coverage D provides, in part:

If a civil authority prohibits you from occupying your dwelling because of direct damage to the residence premises or other premises, caused by an earthquake ... we cover the resulting Additional Living Expense or Loss of Rent, subject to the “COVERAGE D: LOSS OF USE” limits of insurance.

If the insured must vacate the home after an earthquake either because a covered loss makes the home unfit to live in, or due to **earthquake** damage to other property such as nearby roads or bridges, Loss of Use coverage will cover:

- the increase in the insured’s living expenses actually incurred; or
- if any part of the **dwelling** was rented to others or held for rental, the fair rental value (less any expenses that do not continue).

The claim file must contain documentation to support all payments for Loss of Use (i.e., expenses and lost rent). If any part of the **dwelling** was rented to others or held for rental, and a covered loss makes it unfit to live in, the fair rental value (less any expenses that do not continue) is covered.

Loss of Use coverage is not subject to any deductible. Even if the **dwelling** losses are less than the policy deductible, Loss of Use coverage is available to policyholders who must vacate their homes because of damage caused by an **earthquake**.

After the occurrence of an **earthquake**, there is no maximum period during which covered Loss of Use expenses must be incurred. Loss of Use coverage applies even if the insured is not required to vacate the dwelling until months after the **earthquake** (such as, for example, when repairs to the property cannot be started until a substantial period after the **earthquake** due to a shortage of contractors available to perform the work.) If there is a question of coverage, use Attachment 5 with any advance payment.

bb)Other Coverages: Emergency Repairs

In the standard Homeowners and Homeowners Choice policies, the first \$1,500 of emergency repairs is not subject to a deductible. (Note: this provision is not available in renters or condominium policies.) The Other Coverages portion of the CEA policy states:

The following other coverages are provided subject to all terms and conditions of this policy. ...

1. ***Emergency Repairs.*** *If covered damage occurs to covered property and such emergency measures are made necessary as the result of an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** will pay the following portion of the cost **you** incur for reasonable and necessary emergency measures **you** take (1) to protect against further damage to covered property, or (2) if a combined single **limit of insurance** for “COVERAGE A: DWELLING” and “COVERAGE B: EXTENSIONS TO DWELLING” is shown on the DECLARATIONS page of this policy and the **dwelling** is otherwise habitable, to remove from covered property in the **dwelling** the residue of broken glass or to repair or replace covered broken windows in the **dwelling** or other covered structural glass that is part of the **dwelling**. This Emergency Repairs coverage provides coverage up to a **sublimit** of 5% of the policy **limit of insurance** for the type of property being protected. The applicable total **limit of insurance** for the type of property being protected will be reduced by any amount **we** pay for this coverage, but **we** will never pay more for emergency repairs than 5% of the policy **limit of insurance** for the type of property being protected.*
 - a. *The first \$1,500 of covered costs **you** incur for such reasonable and necessary emergency measures is not subject to the application of any deductible. Costs **you** incur for such emergency measures in excess of \$1,500 are subject to the application of the deductible that applies to the type of covered property being protected, which means that until **you** satisfy the applicable deductible amount, you will not be paid for any such costs **you** incur above \$1,500.*
 - b. ***Your** taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve **you** of **your** responsibilities outlined in “**Your Duties After Loss** (CONDITIONS, Item no. 3).*

This means the claim representative must pay for covered emergency repairs up to \$1,500 without applying a deductible; the remainder of covered emergency repairs is subject to the applicable Coverage A: Dwelling deductible.

Because emergency repairs may not exceed the policy sublimit of 5% of Coverage A & B CSL, the representative must diligently track all emergency repairs loss payments. The CEA Excel Deductible Calculator is the best tool for this purpose.

cc) Other Coverages: Building Code Upgrade

Building Code Upgrade coverage in the amount of \$10,000, \$20,000, or \$30,000, is provided as additional insurance in a CEA Homeowners policy. The coverage from the Homeowners Choice policy reads in part:

OTHER COVERAGES

The following other coverages are provided subject to all terms and conditions of this policy:

1....

2. Building Code Upgrades.

*If there is a covered loss to property covered under “COVERAGES A: DWELLING” or “COVERAGES B: EXTENSIONS TO DWELLING” and you repair or replace that covered property, then subject to the **limit of insurance** for “OTHER COVERAGES: BUILDING CODE UPGRADES” shown on the **DECLARATIONS** page, we cover the cost of reconstruction or replacement to bring that property up to local residential building code standards in effect at the **residence premises** location on the date of the **earthquake** that caused the loss, but only so much of the reconstruction or replacement costs attributable to the requirements of securing governmental approval of the construction permit process for repair or replacement of that covered property. Although no payment will be made to you under this coverage for building code upgrades unless you repair or replace that covered property, the full amount of loss covered under this coverage for building code upgrades, up to the **limit of insurance** for “OTHER COVERAGES: BUILDING CODE UPGRADES” shown on the **DECLARATIONS** page, will be applied to meet the deductible, as set forth in Item 2b of the “DEDUCTIBLE CLAUSE.” If the **dwelling** is rebuilt or replaced at a location other than the **residence premises** location shown on the **DECLARATIONS** page, we will pay no more under this coverage for building code upgrades than what the reasonable and necessary costs of such building code upgrades would have been had the **dwelling** been repaired or replaced at the **residence premises** location shown on the **DECLARATIONS** page, but only up to the **limit of insurance** for “OTHER COVERAGES: BUILDING CODE UPGRADES” shown on the **DECLARATIONS** page.*

When evaluating Building Code Upgrade coverage, remember:

1. Use the cost of the building code upgrade in the deductible calculation.
2. The covered property must actually be repaired or replaced, and the cost incurred, before payment is made for Building Code Upgrade coverage. There is a limited exception to this rule – CEA Homeowners policies permit pre-payment of code upgrade costs only if it is clear, in the claim representative’s professional judgment:
 - the property is going to be repaired or replaced;
 - the code upgrade cost is known (or it is known that code upgrade costs will exceed the Building Code Upgrades coverage limit); and
 - making pre-payment will complete the claim process.

3. Building Code Upgrade coverage is additional insurance to the Coverages A and B CSL.
4. Building Code Upgrade coverage covers the cost to bring the covered property up to local residential building code standards in effect on the date of the earthquake that caused the loss.
5. The coverage pays only for the Building Code Upgrade costs required to secure a reconstruction permit for repair or replacement of the covered property.
6. If the **dwelling** is rebuilt or replaced at a location other than the insured location (such as by the construction of a new home at a different location or purchase of an existing home at another location) the claim payment should include an amount for Building Code Upgrades coverage equal to what the building code upgrades would have been had the dwelling been repaired or replaced at the insured location shown in the **Declarations**.

dd) Other Coverages: Land Stabilization

The CEA policy covers up to \$10,000 of the cost to replace, rebuild, stabilize, or otherwise restore, land owned by the insured necessary to support the **dwelling**. The need for stabilization must be:

- a direct result of damage to land by a covered earthquake; and
- necessary for the habitability of the **dwelling**.

Land Stabilization coverage is provided as a \$10,000 **sublimit** of the Coverages A and B CSL. There is no other coverage for land in the CEA policy.

Land is excluded from the definition of “**Dwelling**,” but note:

- the cost of engineering work necessary to determine the need for land stabilization is included in Land Stabilization **sublimit**; and
- movement of land necessary to accommodate a foundation repair is covered under Coverage A: Dwelling, and is not subject to the Land Stabilization sublimit.

ee) Other Coverages: Energy Efficiency and Environmental Safety Upgrades

Energy Efficiency and Environmental Safety Upgrades claims should be scoped and estimated for repair or replacement with “like kind and quality” items, to determine the dollar amount to be used in the deductible calculation.

If the policyholder elects to use energy efficient and/or environmental safety items during the actual repair/replacement process, the policy provides additional coverage of up to 200% of the cost of any one item being replaced with an energy efficient/environmentally safe equivalent. The total is subject to the \$25,000 policy sublimit for this coverage. Claim representatives should notify the policyholder of this additional coverage as early in the repair/replacement process as possible.

Carefully review the Energy and Environmental Safety Upgrades sections of the CEA policy, and apply the policy language exactly as it reads. Do not expand this coverage beyond what is provided.

If a combined single **limit of insurance** for “COVERAGE A: DWELLING” and “COVERAGE B: EXTENSIONS TO DWELLING” is shown on the DECLARATIONS page of this policy and there is a covered loss to property covered under “COVERAGE A: DWELLING” or “COVERAGE B: EXTENSIONS TO DWELLING” in excess of the applicable deductible, **we** will pay **your** cost to repair or replace that property with material that meets the following standards regarding environmental safety and energy efficiency. This coverage will apply to the added costs **you** incur to repair or replace that property with material that meets those standards as compared to the **replacement cost** of that property with material that does not meet those standards. This coverage is provided as a \$25,000 **sublimit** of the combined single **limit of insurance** for “COVERAGE A: DWELLING” and “COVERAGE B: EXTENSIONS TO DWELLING,” and the combined single **limit of insurance** for “COVERAGE A: DWELLING” and “COVERAGE B: EXTENSIONS TO DWELLING” will be reduced by any amount **we** pay under this coverage. The most **we** will pay for the replacement or upgrade of any item of covered property is 200% of its **replacement cost** using material that does not meet the following standards regarding environmental safety and energy efficiency. Losses covered under this coverage are not applied to meet the combined deductible for “COVERAGE A: DWELLING” and “COVERAGE B: EXTENSIONS TO DWELLING.”

- a. Energy Efficiency Upgrades: **We** will pay the reasonable added costs **you** incur to replace damaged covered property with the following energy-efficient property:
 - i. Electronic Equipment – Energy Star Replacement. If there is covered loss to electronic equipment, including but not limited to equipment for heating, ventilation, and air conditioning (HVAC) systems, that is part of the **dwelling** and that is covered under “COVERAGE A: DWELLING,” and that electronic equipment must be replaced rather than repaired, then **we** will pay the reasonable expenses **you** incur to replace damaged or destroyed electronic equipment with equipment of otherwise equivalent quality and function that has been identified by the United States Government Department of Energy, Environmental Protection Agency as “Energy Star” qualified.
 - ii. Window, Door, Roofing, and Insulation Energy Upgrades. If there a loss to the **dwelling** that requires the repair or replacement of roofing or insulation material, air sealing, windows, doors, or skylights, then **we** will pay the reasonable expenses **you** incur to replace those damaged or destroyed materials with materials of otherwise equivalent quality and function that have been identified by the United States Government Department of Energy, Environmental Protection Agency as “Energy Star” qualified.
 - iii. Plumbing Fixture Upgrades. If there a loss to the **dwelling** that requires the repair or replacement of plumbing fixtures, then **we** will pay the reasonable expenses **you** incur to replace those fixtures with energy and water efficient fixtures, including automatic faucet sensors, faucet and shower head flow restrictors, dual flush toilets, and localized water heaters, using plumbing fixtures of otherwise equivalent quality and function provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design

(LEED) for Homes Green Building Rating System of the U.S. Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines.

- b. *Environmental Safety Upgrades.* *We will pay reasonable added costs **you** incur to repair or replace the damaged or destroyed property covered under “COVERAGE A: DWELLING” with the following environmentally-upgraded property, provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of the U.S. Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines:*
- i. *Interior Finish Materials Upgrades.* *If there is a covered loss to the **dwelling** that requires the repair or replacement of interior finish materials, then **we** will pay the reasonable expenses **you** incur to replace those materials with materials of otherwise equivalent quality and function that are low in volatile organic compounds (VOC), sustainably developed, rapidly renewable, or comprised of recycled materials. This coverage applies to interior paints, architectural coatings, primers under coatings, adhesives and sealants, low emissions carpet and floor coverings, including adhesive to affix them to the floor, and permanently installed composite wood fixtures including counters, cabinets and partitions, where available, Forest Stewardship Council certified wood for millwork, ceilings, siding, and framing, and bamboo flooring.*
- ii. *Elimination of Ozone-Depleting Substances Upgrades.* *If there is a covered loss to the **dwelling** that requires the repair or replacement of systems containing such items, then **we** will pay the reasonable expenses **you** incur to replace chlorofluorocarbon refrigerants (CFC) or hydro-chlorofluorocarbon (HCFC) or Halon refrigerants or fire extinguishing agents with environmentally-upgraded replacements.*
- iii. *Flush Out of Reconstructed Space.* *If necessitated by the repair or replacement of covered loss to the **dwelling**, **we** will pay the reasonable and necessary costs to flush out the reconstructed space with 100% outside air and new filtration media following completion of the repair or reconstruction process.*

ff) Losses Excluded

The CEA policy only covers the specified peril of **earthquake**. The LOSSES EXCLUDED section of the policy provides:

*We do not insure for any loss that is not directly caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period.*

*Without limiting the above, even if a loss directly or indirectly is caused by, is contributed to by, results from, or is aggravated by an **earthquake**, we do not insure for any loss that is caused directly or indirectly by, or that in any way results from, is contributed to by, or is aggravated by, any of the following:*

The policy then lists a number of specifically-excluded perils, the most significant of which are discussed below. Claim representatives must read the policy to become familiar with the complete list of exclusions.

gg) Losses Excluded: Fire and Explosion

The policy does not cover losses resulting from fire or explosion, including fires resulting from such things as broken gas lines, exposed wiring, or other factors directly resulting from an **earthquake**. Any claims for losses resulting from fire must be made under the policyholder's residential fire insurance policy, not under the CEA policy.

If part of the home is damaged by a covered **earthquake** and part of the home is damaged by a fire, a separate claim representative must be assigned to each claim. Both claim representatives must, to the extent possible, coordinate their inspections; with the goals of minimizing inconvenience to the policyholder due to multiple inspections from different adjusters, and ensuring the two representatives see the same damage at the same time to better determine the proper allocation of damage to the appropriate policy.

NOTE: Notify the CEA immediately, by e-mail to the CEA Claim Director, about any CEA claim opened on a fire-damaged home, where the CEA claim has a claim reserve of greater than zero (or whichever other minimum reserve amount the Participating Insurer uses to open a CEA claim). The CEA may elect to arrange inspections on these claims to review allocation of damages.

hh) Losses Excluded: Water Damage

The policy reads in part:

... *we do not insure for any loss that is caused directly or indirectly by ...*

2. *Water damage, including but not limited to damage resulting from:*

- a) *Flood, precipitation (including but not limited to rain, snow, hail, or sleet), or surface water; waves, tsunami, or tidal water; rupture of a dam, levee, berm, or sea wall; overflow of a natural or man-made body of water; or spray from any of these; or*
- b) *Water below the surface of the ground, whether natural or not, including water that exerts pressure on or seeps or leaks through a building, sidewalk, driveway, foundation, or other structure.*

*This water damage exclusion, however, does not exclude loss that results from water damage to covered property that is a result of any of the following directly resulting from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period:*

*The release of water from water heaters, refrigerators, or water supply pipes within the **dwelling**;*

The displacement of water from an aquarium, drinking water container or dispenser, or swimming pool, decorative pool, spa, or hot tub; or

*The release of water from municipal or other water supply lines on or off the **residence premises** or the release of water or sewage from sewers or drains on or off the **residence premises**; or*

*Precipitation (including rain, snow, hail, or sleet) entering a building through an opening in a roof or wall, if the opening is the direct result of damage from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period.*

Although the above exclusions are straight-forward, the claim representative should bear in mind:

- damage resulting from certain specified **earthquake**-related water factors is covered – review the policy language above;
- **earthquake**-related flooding is not covered (e.g., if an **earthquake** breaks an uphill dam);
- damage caused by a tsunami is not covered; and
- the policy provides coverage for damage resulting from water entering the home through an opening caused by an **earthquake**.

ii) Losses Excluded: Asbestos and Other Pollutants

The policy contains a detailed pollution and pollutants exclusion that applies to groundwater, land, and personal property.

Because this exclusion applies to personal property, the policy does not cover asbestos removal, including the cost of testing, if the loss is to items listed under Coverage C.

There is not coverage for damage to any personal property contaminated by asbestos, including furniture, furnishings, and clothing.

Asbestos removal (including the cost of testing), and other **earthquake**-caused pollution damage to the dwelling, is covered when the expense is necessary to repair or replace damaged items of real property covered under Coverages A or B.

jj) Losses Excluded: Non-Earthquake Earth Movement and Land Sliding

The policy does not cover any loss caused directly or indirectly by non-**earthquake** related earth movement, including: *Earth movement, settling of land, land sliding, subsidence, mudflows, or earth sinking, rising or shifting . . .*

There is an exception to this exclusion—the CEA policy does cover the loss if such earth movement, settling of land, land sliding, subsidence, mudflow, or earth sinking, rising, or shifting:

- a. is induced by, and would not have occurred in the absence of, an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period; and*
- b. causes loss that manifests within one year after the **earthquake** that caused the loss.*

For example, if an **earthquake** is determined to have caused a landslide that occurred six months after the **earthquake**, the damage caused to the **dwelling** resulting from the landslide might be covered. However, if a landslide occurs or the resulting loss manifests any time after the first anniversary of the **earthquake**, the damage is not covered under the CEA policy.

2. BASIC EARTHQUAKE POLICY - COMMON INTEREST DEVELOPMENT – CONDO POLICY

In California, a “**common interest development**” can be a community apartment project, a condominium project, a planned development, or a stock cooperative, all defined in California Civil Code sections 4100-4125. Since the term “**common interest development**” is most typically applied to condominiums, for ease of reference the term “condominium” will be used throughout the remainder of this Manual.

Following is a brief summary of the coverages, exclusions, and limitations provided by the CEA condominium policy. This policy has many of the same provisions found in the CEA Homeowners policy, with some unique features. **Always review the specific policy in force at the time of the claim to confirm the policy type, coverages, limits, deductible amounts, and exclusions.** This Manual is not a substitute for reading the policy. Claim representatives must also review the condominium association master policy, and the **association governing documents**, when evaluating a condominium loss.

a) **Policy Definitions**

Most of the key definitions found in the Homeowners policy are also found in the Condominium policy. However, some additional definitions are unique to this policy, including: “**association governing documents**,” “**association master policy**,” “**association of owners**,” “**common interest development**,” and “**dwelling unit**.” Claim representatives should read and become familiar with these definitions.

b) **Adjusting Condominium Claims – Coordination**

Participating Insurers must identify the number of policies they have issued within a given condominium complex. To the extent possible, claims from policyholders within the same complex should be assigned to the same claim representative and supervised by the same individual.

c) **Other Earthquake Coverage**

If a loss to property that would otherwise be covered under Coverage A: BUILDING PROPERTY is covered under an **association master policy**, refer to the “Other Insurance” clause in the CEA policy:

8. Other Insurance.

*a. If there is other insurance, not including the **association master policy**, that covers **earthquake** loss to the **dwelling unit** or other property covered under this policy, **we** will pay **our** share of the covered loss or damage. **Our** share is the proportion that the applicable **limit of insurance** under this policy bears to the combined **limits of insurance** of all policies that cover the same property.*

*b. If there is other insurance that does not cover the peril of **earthquake** but that otherwise provides coverage for the same loss or damage for which **you** submit a claim under this policy, **we** will pay only for the amount of covered loss or damage in excess of the amount due from that other insurance, but **we** will not pay more than the applicable limit of insurance.*

Part b., above, means the associated earthquake coverage is primary.

d) **Duties After a Loss**

The insured’s duties after a loss are largely the same as those found in the Homeowners policy. In addition, the condominium policyholder must:

*If requested, provide the **participating insurer** with copies of all **association governing documents**.*

e) Overview of the Declarations Page and Coverage Options

In contrast to the CEA Homeowners policies, the CEA Condominium policy provides for three coverage groups that can be purchased together or separately, in any combination:

Coverage A: BUILDING PROPERTY

Coverage C: PERSONAL PROPERTY together with Coverage D: LOSS OF USE

Coverage E: LOSS ASSESSMENT

Coverage A: Building Property can be purchased alone or in combination with other coverages. If Coverage A is selected, the policyholder selects a limit of either \$25,000, \$50,000, \$75,000, or \$100,000. Building Code Upgrade coverage of \$10,000, as additional insurance, is included with Coverage A.

- Coverage A offers deductible options of 5%, 10%, 15%, 20%, and 25%.

Coverage C: Personal Property, and Coverage D: Loss of Use, can be purchased together or in combination with other coverages. Coverages C and D include coverage with limits available in the following amounts:

- Coverage C: \$5,000, \$25,000, \$50,000, \$75,000 \$100,000, \$150,000, or \$200,000;
- Coverage D: \$1,500, \$10,000, \$15,000, \$25,000, \$50,000, \$75,000, or \$100,000;

The CEA Condominium policy has personal property deductible options of 5%, 10%, 15%, 20%, and 25%. Loss of Use does not have a deductible.

Coverage E: Loss Assessment can be purchased alone or in combination with other coverages. The limits available are \$25,000, \$50,000, \$75,000, or \$100,000.

- The CEA Condominium policy has loss assessment deductible options of 5%, 10%, 15%, 20%, and 25%.

Because these coverages can be purchased separately, with different options for coverage limits and deductibles, the claim representative must be vigilant in claim handling. **Always check the Declarations page to confirm the coverage, limits, and deductible amounts.**

f) Losses Excluded

Losses excluded are the same as those found in the – standard CEA Homeowners policy.

g) Deductibles

One difference between the CEA Condominium policy and CEA Homeowners policies is how deductibles are handled. Unlike the Homeowners policies, in the Condominium

policy, each of the policy coverages has its own separate deductible (except for Loss of Use, which does not have a deductible). Only loss to property covered under a specific coverage counts against the deductible for that coverage.

Remember: claim representatives must use the CEA Excel Deductible Calculator found on the CEA Web site for all claims where covered damage has been estimated, whether the claim is expected to exceed the deductible or not.

h) Building Property - Coverage A

Coverage A is optional in the Condominium policy, so it is important to carefully review the **Declarations** page to determine whether the policyholder purchased Coverage A.

A single-family residence usually has one owner and stands separate from other structures. In contrast, a condominium project is a collection of separate dwelling units together with property owned jointly by many owners. Property owned jointly may include the structure in which the individual units are located, common walkways, pools, and other common property. Often, the association of owners has obtained a policy of insurance, referred to as an “**association master policy**,” which may insure against the perils of fire, earthquake, or both.

In order to determine whether the property is covered under Coverage A: Building Property, claim representatives must review:

- a) the **association governing documents**, to determine whether the insured has the obligation to repair or maintain the property; and
- b) the **association master policy**, to determine whether it covers the property for the risk of **earthquake**.

There are two basic categories of property covered under Coverage A: Building Property. The first category of property is covered regardless of the policyholder’s individual maintenance obligations under the association governing documents:

We cover:

1. *The following property:*
 - a. *Built-in appliances, fixtures, alterations, and improvements that are part of the structure in which the **dwelling unit** is located and are contained within the **dwelling unit**;*
 - b. *Wall-to-wall interior carpeting attached to the **dwelling unit**;*
 - c. *Items of real property, other than **chimneys**, that pertain exclusively to the **dwelling unit**.*

The second category of property is only covered if the insured has an obligation to maintain the property under the **association governing documents**:

2. *The following property, but only to the extent that **you** are obligated to repair or maintain the property under the terms of the **association governing documents**:*
 - a. *Plumbing pipes and utility service structures and equipment that are enclosed within the walls, ceiling, or floor of the **dwelling unit**, extending to the exterior surface of the perimeter walls of the **dwelling unit**;*
 - b. *Equipment and utility service structures for electric, telephone, natural or bottled gas, heating, oil, water, septic, and sanitary sewage systems that (1) are located outside of the perimeter walls of the **dwelling unit** but within the **common interest development** and (2) directly affect the habitability of the **dwelling unit**;*
 - c. ***Chimneys** that are attached to or part of the **dwelling unit**, up to a **sublimit** of \$10,000, regardless of the number of **chimneys** covered.*

i) Emergency Repairs – Coverage A

The cost of Emergency Repairs under Coverage A: Building Property will only be paid if damage exceeds the Coverage A deductible. Emergency Repairs coverage provides coverage up to a sublimit of \$1,500 of the policy limit. (Do not confuse this with the \$1,500 that can be paid on a CEA Homeowners policy before the Coverage A: Dwelling policy deductible is met.)

j) Debris Removal – Coverage A

Coverage A includes coverage for debris removal. The policy also allows for an additional payment for debris removal of up to 5% of the Coverage A limit of insurance, as additional insurance, in cases where the Coverage A losses exceed the Coverage A limit):

*Debris Removal. We will pay the reasonable expense **you** incur in removing from the **common interest development** the debris of damaged property covered under “COVERAGE A: BUILDING PROPERTY,” including but not limited to the reasonable expense **you** incur for the transportation of such debris to landfills or disposal facilities and disposal of the debris at those facilities, or the transportation of such debris to suitable recycling facilities rather than landfills and disposal of the debris at those facilities.*

*The **limit of insurance** for “COVERAGE A: BUILDING PROPERTY” will be reduced by any amount **we** pay under this coverage, but in the event that **your** covered losses under “COVERAGE A: BUILDING PROPERTY” exceed the combined **limit of insurance** for “COVERAGE A: BUILDING PROPERTY” shown on the DECLARATIONS page of this policy, **we** will provide, as additional insurance, up to 5% of that **limit of insurance** for “COVERAGE A: BUILDING PROPERTY” for this debris removal coverage.*

k) Loss Settlement – Coverage A

Loss settlement under Coverage A: Building Property of a CEA Condominium policy is substantially similar to loss settlement under Coverages A and B of the CEA Homeowners policies.

Remember: due to the unique nature of both common and individual property ownership found in **common interest developments**, the claim representative must determine:

- the extent of the insured’s insurable interest and responsibility to insure the property; and
- whether the CEA policyholder’s loss is covered or collectible under an **association master policy** (in which case, refer to the “Other Insurance” provision of the CEA policy).

l) Personal Property – Coverage C

The adjusting process is substantially the same under the Homeowners, Renters, and Condominium policies, except for the application of the deductible. Coverage C is an optional coverage in the Condominium policy, so it is important to carefully review the Declarations page to determine whether the policyholder has purchased Coverage C, and if so, the coverage and deductible amounts.

Condominium owner policyholders may purchase optional coverage for breakable items by adding a Coverage for Breakables (CEA 04A 01-2016) endorsement to the Personal Property coverage. The endorsement provides coverage for the “Breakable items” listed in the policy, up to the Coverage C limit. Personal Property sub-limits stated in the policy continue to apply. If purchased, the endorsement is listed on the Declarations page.

m) Emergency Repairs – Coverage C

The cost of emergency measures undertaken to protect damaged personal property from further damage is included as a Coverage C **sublimit** and are paid only if damage to personal property exceeds the Coverage C deductible. The policy provides, in part:

Other Coverage—Coverage C

We provide the following other coverage:

Emergency Repairs. If covered damage occurs to property covered under “COVERAGE C: PERSONAL PROPERTY,” we will pay the cost you incur for reasonable and necessary emergency measures you take to protect against further damage to that property.

1. *This Emergency Repairs coverage provides coverage up to a **sublimit** of the lesser of (i) 5% of the policy **limit of insurance** for “COVERAGE C: PERSONAL PROPERTY” or (ii) \$1,000. The applicable total **limit of insurance** for the “COVERAGE C: PERSONAL PROPERTY” will be reduced by any amount we pay for this coverage.*
2. ***Your** taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve you of your responsibilities outlined in “Your Duties After Loss” (CONDITIONS, Item no. 3).*

n) Loss of Use – Coverage D

Coverage D: Loss of Use is an optional coverage in the Condominium policy. Always review the **Declarations** page to determine whether the policyholder has purchased Coverage D, and if so, the coverage amount. Loss of Use is calculated functionally the same as under the Homeowners policies.

In order to collect Loss of Use or Loss of Rents under the Homeowners policies, the dwelling must be unfit to live in. Under the Condominium policy, if the insured is forced to vacate because of **earthquake**-related repairs to other units in the same development, Loss of Use can be paid – even if the **dwelling unit** is undamaged or fit to live in. Review the policy provision for the exact terms and conditions of Loss of Use coverage.

o) Loss Assessment – Coverage E

A loss assessment is a demand by an **association of owners**, requiring the **dwelling unit** owner to pay for damage to commonly-owned property. A loss assessment may be covered, but only to the extent that the assessment relates to the repair or replacement of covered **earthquake**-damaged association property (covered under Coverage E). For example, damage to swimming pools is included in the list of “Losses Not Covered” under Coverage E, so if the association assesses a CEA policyholder for a share of the damaged pool repair costs, the CEA policy does not pay for any part of that loss assessment.

Because Coverage E: Loss Assessment is an optional coverage in the CEA Condominium policy, it is important to carefully review the **Declarations** page to determine whether the policyholder has purchased Coverage E, and if so, the coverage amount.

If the policyholder purchased Coverage E, the policy covers the insured’s share of an assessment charged by the association against all property owners in the common interest development, if all of the following three requirements are satisfied:

- a. *Requirement One: **You** have a legal obligation to pay the amounts assessed against **you** by the **association of owners**, and the assessment is properly and legally made as a result of a loss that is directly caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period;*
- b. *Requirement Two: The assessment is not made as a result of a loss specified in “Losses Not Covered—Coverage E”; and*
- c. *Requirement Three: The assessment is made as a result of a loss that is to property owned by one or any combination of the following three categories: (i) all members of the **association of owners** collectively, (ii) the **association of owners**, or (iii) **you**.*

An assessment against the insured must be fully investigated, since portions of the assessment may not be covered. The claim representative must obtain sufficient documentation and records to understand the basis for the assessment.

Examples:

- There is no **association master policy** to cover **earthquake** damage, and each condominium owner is assessed \$10,000 to fix the roof of the complex. If the CEA condominium loss assessment deductible is met, the assessments for **earthquake**-damaged roof repairs could be a covered loss under the insured's CEA policy.
- Same facts as above, but the loss assessment for \$10,000 is for landscaping repairs. Even if the CEA condominium loss assessment deductible is met, this assessment would not be covered under the insured's CEA policy.

To determine the covered portion of a claim, reduce the loss assessment sought by the **association of owners** by that portion of the loss assessment attributable to:

- any of the categories of property not covered under Coverage E: Loss Assessment; or
- causes excluded in any of the CEA policy exclusions.

Also, Coverage E provides a sublimit of \$10,000 for that portion of any loss assessment relating to building code upgrades. Unlike the Coverage A losses for building code upgrades, this is not additional insurance, but rather a **sublimit** of the Coverage E limit of insurance.

Check the **Declarations** page for the applicable deductible for Coverage E: Loss Assessment.

p) Reduction of Value - Property not Repaired or Replaced - Coverage E

In rare situations, the **association of owners** may elect not to repair or replace damaged property, or they may be permanently prevented from repairing or replacing the property. The resulting reduction in the fair market value of the insured's ownership interest is covered if both of the following requirements are satisfied:

- As a result of the unrepaired damage, the **dwelling unit** either is unfit to live in or cannot legally be occupied; and*
- The reduction in the value of **your** ownership interest in the **dwelling unit** is not the result of a loss to property specified in "Losses Not Covered—Coverage E."*

Calculation of the proper amount to be paid for this type of claim is specified in detail in the policy language. Carefully review the policy language if this type of claim is presented.

q) Building Code Upgrades – Coverage A and Coverage E

Under LOSSES EXCLUDED, the policy provides the following:

8. *Required compliance with any ordinance, law, or residential building code that regulates the use, construction, repair, or demolition of a building or other structure, except as specifically provided under this policy, under the following provisions:*
 - a. *“Other Coverages—Coverage A,” Item 3, “Building Code Upgrades,” subject to the applicable \$10,000 **limit of insurance**, or*
 - b. *“Losses Covered—Coverage E,” Item 1, “Assessment By Association of Owners,” subject to the applicable [Building Code Upgrade] \$10,000 **sublimit**.*

r) Ingress and Egress

The condominium policy specifies, under:

Property Not Covered—Coverage A

We do not cover:

11. *Walkways, driveways, decks, and patios that are not necessary for and regularly used for pedestrian ingress to and or egress from the **dwelling unit**.*

And under Coverage E, Loss Assessment, it reads:

LOSSES NOT COVERED—COVERAGE E

We do not cover any losses under “COVERAGE E: LOSS ASSESSMENT” that arise out of any of the following:

10. *Loss or damage to walkways, driveways, decks, or patios, except that portion of those walkways, driveways, decks, or patios that are necessary for and regularly used for ingress to and or egress from the residential structure containing the **dwelling unit** by pedestrian or non-ambulatory occupants of that residential structure.*

The ingress and egress exceptions to Losses Not Covered under Coverages A and E both apply only to ingress to and egress “*from the **dwelling unit***”. **Dwelling unit** is defined as “*your individual unit*.” Thus, payments under these exceptions are limited to damage to ingress to and egress from the insured’s **dwelling unit**.

In cases of loss to ingress and egress that might potentially be covered under the CEA Condominium policy, claim representatives must pay particular attention to the possibility that such losses are covered under an **association master policy** or other insurance, and apply the “Other Insurance” clause of the CEA policy.

3. BASIC EARTHQUAKE POLICY – RENTERS

The CEA Renters policy does not provide coverage for loss to dwellings or real property; it provides only Coverage C: Personal Property and Coverage D: Loss of Use. The policy limit options are:

- Coverage C: \$5,000, \$25,000, \$50,000, \$75,000, \$100,000, \$150,000, or \$200,000

- Coverage D: \$1,500, \$10,000, \$15,000, \$25,000, \$50,000, \$75,000, or \$100,000

Renters may also purchase coverage for breakable items by adding a Coverage for Breakables (CEA 04A 01-2016) endorsement. If purchased, this endorsement provides coverage for the items listed under “Breakable items,” up to the Coverage C limit. Personal Property sub-limits stated in the policy continue to apply. The endorsement is listed on the Declarations page, when purchased.

a) Personal Property – Deductible – Renters Policy

The CEA Renters policy provides for the following deductibles:

- Personal Property (Coverage C) has deductible options of 5%, 10%, 15%, 20%, and 25%; and
- Loss of Use (Coverage D) has no deductible.

b) Loss of Use – Renters Policy

As with the other CEA policies, there is no deductible for Coverage D: Loss of Use. The adjustment of a Loss of Use claim is the same as it is under the Homeowners policies. The policy reads in part:

*If the part of the **rental unit** that **you** occupy becomes unfit to live in and **you** are forced to vacate the **rental unit** as a result of either (1) damage to the **rental unit** caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period or (2) the process of repairing damage to the **rental unit** caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, then **we** cover the necessary increase in living expenses **you** actually incur to maintain **your** normal standard of living. **We** will pay Additional Living Expenses for the shortest time reasonably needed (a) to repair or replace the parts of the **rental unit you** occupy that are unfit to live in, or (b) for **you** to permanently relocate elsewhere if the owner of the **rental unit** does not elect to repair or replace the **rental unit**.*

If the insured sublets a portion of the rental unit to a subtenant, and loses rental income due to **earthquake** damage, the insured may also collect actual rental income losses under Coverage D.

c) Policy Exclusions – Renters Policy

In a CEA Renters policy, items not covered, and exclusions are the same as those found in the personal property coverage of CEA Homeowners policies.

E. CLAIMS INVESTIGATION PROCEDURES

These investigation procedures are designed to provide basic claim-handling information. They are intended to augment what an experienced property claim representative already knows about properly handling property claims, and to highlight certain unique aspects of CEA policies. The procedures have been developed to promote consistency among claim representatives and fairness to policyholders in the handling of CEA claims. They will not cover all situations.

1. A Companion Policy Must Be in Force

If no companion policy is in effect at the time of loss, the CEA policy is void, and no payment can be made. At the outset of the investigation, always confirm the companion policy is in force.

2. California Fair Claims Settlement Practices Regulations and Other Laws

All claim representatives handling claims in California must abide by the California Fair Claims Settlement Practices Regulations, and other applicable codes or regulations.

Claim representatives must be familiar with the unfair claim-handling practices set forth in California Insurance Code section 790.03(h), as well as the California Fair Claims Settlement Practices found in the California Code of Regulation, Title 10, Chapter 5, Subchapter 7.5.

Insurers and their representatives must not engage in any of the unfair claims handling practices listed in these statutes.

3. Claim File Documentation

Participating Insurers are expected to handle CEA claims in a manner consistent with this Manual, their company claim lines, and the California Fair Claims Settlement Practices Regulations. Although specific requirements (for example, the number of photographs required) will not be dictated by the CEA, all claim files must be clearly documented, with sufficient detail in the file, to allow a person reading the file to understand how and why all decisions were made on the claim.

The documentation to support claim decisions must be kept in the Participating Insurer claim file. Files are subject to review and audit by the CEA.

4. Complete Investigation

In addition to documenting new earthquake damage in a home, it is important to take pictures of rooms without damage, and to document in the claim file those undamaged rooms. If the claim file reopens at a later date, thorough documentation can be used to help refute any allegations the claim representative missed finding some earthquake damage or did not conduct a complete investigation.

All CEA claim files must include the CEA-EDA General Guidelines General Damage Earthquake Inspection Checklist found in the CEA-EDA-01 (Earthquake Damage Assessment and Repair) document, available on the Web site at www.ATCouncil.org or www.EarthquakeAuthority.com. This checklist, in addition to the Building Occupant Questionnaire is used by a claim representative during the initial inspection of the home. Use of the CEA-EDA General Guidelines Inspection Checklist ensures consistent and complete inspections by all the CEA participating insurance companies. The Inspection Checklist and Occupant Questionnaire must be used by both company and independent adjusters.

When a claim representative is investigating a claim and there is evidence of earthquake damage in the attic or crawlspace, or the home has suffered structural earthquake damage, the claim representative must inspect the home's attic and crawlspace (if they are safely accessible). In these cases, use the attic and/or crawlspace inspection checklists contained within document CEA-EDA-01 of the CEA-EDA General Guidelines, available at www.ATCouncil.org or www.EarthquakeAuthority.com. The Inspection Checklists can also be requested from the CEA Claim Director.

While most inspections will be done by a claim representative, CEA understands the claim representative may have an engineer, contractor, etc., conduct an inspection of the home. Include in the claim file the results of these inspections. Always use appropriate personal safety measures during inspections.

5. Keep the Policyholder Informed

Good claim-handling practices, as well as applicable regulations, require that policyholders be kept informed during the claim process. Keep the insured up to date about the claim and the progress of the investigation as decisions and information become available, and in every case, provide an update no less frequently than every 30 days. Estimates and expert reports should promptly be shared with the insured. Keep the insured informed of key decisions made on the claim. When a report from an expert is relied on to form an opinion regarding damage, provide a copy of the report to the insured. Give the insured a copy of the claim representative's scope and estimate as soon as possible.

Claim representatives must be trained on the current law regarding the obligation of the insurer to fully investigate earthquake damage discovered or reported after the initial earthquake damage claim is submitted to, or closed by, the Participating Insurer. The Participating Insurer must investigate reports of hidden or later-discovered damages before invoking any policy provisions regarding the time limit for submitting claims. Even if a new claim is received more than one year after the date of loss, the Participating Insurer should open a new claim, and investigate the facts of the claim, before invoking any policy provisions. All such investigations should be made subject to a written reservation of rights.

All claims must be concluded with a final closing letter, even if payment is being made. This letter should: (1) explain in writing any previous decision not explained in writing, and (2) quote the "Legal Action" condition of the policy.

6. Timely Adjusting - SBA and FEMA Requirements

Considering the policy deductible, policyholders generally do not receive payment for the total amount of the damage they incur and are required to bear themselves some portion of the financial costs of the earthquake. To help pay for the part of their claim that is not covered by the insurance policy, they may look to the Small Business Administration (SBA) for low-interest loans, or to the Federal Emergency Management Agency (FEMA) for grants.

In order to receive SBA or FEMA assistance, the insured will need documentation from the claim representative. Usually these agencies require a statement of loss or a denial letter. Because the SBA and FEMA have strict submission deadlines, the claim representative must provide the insureds the needed documentation as quickly as possible. For this and many other reasons, it is important to handle all claims and final paperwork in a timely manner.

More information about FEMA and the SBA can be found on their Web sites at: <http://www.fema.gov> and <http://www.sba.gov>.

7. Proof of Loss

The policy provides that, if requested by the Participating Insurer, a Proof of Loss must be provided by the policyholder, within 60 days. The CEA does not require a Proof of Loss on every claim. However, the CEA has a right to obtain a Proof of Loss when it is deemed necessary.

In cases where the insured and the Participating Insurer do not agree on the amount of loss, it is valuable to obtain the insured's input by requesting a Proof of Loss. This decision should be made on a case-by-case basis.

8. Emergency Repairs

The policyholder is always responsible for taking the necessary steps to protect property from further damage, as outlined in the "Your Duties After Loss" Condition found in every CEA policy.

Because the different CEA policies pay for Emergency Repairs in different ways, always read the policy language carefully. Below is a summary of how the various CEA policies cover emergency repairs.

Homeowners and Homeowners Choice – Emergency Repairs to Coverages A and B, and Coverage C:

- a) The first \$1,500 of Emergency Repairs is paid without a deductible;

- b) Covered Emergency Repairs must not exceed the policy sublimit of 5% of the applicable limit of insurance for the covered property (Coverages A & B or Coverage C);
- c) Emergency Repairs in excess of \$1,500 — but only up to the 5% Emergency Repairs sublimit — are subject to the deductible and used in its calculation. Use the CEA Excel Deductible Calculator to help keep track of this sublimit.

Condominium – Emergency Repairs

- a) Measures undertaken to protect Coverage A property: Covered up to \$1,500, as sublimit of Coverage A, if purchased;
- b) Measures undertaken to protect Coverage C property: Covered for the lesser of 5% or \$1,000 sublimit of Coverage C, if purchased;
- c) Subject to the applicable policy deductible.

Renters – Emergency Repairs

- a) Covered for the lesser of 5% or \$1,000 sublimit of Coverage C;
- b) Subject to the policy deductible.

9. Scope of Loss and Estimates

In most cases, the claim representative must complete a sufficiently thorough examination of the home to enable him or her to list all recent earthquake damage, complete a diagram of areas to be repaired, and obtain needed measurements. The claim representative must then complete an itemized scope of loss.

Claim representatives should create or obtain an accurate estimate of the cost to repair all covered earthquake damage. Participating Insurers may use any software generally accepted by the insurance industry in the preparation of building and structure repair estimates. The file must contain the documentation necessary to support the estimate. The measurement of areas, room sizes, and other dimensions on which quantities of material and labor are based, must be shown in the estimate. A diagram should be prepared and attached to the estimate. Document the damages with photographs, as appropriate.

Claim representatives may need to reevaluate an estimate, if notified that the actual costs of repairs differ from the costs listed on the original estimate. Any additional earthquake damage found after repairs have begun must also be evaluated for coverage. Engineers or experts should be used when appropriate. (See section E10, below.)

The insured should be given a copy of the scope and estimate as soon as possible. If the policyholder wants to get his or her own estimate, make sure the policyholder understands the importance of using the claim representative's scope of covered damage.

10. Use of Engineers or Experts

Where the causation is obvious and damage is non-structural, a claim representative can assess the damage.

However, earthquake damage can manifest itself in a variety of forms, from minor cracking of interior sheetrock, to major failure of the foundation system. An engineer should be used when the damage appears to be structural in nature. The services of an expert will assist in the analysis of the cause, extent of loss, and the proper way to repair the damage. The claim representative must understand the distinctions between the various expert fields, and how they can be best used during the claim investigation. One source of earthquake engineering information is the CEA-EDA “General Guidelines for the Assessment and Repair of Earthquake Damage in Residential Woodframe Buildings.” (www.ATCouncil.org or www.EarthquakeAuthority.com.) Look for the CEA-EDA-01 document.

a) When to Retain an Engineer or Expert

Participating Insurers must determine the need for engineers or other experts as soon as possible in the claim adjustment process. It is not necessary to request or obtain the CEA’s approval to retain such experts.

Some of the conditions to consider when retaining an engineer to inspect a property:

1. building has collapsed or partially collapsed;
2. building superstructure has shifted relative to or off its foundation;
3. building as a whole, or any story, any wall, any cripple wall, or column, is visibly out of plumb;
4. shifting or movement of interior walls and partitions relative to the floor;
5. a pattern of broken windows, or a pattern of sticking or inoperable hinged doors;
6. for hillside structures, at the downhill edge: damage to vertical supports; posts visibly out of plumb; broken, slack, or buckled diagonal bracing; or damage to connection between foundation and superstructure;
7. visible distortion of the roofline or significant fresh damage to attic framing;
8. damage to the structure in the vicinity of the chimney;
9. a pattern of splitting of framing members (sill plate, hold down locations, floor joists, etc.); and
10. evidence of fresh settlement of floors.

b) What Kind of Engineer to Select

Generally, a claim representative should start with a structural specialist (a civil engineer specializing in structural engineering, or a structural engineer). A structural specialist can evaluate all components of a building, including the foundation, for structural damage. Consult the structural specialist regarding the need for a soils specialist or other technical consultants.

For purposes of claim adjusting, the primary technical issues for the engineer to address are:

1. identification of all structurally significant earthquake damage, especially those damage patterns that might not be obvious to owners and adjusters;
2. causation (i.e. distinguishing between damage caused by the earthquake and conditions/damage attributable to other causes);
3. the scope of work necessary to repair the damage caused by the earthquake in accordance with the terms of the policy; and
4. any building code upgrades that may be required as a part of the repair of the earthquake damages.

c) Locating Qualified Engineers

Ideally, Participating Insurers should maintain a list of pre-qualified engineers who can be called upon in the immediate aftermath of an earthquake. When that is not the case, one source of contact information for potentially qualified engineers is the regional Structural Engineers Association of California (see www.seaoc.org for links to regional association), or the local chapter of the American Society of Civil Engineers (see https://www.asce.org/regions_sections_branches/ for links to local chapters).

Prior to retaining an engineer, check credentials by obtaining a copy of the engineer's résumé or statement of qualifications, including information on the engineer's education, work experience, technical expertise, and professional registration or engineering license number.

The status of an engineer licensed in California can be verified at the California Department of Consumer Affairs Web site: www.dca.ca.gov. Look for the link titled: "License Search for Professional Engineers..."

d) Written Contract Specifying the Scope of Services

If the engineer's credentials are acceptable, the next step is to execute a written contract with the engineer. California Business and Professions Code section 6749 requires, with some exceptions, engineers to provide their clients with a written contract specifying, at a minimum:

1. a description of the services to be provided to the client by the professional engineer;
2. a description of any basis of compensation applicable to the contract, and the method of payment agreed to by the parties;
3. the name, address, and license or certificate number of the professional engineer, and the name and address of the client;
4. a description of the procedure the professional engineer and the client will use to accommodate additional services; and
5. a description of the procedure to be used by any party to terminate the contract.

Following a major earthquake, qualified engineers in an area may be overwhelmed or in short supply. Before authorizing any engineering work, request, and agree to, the delivery time for any written reports to be generated by the engineer.

e) **Payment of Expert Fees**

Always request and agree to a budget before authorizing the work.

Expert fees necessary to investigate a claim or determine the cause of loss are paid for by Participating Insurers. The Participating Insurers receive a loss-adjusting fee on all paid claims, which when averaged out over all claims handled, is designed to reimburse the Participating Insurer for these and other fees and expenses.

Expenses that are part of the repair process (i.e. permits, architectural, etc.) are part of the indemnity payment made under the policy coverage limits, after the deductible and any other policy provisions are met.

11. **Destructive and Other Tests to Determine Extent or Cause of Loss**

In some situations, the insured may be solely responsible for the cost of performing certain tests. The CEA policy provides:

*At **our** option, **we** may select and retain adjusters, consultants, contractors, engineers, or other experts to inspect **your** property or to perform tests, including destructive tests, to determine the extent or cause of loss with respect to any claim **you** make under this policy. **We** will bear the cost of performing any tests (including the cost of repair of damage necessitated by any destructive tests) that **we** elect to perform to determine the extent or cause of loss.*

*If, however, it is the opinion of the CEA that **your** property (or some particular part of **your** property) has not sustained covered **earthquake** damage over the deductible amount of this policy, and despite **our** opinion **you** request additional testing of **your** property or that part of **your** property, then if additional testing is performed, **you** are solely responsible for the costs of performing the additional testing and of repairing the damage to **your** property that was caused by any additional destructive testing, unless the additional testing establishes the existence of covered **earthquake** damage that, either alone or combined with other covered **earthquake** damage, exceeds the deductible amount of this policy.*

In this situation, complete a “testing agreement,” a copy of which is included in this Manual as Attachment 4.

12. **Cracks in Concrete Surfaces, Such as Garage Floors and Foundations**

Most concrete work, especially house and garage floor slabs, develop small cracks over time. This is considered normal, and generally does not impair the structural function of the concrete. The cost to repair old cracks in the concrete that existed prior to the

earthquake is not covered; new damage to covered concrete surfaces due to the earthquake, which might include expansions of old cracks, is covered.

The claim representative, with the advice of an appropriate expert, must determine whether concrete needs to be replaced, or whether it can be repaired with injected epoxy or other methods. In cases where the cracks do not cause structural impairment, strong consideration should be given to a repair with properly injected epoxy. This will be decided on a case-by-case basis. The CEA policy generally allows for repair or replacement, whichever is most appropriate.

In claims where exacerbation of cracks is being claimed, one approach to valuing the damage is to establish what it would have cost to repair the crack before the earthquake and then value the cost to repair the crack after the earthquake. The difference in those two numbers is the value of the damage exacerbated by the earthquake.

13. Reasonably Uniform Appearance of Repairs

The California Fair Claim Settlement Practices Regulations, section 2695.9(a) (2), reads in part: “When a loss requires replacement of items and the replaced items do not match in quality, color or size, the insurer shall replace all items in the damaged area so as to conform to a reasonably uniform appearance.”

Carpet and floor coverings: When dealing with replacement of carpet and other floor coverings, good judgment must prevail. If a match cannot be found, doorways with doors that close (swinging or pocket) can be used as the dividing line between rooms where there is replacement of floor covering damaged by the loss, and adjoining rooms where the floor covering was not damaged and need not be replaced. (This concept does not apply to closets with doors. For purposes of floor covering replacement, closets are considered part of the room.)

Roofs: The regulations do not require an exact color match, but rather, that all items in the damaged area “conform to a reasonably uniform appearance.” The claim representative must use reasonable judgment to determine how much of the damaged area needs to be repaired or replaced to comply with the “reasonably uniform appearance” standard.

It is generally not necessary to replace the whole slope, unless materials of the same size and quality cannot be found, or the condition of the roof makes a repair impossible. New materials of like kind and quality generally fade to match the existing materials.

When a claim representative recommends a repair rather than a replacement, the CEA requires the representative to explain the “reasonably uniform appearance” concept to the insured and advise how the claim representative determined the area to be repaired.

14. Costs to Rebuild or Repair – Prices of Building Materials

The CEA is committed to providing fair and reasonable local cost reimbursements for covered earthquake damage. Claim representatives may use automated damage estimating programs or qualified contractors to estimate the dollar value of damage. **The CEA does not provide cost of labor and or cost of materials information after an earthquake.** Determining appropriate labor and materials costs is part of the Participating Insurers' loss adjustment duties. Participating Insurers should ensure their estimating programs are updated with appropriate local post-disaster labor and material costs.

California law regulates price increases for goods and services after a state of emergency has been declared. Section 396 of the California Penal Code is intended to prevent post-disaster "price gouging," and provides that persons selling specified goods and services at a price more than 10% above the price charged prior to an emergency are guilty of a misdemeanor and are subject to criminal prosecution.

15. Overhead and Profit

It is appropriate to allow for overhead and profit (O&P) in cases where the repair involves multiple trades requiring the use of a general contractor to oversee the job. It is not appropriate to allow for O&P when dealing with individual trades, and individual tradesmen are doing the work. On a one-trade repair, do not allow for O&P, even if a general contractor is doing the work.

If it is appropriate to allow for O&P in an estimate, add the overhead percentage and the profit percent together, then apply the total percentage to the estimate. Do not apply the percentages individually, since this approach results in a higher cumulative O&P amount. The CEA allows O&P amounts that follow the customary practice of contractors in a given area. Any exceptions to these O&P guidelines must be documented in the claim file.

16. Double Coverage

To help resolve issues of overlapping insurance or coexistent insurance coverage, follow the Other Insurance provisions in the CEA policy. Further help can be found in Fire, Casualty, and Surety (FC&S) Bulletins – coverage information, provided by the National Underwriter Company.

17. Suspected Fraudulent Claims

Often discrepancies in claims handling can be resolved by open communication with the insured. It is important that claim representatives always keep an open mind and treat the policyholder with respect.

Refer suspected fraudulent claims to the Participating Insurer's Special Investigation Unit (SIU). Request a Proof of Loss, as stated in the policy conditions. Claim representatives

must be trained to recognize insurance fraud. Document in the claim file evidence of teamwork between SIU and the claims handler in resolving the issues in question.

Unless the true amount of covered loss and damage has been determined before the referral to SIU, determination of the actual covered loss and damage, if any, should be continued by the claim representative during the SIU investigation. A general reservation of rights letter should be sent to the insured indicating investigation is not a commitment to payment.

18. When to Name a Mortgagee as a Joint Payee on a Claims Settlement Check

It is important to protect both the interest of the policyholder and any mortgagee or lender that may have a legal right of recovery to an earthquake claim payment. In some cases, it is not appropriate to name the mortgagee on a CEA earthquake policy claim payment, because the mortgagee may not have the legal right to share control of CEA insurance policy proceeds. Therefore, the relevant loan documents must be examined to determine whether the lender has any right to recovery of earthquake insurance proceeds.

It is the claim representative's responsibility to determine whether a mortgagee must be named on a claim payment check. This is accomplished by reviewing the applicable mortgage documents to determine if the mortgagee required earthquake insurance as an express condition for making the loan, or if the loan documents contain wording requiring that the mortgagee be named on proceeds from an earthquake claim. In these cases, the claim representative must name the mortgagee as an additional payee on the claim indemnity payment. The claim file must be documented to support the decision made by the claim representative.

Under longstanding informal guidelines, when the total indemnity payment will be \$10,000 or less, the payment may be made to the policyholder(s) only, subject to any specific requirements found in the mortgage documents.

The lender is not entitled to any control over payments for Personal Property or Loss of Use.

19. Subrogation

Compared to most other perils, there is less likelihood of third-party liability for earthquake damages suffered by an insured, but the claim representative should still be aware of subrogation potential. For example, defects in construction can cause additional damage during an earthquake, or the earthquake damage may be increased by recent work in the surrounding area by a public entity or contractor. It is the claim representative's responsibility to thoroughly investigate any subrogation potential.

The Participating Insurer is responsible for the subrogation process.

If the claim representative discovers the loss may have occurred as a result of a third party's negligence, proper documentation must be gathered so a successful subrogation claim can be pursued. Proper investigation of a claim with subrogation potential should include at least the following:

- a) take a recorded statement of persons likely to have information about the contributing cause of damage, if possible;
- b) obtain and preserve any evidence;
- c) notify the insured of the intention to pursue subrogation rights, and of the “Subrogation” provision of the CEA policy, requiring an assignment of rights and cooperation in the pursuit of subrogation;
- d) take photographs of the damage and other items material to the case; and
- e) notify the responsible party and their insurance carrier as soon as it appears a subrogation claim might be presented.

20. Salvage

As in any other claim, consideration should be given as to whether any damaged items have salvage value. In earthquake claims, certain construction materials that may be damaged or replaced could have significant salvage value, for example, damaged copper pipes or salvageable used bricks. The policyholder should be made whole, including the deductible, before any salvage is taken. If there are salvageable items, follow the Participating Insurer’s company procedures for dealing with salvage in the claim handling process.

21. Loss Settlement Disputes

Generally, loss settlement disputes involve questions concerning scope of damage, the proper repair method, and the actual cost of the repairs. Keep an open mind, and solicit input from the insured’s contractor or representative, to resolve discrepancies in scope, repair method, and pricing. Face-to-face meetings can be helpful.

Disputes can often be efficiently resolved through the California Earthquake Claims Mediation Program with the California Department of Insurance (CDI) at (800) 927-4357. The CEA supports using the CDI mediation program to resolve issues of scope of loss, mandated building code upgrades, pre-existing damage, additional living expense, asbestos abatement, earthquake vs. aftershocks, hidden damages, and personal property valuation issues. (CDI form 526, EQMED 12/99)

Another dispute resolution option is the appraisal provision in the policy. If CDI mediation does not resolve the dispute, the appraisal process is still available. Please note that in the event of a government-declared disaster, appraisal may be requested, but may not be compelled. (Insurance Code Section 2071)

22. Coverage Disputes

Unlike loss settlement disputes, coverage disputes concerning the interpretations of policy coverage or policy language cannot be handled through the CDI mediation program, nor resolved in appraisal. When investigating a claim where coverage is an issue, consider a reservation-of-rights letter. Procedures to resolve policy and coverage interpretations are explained in section A10.

23. Denying Damages Not Covered, and Claims Under the Deductible

There are three main types of denial letters that might need to be sent to a policyholder.

a) Claims under the deductible:

If an insured makes a claim and a Participating Insurer makes no payment because the damage is below the deductible, the Participating Insurer must inform the policyholder in writing that the claim is being denied. Section 2695.7(b) (1) of title 10 of the California Code of Regulations requires, “when an Insurer denies or rejects a first party claim, in whole or in part, it shall do so in writing...” Attachment 6 is a sample under-deductible denial letter. The CEA does not need to approve these letters before they are sent.

b) Claims where the damages are not covered by the earthquake policy in force

If an insured makes a claim and a Participating Insurer makes no payment because the damage is not covered by the policy in force, the Participating Insurer must inform the policyholder in writing that the claim is being denied, **and the letter must quote the policy provisions on which the decision is based**. The CEA has provided a sample letter for this situation - found in Attachment 8.

c) Claims with a combination of both above situations

If an insured makes a claim and a portion of it is subject to denial, but other parts are paid, the Participating Insurers must inform the policyholder in writing regarding the specifics of what is being paid, what is not being paid, and why. The CEA does not need to approve these letters before they are sent.

Regarding homeowner claims, a denial letter must:

- Deny payment for damage for Coverage A and Coverage B if it is under the deductible.
- Deny any claim made under Coverage C: (a) under a standard Homeowners policy, on the ground that damage to property covered under Coverage A and Coverage B is insufficient to meet the policy deductible, or (b) under a Homeowners Choice policy, on the ground that the damage to property covered under Coverage C is insufficient to meet the policy deductible.

Denial letters under all policies should:

- inform the insured of his or her right to obtain further inspections and to obtain new estimates, if necessary;
- explain to the insured that Loss of Use coverage has no deductible, and the insured may apply for Loss of Use payments later if a covered loss makes the dwelling unfit to live in and it needs to be vacated during repairs (this is true even if the Coverage A and B damages are under the deductible);
- invite the insured to submit any documents showing the loss exceeds the deductible;

- advise the insured of the one-year (two years if loss is related to a state of emergency, as defined in subdivision (b) of section 8558 of the California Government Code) requirement to bring legal action, and quote the language from the policy; and
- include the required wording regarding how to contact the California Department of Insurance.

Always include with the denial letter any expert’s reports used to make the decision.

All denial letters should be completed as soon as practical, since policyholders may need these letters to apply for FEMA or SBA assistance.

24. Usage of the Name “California Earthquake Authority” in Letters

It is important to properly use the name “California Earthquake Authority” or the acronym “CEA” in claims correspondence when adjusting a claim for the CEA. (Guidance regarding the approval process to use the CEA mark (logo) are found in the CEA Communications Circular COMMS #2013-01.)

Whenever the words “California Earthquake Authority” are used, they must be in title case (first letter of each word capitalized), or in all capital letters. Do not use these words in all lower case. The acronym “CEA” is always used in upper case, with no periods.

Letterhead: Use the Participating Insurer company letterhead or name, and include the phrase, “A Participating Insurer of the California Earthquake Authority.”

The salutation: It is best to personalize claims correspondence whenever possible. It is generally not appropriate to use the words “California Earthquake Authority” or “CEA” in the salutation. If the name of the policyholder is unknown, simply use “Dear CEA Policyholder.”

The body of a letter: It is acceptable to use the name “California Earthquake Authority” or the abbreviation “CEA” when referring to the CEA as an entity, or to CEA policy language.

For example:

“Please refer to your BASIC EARTHQUAKE POLICY – HOMEOWNERS, issued by the California Earthquake Authority, where it reads in part ...”; or

“The XXX insurance company, a Participating Insurer of the California Earthquake Authority (CEA), wishes to inform you ...”.

Signature block: Use the PI company’s normal signature block, and while not required, consider adding “A Participating Insurer of the California Earthquake Authority.”

For example: Sincerely,

John Q. Adams
Senior Claim Representative
XXX Insurance Company,
A Participating Insurer of the California Earthquake Authority

The return address in a letter: It is acceptable to use “A Participating Insurer of the California Earthquake Authority” as part of the return address shown in a letter.

Claims settlement checks: If the payment check includes a field to name the company on whose behalf the payment is being issued, use “California Earthquake Authority.”

CEA return address: Do not use the CEA’s office address or phone number in any correspondence. Do not use the CEA name or address as the return address on an outgoing or return envelope. In other words, the return address should never be shown as: “California Earthquake Authority, [Participating Insurer’s Address].”

25. Claim Payment Ratio

If there is a very large earthquake or a series of earthquakes, such that the CEA’s claims paying ability might be exceeded, there is a provision in the CEA policy that provides for the payment of claims on a pro-rata basis. In that case, the CEA would declare a “claim payment ratio,” and the claim representative would first determine the total amount payable on a claim, and then pay the insured a percentage of that total based on the CEA’s declared claim payment ratio.

If a ratio other than 100% is to be used, the percentage will be communicated to the Participating Insurers as soon as possible and will apply to all loss settlements from the date of notification onward. If a payment has already been made on a claim at 100%, any future payments on that claim must be rebalanced, so the total of all payments is made at the declared prorata percentage allowable. Do not ask for money back, but do make adjustments to rebalance total payments on a claim.

26. Media Inquiries

Although the CEA has clear policies and procedures in place to support payment of valid claims, neither CEA nor its Participating Insurers can offer public comment on any details of a specific claim.

Discuss a claim only with the CEA policyholder.

This is good practice, not only because out of respect for, and a desire to protect, our policyholders’ privacy, but also because California’s insurance-privacy laws prohibit insurance providers from publicly discussing details about policyholders or their claims. Refer all media inquiries to the Participating Insurer’s company media spokesperson, team leader, or to the CEA at (916) 325-3800.

Attachment 1. Coverage Chart – Homeowners vs. Homeowners Choice

| | HOMEOWNERS Includes Mfg. homes and Mobilehomes | HOMEOWNERS CHOICE Includes Mfg. homes and Mobilehomes |
|-------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| COVERAGE A | | |
| Dwelling | Companion policy limit | Companion policy limit |
| Deductible | 5%, 10%, 15%, 20%, or 25% of A & B Combined Single Limit | 5%, 10%, 15%, 20%, or 25% of A & B Combined Single Limit |
| COVERAGE B Other Structures | Limited coverage included in CSL Limit for Coverages A & B. | Limited coverage included in CSL Limit for Coverages A & B. |
| Coverage C: Personal Property coverage amounts selected by Insured | Included coverage. Available limits: \$5,000 \$25,000 \$50,000 \$75,000 \$100,000 \$150,000 \$200,000 | Optional coverage that insured can buy or decline. Available limits: \$5,000 \$25,000 \$50,000 \$75,000 \$100,000 \$150,000 \$200,000 |
| Deductible | Deductible on Coverage A must be met before C can be paid. | Separate 5%, 10%, 15%, 20%, or 25% deductible for Coverage C that is waived if Coverage A deductible is met. Coverage C deductible percentage must be less than or equal to the Coverage A deductible percentage. |
| Coverage D: Loss of Use—Coverage Amounts selected by Insured (No deductible) | Included coverage. Available limits: \$1,500 \$10,000 \$15,000 \$25,000 \$50,000 \$75,000 \$100,000 | Optional coverage that insured can buy or decline. Available limits: \$1,500 \$10,000 \$15,000 \$25,000 \$50,000 \$75,000 \$100,000 |
| OTHER COVERAGES | Included | Included |
| Debris Removal | 5% of A & B CSL as additional insurance on total losses | 5% of A & B CSL as additional insurance on total losses |
| Emergency Repairs | No deductible on first \$1,500; balance subject to 5% policy sublimit and included in deductible calculation. | No deductible on first \$1,500; balance subject to 5% policy sublimit and included in deductible calculation. |
| Land Stabilization | \$10,000 Sublimit of A & B CSL | \$10,000 Sublimit of A & B CSL |
| Building Code Upgrade | This is additional insurance of \$10,000, \$20,000, or \$30,000. | This is additional insurance of \$10,000, \$20,000, or \$30,000. |

Attachment 2. Coverage Chart – Common Interest Development, Renters

| | COMMON INTEREST DEVELOPMENT (Condo) | RENTERS |
|-------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| COVERAGE A | Optional coverage in Condo policy | No coverage |
| Building Property (Dwelling) | Available limits: \$25,000, \$50,000, \$75,000. or \$100,000 for Building Items (Dwelling Unit) | No coverage |
| Policy Deductibles | 5%, 10%, 15%, 20%, or 25% | 5%, 10%, 15%, 20%, or 25% |
| Emergency Repairs | Coverage A: sublimit of \$1,500 Coverage C: Sublimit of the lesser of 5% or \$1,000 | Coverage C: Sublimit of the lesser of 5% or \$1,000 |
| COVERAGE B Other Structures | No coverage | No coverage |
| COVERAGE C Personal Property | Optional coverage in Condo policy, with a 5%, 10%, 15%, 20%, or 25% deductible. | Always included in Renters policy, with a 5%, 10%, 15%, 20%, or 25% deductible. |
| Personal Property coverage amounts are selected by Insured | Available limits: \$5,000 \$25,000 \$50,000 \$75,000 \$100,000 \$150,000 \$200,000 | Available limits: \$5,000 \$25,000 \$50,000 \$75,000 \$100,000 \$150,000 \$200,000 |
| COVERAGE D | Optional coverage in Condo policy. | Always included in Renters policy. |
| Loss of Use—Coverage Amounts selected by Insured (No deductible) | Available limits: \$1,500 \$10,000 \$15,000 \$25,000 \$50,000 \$75,000 \$100,000 | Available limits: \$1,500 \$10,000 \$15,000 \$25,000 \$50,000 \$75,000 \$100,000 |
| COVERAGE E | Optional coverage in Condo policy | No coverage |
| Loss Assessments | Available limits: \$25,000, \$50,000, \$75,000, or \$100,000. | No coverage |
| OTHER COVERAGES | | |
| Debris Removal | Additional insurance: Coverage A: 5% of A, if A is purchased; Coverage C: Lesser of 5% of C or \$1,000 if C is purchased. | Additional insurance: Coverage C: Lesser of 5% of C or \$1,000. |
| Emergency Repairs | Coverage A: \$1,500 as sublimit of Coverage A; Coverage C: Lesser of 5% or \$1,000 sublimit of Coverage C, if Coverage C is purchased. | Coverage C: Lesser of 5% or \$1,000 sublimit of Coverage C. |
| Land Stabilization | No coverage | No coverage |
| Building Code Upgrade | Additional insurance, \$10,000 (if Coverage A is purchased) | No coverage |

Attachment 3. Example of CEA Coverage Review Form

| | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|------------------------------------|---------------------|
| Your Name: Jane Claims Manager | | Contact phone number: 123-456-7890 | |
| XXX Insurance Company | | | |
| Your claim representatives Name: | <u>Date of Loss:</u> | <u>Coverage</u> | <u>Coverage</u> |
| John Q. Adjuster | 9/03/16 | <u>Limit:</u> | <u>Deductibles:</u> |
| Policy #: | Policy Period: | A | A |
| 123-456-789 | 02/07/16 – 02/07/17 | 200,000 | 15% 30,000 |
| Insured: | | C | C |
| David and Liz Insured | | 5000 | N/A |
| Property Address: | | D | |
| 123 Main Street | | 1500 | N/A |
| City, St, Zip | | Code: | |
| Any town, CA 12345 | | 10,000 | |
| Coverages Reserves and Paid | Reserves | \$ Paid to Date | |
| A-Dwelling | 10,000 | 0 | |
| C-Contents | 0 | 0 | |
| D-Loss of Use | 0 | 0 | |
| Code Upgrade | 0 | 0 | |
| Land Stabilization | 0 | 0 | |
| Loss Assessment | 0 | 0 | |
| | 0 | 0 | |
| <p>Description of loss: The Insured’s home was damaged by an earthquake on 9/03/2016. The house is of two-story woodframe construction with a perimeter concrete foundation. There is also a guesthouse (one story) of similar construction that includes a bedroom, bath, kitchen, and a two-car garage. The two structures are built end-to-end, north to south, with a breezeway connecting the north-end of the house and the south end of the guesthouse. The breezeway shares a roofline with the guesthouse. The roof is connected to the north-end wall of the house. A wall on the west side of the breezeway connects to both the house and guesthouse, enclosing the west side of the breezeway. The breezeway is of woodframe construction on its own perimeter foundation. The foundation abuts the foundations of the house on the south side and the guesthouse on the north.</p> <p>Coverage question: Is the guesthouse a dwelling as defined by the policy and if so, can it be considered under <u>COVERAGE A: ‘DWELLING’?</u> The guesthouse is a residential structure of not more than four units and is at the location described in the DECLARATIONS. The DECLARATIONS page makes no mention of, or distinction between, the two structures.</p> <p>Our research: Webster’s defines “contiguous” as “1. in physical contact; touching along all or most of one side. 2. near, next, adjacent”. By this definition the breezeway’s foundation is contiguous with both of the other structures’ foundations. However, the breezeway <i>must</i> be considered part of the guesthouse in any case because of the roofline they share. It would appear that the guesthouse meets the definition of a dwelling on all criteria except the roofline. The definition only requires one criterion to be met.</p> <p>Our recommendation: As such, the guesthouse would appear to fall under “<u>COVERAGE A: ‘DWELLING’</u>” since it requires that the building be defined as a dwelling and be identified on the DECLARATIONS page. The page gives only the address and doesn’t identify or exclude any specific structures. Based upon the above points it is our recommendation that coverage be extended to the guesthouse. For your reference we have attached diagrams and photos as well as a copy of the Earthquake Declarations Page. Please contact Team Leader John Q. Manager at (800) 555-1234 if you have any questions.</p> | | | |
| Submitted by: Jane Q. Manager | Date: 10/03/16 | | |
| | | | |

Coverage Review Form - California Earthquake Authority

| | | | |
|----------------------------------|----------------------|------------------------|------------------------------|
| Your Name: | | Contact phone number: | |
| Insurance Company: | | | |
| Your claim representatives Name: | <u>Date of Loss:</u> | <u>Coverage Limit:</u> | <u>Coverage Deductibles:</u> |
| Policy #: | Policy Period: | A | A |
| Insured: | | C | C |
| Property Address: | | D | |
| City, St, Zip | | Code: | |
| Coverages Reserves and Paid | Reserves | \$ Paid to Date | |
| A-Dwelling | | | |
| C-Contents | | | |
| D-Loss of Use | | | |
| Code Upgrade | | | |
| Land Stabilization | | | |
| Loss Assessment | | | |
| | | | |
| Description of loss: | | | |
| Coverage question: | | | |
| Our research: | | | |
| Our recommendation: | | | |
| Submitted by: | | Date: MM/DD/YYYY | |
| | | | |

Attachment 4. Testing Authorization Agreement

Testing Authorization Agreement

Claim Number: _____ Date of Loss: _____

Name: _____ Date of Agreement: _____
(Policyholder)

Address: _____

City: _____ State: ____ Zip: _____

I [we], _____ [Name(s) of policyholder(s)] _____, acknowledge and agree to the following:

1. _____ [Name of Participating Insurer] _____ (“the Insurer”), a Participating Insurer of the California Earthquake Authority (“the CEA”), and I [we] disagree (i) as to whether my [our] home has sustained covered earthquake damage over the deductible amount of my [our] insurance policy issued by the CEA, and (ii) as to the need for further testing to determine the extent or cause of damage to my [our] home. The Insurer contends that additional testing will not establish the existence of covered earthquake damage over the amount of the deductible, and I [we] believe that additional testing will establish that my [our] home sustained covered earthquake damage over the amount of the deductible.
2. The Insurer has advised me [us] that, pursuant to the terms of my [our] insurance policy, the Insurer will not authorize any additional testing as part of the claims adjusting process unless I [we] agree that, in the event additional testing is performed and that testing fails to establish the existence of covered earthquake damage over the amount of the deductible of the insurance policy issued by the CEA, I [we] will pay for the cost of conducting that testing, including the cost of repairing any damage to my [our] property caused by any destructive testing that is conducted.
3. I [we] therefore request the Insurer to authorize the following testing:

[DESCRIPTION OF TESTING REQUESTED BY POLICYHOLDER] _____

I [we] agree that, in the event the testing described above fails to establish the existence of earthquake damage that is covered under my [our] CEA policy and that it is over the deductible amount of that policy, I [we] will pay for all costs associated with conducting that testing, including, but not limited to, the cost of repairing any damage to my [our] property caused by any destructive testing. I [we] understand that, in the event the testing described above establishes that my [our] property has sustained covered earthquake damage over the amount of the deductible of the CEA policy, I [we] will not be required to pay for any of the costs of that testing.

Policyholder(s): _____ Date: _____
(Signature of policyholder)

Claim Representative _____ Date: _____

CEA Participating Insurer: _____

Attachment 5. Advanced Payment Agreement

Advanced Payment Agreement

Name
Address
City, State

Re: Claim No.:
Policy No.:
Policyholder(s):
Address of Insured Property:
Date of Damage:

Dear _____,

There is a question as to whether there is coverage under the policy for the damages, which have occurred. We are investigating the claim. We are under no legal obligation to make any payments until the coverage investigation is complete.

However, to prevent any undue hardship which this loss may cause, we advance the sum of \$ _____ under the following terms and conditions:

- 1) This advance shall not be considered as any admission that payment is due under any portion of the policy;
- 2) If we determine that payment is not required under the terms and conditions of the policy, you will repay the advance;
- 3) In making this advance, we reserve all rights and do not waive any terms, conditions or requirements under the policy, nor any rights we have; and
- 4) Other than as agreed in this letter, you reserve your rights as well.

You will cooperate in the coverage investigation and comply with the policy conditions regarding the presentation of any claim. We may need a Proof of Loss or an examination under oath.

If we determine that your claim is payable, we will apply the advance against any benefit due under the policy. If you have any questions, please let us know.

Sincerely,

XXXXXXXXXXXX

I have read this letter, and agree to its terms:

[Insured]

Attachment 6. CEA Under-Deductible Letter

Sample Wording for Under Deductible Denial Letter on a Homeowners Policy

Dear XXXXXX,

Thank you for your courtesy and cooperation during the investigation of your claim [or other opening greeting].

As we discussed, your California Earthquake Authority policy provides coverage for earthquake damage, subject to a deductible of \$_____. Our investigation and estimate of damage have determined that the cost to repair any covered damage to your [dwelling, extensions to dwelling– as appropriate] is less than your deductible. For this reason, we will be unable to make any payment under the terms and conditions of your policy, and your claim is therefore denied. [Optional when there is a personal property loss also: Please note that no payment can be made for loss to any personal property until the deductible for the dwelling or extensions to dwelling is met.]

The attached estimate represents our evaluation of your covered damages. If you believe we have missed any damage, please let us know. Also, you may wish to obtain your own estimate of the cost of repairs. If you obtain your own repair estimate (or if you have already obtained one), and the amount is above your policy deductible, please contact us immediately and send us a detailed estimate.

While the covered damage to your property did not exceed the deductible, expenses incurred for Loss of Use while the home is uninhabitable could be considered for payment under Coverage D – Loss of Use. This coverage is subject to the applicable limit of insurance. Please let us know if your home becomes uninhabitable during the repair process and you incur Loss of Use expenses.

If you incurred any additional expenses due to emergency repairs, please submit your receipts to us for consideration.

California law requires us to notify you of a time limit that applies to your claim. The time limit pertains to Condition 10, which is found on page ___ of your policy. This condition is required by law and is contained in all residential property insurance policies issued in the State of California. The condition states the following:

CONDITIONS

10. Legal Action. No action can be brought under this policy by any person unless the policy provisions have been fully complied with and the action is started within one year after the date of inception of the loss. If, however, **your** loss is related to a state of emergency, as defined in subdivision (b) of section 8558 of the California Government Code, and the **residence premises** is located in an area for which such a state of emergency has been proclaimed by the Governor of the State of California in accordance with section 8625 of the California Government Code, then the time limit to bring an action under this policy is extended to two years after the date of inception of the loss.

This condition limits your time to commence legal action for recovery of damages sustained in your loss. Please note that we do not mean to suggest that you file a legal action. We only seek to advise you of the time limitation set forth within this condition of your policy.

We are also required to let you know that, if you believe that this claim has been wrongfully denied or rejected or that there is a dispute as to damages, you have the right to have the matter reviewed by the California Department of Insurance at 300 South Spring Street, 11th Floor, Los Angeles, CA 90013 (213) 897-8921, (800) 927-4357.

Please contact me if you have any questions regarding your damages, your coverage, or the contents of this letter. I can be reached at 1.800.xxx.xxxx.

Sincerely, John/Jane Q. Adjuster Senior Claim Representative XXX Insurance Company
A Participating Insurer of the California Earthquake Authority

Attachment 7. Sample Property Loss Notice

Property Loss Notice – Report of New Earthquake Claim

| |
|------------------------------------------------------------------------------------------------------------------------------|
| To: _____ Fax # _____ <small>(Name of Insurance Company) (Insurance company claim reporting Fax telephone number)</small> |
| From: California Earthquake Authority - Sacramento CA, Toll Free 877.797.4300 # Pages _____ |

Print large, bold and neat.

| |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Today's Date: _____ Time this claim report was taken: _____ AM PM <small>(Circle one)</small> |
| Caller's Name: _____ |
| Your phone number in case we get disconnected: (____) _____ - _____ ext. _____ |
| The name of your insurance company: _____ |
| Your policy number: _____ Effective Date: _____ |
| Policy Type: HO Condo Renters Mobilehome - Date damage occurred: _____ <small>(Circle one)</small> |
| Your Agent's Name: _____ Agent's Phone # (____) _____ |
| Are you the Insured: Yes No a. If not, what is your relationship to the insured: _____ <small>(Circle one) If Yes, go to c. If No, answer a & b.)</small> |
| b. If the caller is not the insured, what is the insured's name: _____ |
| c. Name of person who can show the damage to a claim rep: _____ |
| Home phone # for this person: (____) _____ - _____ Work phone #: (____) _____ - _____ |
| Cell Phone: (____) _____ - _____ E-mail _____ |
| What times are best to call: _____ Language preference: _____ <small>(It is important that you verify the insured's name, telephone # & policy number.) (Complete only if they request, i.e. Spanish)</small> |
| Location of the damaged property: City: _____ |
| Street address: _____ Zip _____ |
| Are there any issues prohibiting access to property? Yes No Describe damage below: |
| |
| |
| Do you have an estimate or guess on the \$ amount of damage? \$ _____ |

CEA Representative's Name: _____ Phone Number: _____

Attachment 8. CEA Full Denial Letter

Sample Wording for Full Denial Letter on a Homeowners Policy

Dear XXXXXX,

Thank you for choosing us to provide for your insurance needs. We value you as a customer and appreciate the opportunity to be of service. As a participating insurer of the California Earthquake Authority (CEA), we've been assigned to investigate your earthquake claim.

We have concluded our investigation and determined there is no earthquake damage to your home that was caused by the recent earthquake, and/or no earthquake damage that is covered by your CEA policy. Based upon the results of our discussions, site inspection and our complete investigation, we are unable to issue any payment at this time and must deny coverage for this claim for the reasons listed below. If you believe we have missed damage caused by the recent earthquake, please let us know.

[THIS PARAGRAPH TO BE INCLUDED AS APPROPRIATE:] Included in our investigation, information reviewed on the ShakeMap provided by the United States Geological Survey (USGS), showing the intensity of ground shaking in the vicinity of your property, would not be expected to damage buildings. ShakeMaps provide near-real-time maps of ground motion and shaking intensity following significant earthquakes. These maps are used by federal, state, and local organizations, both public and private, for post-earthquake response and recovery. If you would like more information about ShakeMaps or The Modified Mercalli Intensity Scale it can be found on the USGS website.

You may wish to review these provisions of your California Earthquake Authority Basic Earthquake Policy. They form the basis for our decision:

DEFINITIONS

Throughout this policy, the words “**you**” and “**your**” refer to the named **insured** shown in the DECLARATIONS and the named **insured**'s spouse or **domestic partner** if that spouse or **domestic partner** is a resident of the same household. The words “**we**,” “**us**,” and “**our**” refer to the **California Earthquake Authority**. Additional words and phrases are defined as follows.

Cite all applicable definitions used in the denial.

Cite all applicable Coverages and Exclusions used in the denial.

Cite all Conditions used in the denial including the following:

...

California law requires us to notify you of a time limit that applies to your claim. The time limit pertains to Condition 10 in your policy. This condition is required by law and is contained in all residential property insurance policies issued in the State of California. The condition states the following:

CONDITIONS

10. **Legal Action.** No action can be brought under this policy by any person unless the policy provisions have been fully complied with and the action is started within one year after the date of inception of the loss. If, however, **your** loss is related to a state of emergency, as defined in subdivision (b) of section 8558 of the California Government Code, and the **residence premises** is located in an area for which such a state of emergency has been proclaimed by the Governor of the State of California in accordance with section 8625 of the California Government Code, then the time limit to bring an action under this policy is extended to two years after the date of inception of the loss.

This condition limits your time to commence legal action for recovery of damages sustained in your loss. Please note that we do not mean to suggest that you file a legal action. We only seek to advise you of the time limitation set forth within this condition of your policy.

With this letter, neither we nor the CEA intend to waive any policy defenses that might exist in addition to those stated above, and we and the CEA each reserve our rights to assert any such additional policy defenses at any time.

Where the Governor has declared a state of emergency, you have the right to pursue resolution of your claim by way of the California Mediation Program in the event of any substantive dispute. Please contact me if you are interested in learning more about the Earthquake Mediation Program.

We are also required to let you know that, if you believe that this claim has been wrongfully denied or rejected, or that there is a dispute as to damages, you have the right to have the matter reviewed by the California Department of Insurance, Consumer Services and Market Conduct Branch, Claims Services Bureau, 300 South Spring Street, South Tower, Los Angeles, CA 90013 or by calling (213) 897-8921 or (800) 927-4357, or by visiting [Http://www.insurance.ca.gov/01-consumers/101-help/](http://www.insurance.ca.gov/01-consumers/101-help/).

For information on assistance that may be available to you through FEMA or the Small Business Administration, please contact the entities below:

Federal Emergency Management Agency (FEMA)

Apply online at DisasterAssistance.gov to learn what help you might be able to receive from FEMA and 16 other U.S. Government agencies or call (800) 621-3362. For people with speech or hearing disabilities call TTY (800) 462-7585.

Small Business Administration (SBA) Website: <http://www.sba.gov/>

To obtain Disaster Loan Program information or to receive a status update on your disaster loan request, please call our customer service line at 1-800-659-2955 from 8AM to 6PM (EDT), Mon-Fri, 9AM to 5:30PM (EDT) Sat or email us at disastercustomerservice@sba.gov.

Please contact me if you have any questions regarding your damages, your coverage, or the contents of this letter. I can be reached at 1.800.xxx.xxxx.

Sincerely, John/Jane Q. Adjuster Senior Claim Representative XXX Insurance Company
A Participating Insurer of the California Earthquake Authority

Note to Participating Insurer: Always cite the expert's report and include a copy of the report used to make the decision with the denial letter.