



CLAIM MANUAL

CALIFORNIA EARTHQUAKE AUTHORITY

**APPROVED BY THE GOVERNING BOARD, AUGUST 25, 2011
APPROVED BY THE INSURANCE COMMISSIONER, DECEMBER 9, 2011**

Note: This Manual includes several references to a Basic Earthquake Policy – Homeowners Choice. At the time of the approval of this Manual, the CEA has not yet introduced the Homeowners Choice policy into the insurance market place. As always, it is the claim representative’s responsibility to determine what CEA policy coverage a claim is being handled under. If and when the CEA Homeowners Choice becomes available to consumers, and the claim representative is handling a claim for a policyholder with a Homeowners Choice policy, the claim representative should follow the procedures contained in this Manual that are specific to Basic Earthquake Policy – Homeowners Choice.

Table of Contents

INTRODUCTION.....7

BACKGROUND OF THE CEA.....7

THE ROLE OF THE PARTICIPATING INSURANCE COMPANY8

1. GENERAL CEA CLAIMS INFORMATION.....9

1-1. Types of CEA Policies.....9

1-2. Deductibles - Differences Between Homeowners and Homeowners Choice.....12

1-3. Companion Policy Required13

1-4. Reporting Claims to the CEA13

1-5. Claim Reserving.....13

1-6. CEA Earthquake Response Manager – Duties and Responsibilities13

1-7. Participating Insurer Claims Liaison – Duties and Responsibilities.....14

1-8. Adjuster Training Requirements16

1-9. Policy and Coverage Interpretations18

1-10. Mediation – Department of Insurance Earthquake Mediation Program.....19

1-11. Reinspections and Claim File Reviews.....20

1-12. Overlapping or Coexistent Insurance Coverage.....22

1-13. ISO ClaimSearch® (PILR).....23

1-14. Claim Representatives Should Handle Claim to Conclusion.....23

2. PRE-EARTHQUAKE DISASTER RESPONSE PREPARATION.....24

2-1. Pre-Earthquake Planning - General24

2-2. Participating Insurer Earthquake Response Plan24

3. POST-EARTHQUAKE RESPONSE26

3-1. CEA Earthquake Response Manager26

3-2. Claims Counts26

3-3. Media Communications Following an Earthquake26

3-4. Participating Insurer Catastrophe Claim Managers.....27

3-5. Catastrophe Offices27

3-6. CEA Event Code27

3-7. New Claims Reported to the CEA.....28

3-8. EARLE (Earthquake Loss Estimation System).....28

3-9. Pro Rata or Installment Claims Payments29

4.	<i>BASIC EARTHQUAKE POLICY - HOMEOWNERS</i>	30
4-1.	Introduction to the CEA Homeowners Policy	30
4-2.	Covered Losses	31
4-3.	Losses Excluded	31
4-4.	Loss Settlement is at Replacement Cost.....	32
4-5.	Types of Building Property Insured – Dwelling is Defined.....	33
4-6.	Chimneys – Coverage A: \$5,000 Sublimit of Insurance	33
4-7.	Equipment and Utility Service Structures - Coverage B.....	34
4-8.	Walkways, Driveways, Decks, Patio Slabs - Coverage B	35
4-9.	Bulkheads, Piers, and Retaining Walls - Coverage B.....	35
4-10.	Property Not Covered: Coverage A and Coverage B.....	35
4-11.	Property Not Covered: Exterior Masonry Veneer	36
4-12.	Property Not Covered: Exterior and Underground Systems and Structures	36
4-13.	Property Not Covered: Antennas and Satellite Dishes.....	37
4-14.	Property Not Covered: Decorative or Artistic Features of the Dwelling.....	37
4-15.	Property Not Covered: Awnings and Patio Coverings.....	38
4-16.	Property Not Covered: Landscaping	38
4-17.	Property Not Covered: Swimming Pools, Spas, and Hot Tubs.....	38
4-18.	Garages and Outbuildings	38
4-19.	Plaster - Limited to the Cost of Sheetrock or Drywall	38
4-20.	Dwelling Glass - Loss Settlement.....	39
4-21.	Coverage C - Personal Property Not Covered or Subject to a Sublimit.....	39
4-22.	Coverage D: Loss of Use.....	39
4-23.	Protection of Property - Emergency Repairs – No deductible on first \$1,500	40
4-24.	Other Coverages: Debris Removal.....	41
4-25.	Other Coverages: Building Code Upgrade.....	42
4-26.	Other Coverages: Land Stabilization.....	43
4-27.	Losses Excluded	43
4-28.	Losses Excluded: Fire and Explosion.....	43
4-29.	Losses Excluded: Asbestos and Other Pollutants	44
4-30.	Losses Excluded: Non-Earthquake Earth Movement and Land Sliding.....	44
4-31.	Losses Excluded: Theft or Vandalism.....	45

5.	<i>BASIC EARTHQUAKE POLICY - COMMON INTEREST DEVELOPMENT</i>	46
5-1.	Policy Definitions	46
5-2.	Adjusting Condominium Claims – Coordination	46
5-3.	Other Earthquake Coverage.....	46
5-4.	Duties after a Loss.....	47
5-5.	Overview of the Declarations Page and Coverage Options.....	47
5-6.	Losses Excluded	48
5-7.	Deductibles	48
5-8.	Building Property - Coverage A	48
5-9.	Emergency Repairs – Coverage A.....	50
5-10.	Debris Removal – Coverage A	50
5-11.	Loss Settlement – Coverage A	50
5-12.	Personal Property – Coverage C	50
5-13.	Emergency Repairs – Coverage C.....	51
5-14.	Debris Removal – Coverage C	51
5-15.	Loss of Use – Coverage D	51
5-16.	Loss Assessment - Coverage E	52
5-17.	Reduction of Value - Property not Repaired or Replaced - Coverage E	53
5-18.	Compliance with Ordinance and Law – Coverage A and Coverage E	53
5-19.	Ingress and Egress	54
6.	<i>BASIC EARTHQUAKE POLICY – RENTERS</i>	55
6-1.	Personal Property – Deductible.....	55
6-2.	Loss of Use	55
6-3.	Policy Exclusions – Renters Policy	56
7.	<i>CLAIMS INVESTIGATION PROCEDURES</i>	57
7-1.	A Companion Policy Must Be in Force.....	57
7-2.	California Fair Claims Settlement Practices Regulations and Other Laws	57
7-3.	Claim File Documentation	57
7-4.	Keep the Policyholder Informed.....	57
7-5.	Timely Adjusting - SBA and FEMA Requirements	58
7-6.	Destructive and Other Tests to Determine Extent or Cause of Loss.....	59
7-7.	Use of Engineers or Experts.....	59
7-8.	Costs to Rebuild or Repair – Prices of Building Materials	62
7-9.	Overhead and Profit	62

7-10. Claim Payment Ratio.....	62
7-11. Double Coverage	63
7-12. Suspected Fraudulent Claims	63
7-13. Emergency Repairs.....	63
7-14. Scope of Loss and Estimates	64
7-15. Cracks in Concrete Surfaces Such as Garage Floors and Foundations.....	64
7-16. Subrogation	65
7-17. Salvage	65
7-18. Proof of Loss.....	66
7-19. Loss Settlement Disputes.....	66
7-20. Coverage Disputes.....	66
7-21. Denying Damages Not Covered and Claims Under the Deductible	66
7-22. Usage of the Name “California Earthquake Authority” in Letters	68
7-23. When to Name a Mortgagee as a Joint Payee on a Claims Settlement Check	69
7-24. Complete Investigation.....	70
7-25. Reasonably Uniform Appearance of Repairs.....	70
<i>Attachment 1. Coverage Chart – Homeowners vs. Homeowners Choice.....</i>	<i>72</i>
<i>Attachment 2. Coverage Chart – Common Interest Development, Renters</i>	<i>73</i>
<i>Attachment 3. Example of CEA Coverage Review Form.....</i>	<i>74</i>
<i>Attachment 4. Testing Authorization Agreement</i>	<i>76</i>
<i>Attachment 5. Advanced Payment Agreement.....</i>	<i>77</i>
<i>Attachment 6. CEA Under-Deductible Letter</i>	<i>78</i>
<i>Attachment 7. Sample Property Loss Notice.....</i>	<i>79</i>

INTRODUCTION

The purpose of this Manual is to assist experienced property claim representatives and managers in the evaluation and supervision of California Earthquake Authority earthquake insurance claims.

The CEA is committed to making sure all of its claims are handled in a fair, timely, and consistent manner. The CEA audits and re-inspects claims to make sure that claims are properly investigated and that appropriate procedures have been followed.

The Participating Insurer, its claim representatives and other personnel whom it may retain, are all required to strictly conform to all applicable laws and regulations. Nothing contained in this Claim Manual is intended to change the requirements placed upon insurers and their claim representatives by the California Insurance Code, other applicable statutes, applicable regulations, or any case law interpreting any applicable statute or regulation. In the event that an item or procedure specified in this Manual seems to conflict with any applicable statute, regulation, or case law, the Participating Insurer is to conform strictly to the statute, regulation, or case law.

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

BACKGROUND OF THE CEA

Under the California Insurance Code, insurers that sell residential property insurance in California are required to offer earthquake insurance to their residential property policyholders. As a result of the many claims from the 1994 Northridge earthquake, insurers became concerned that another earthquake could exhaust their available resources. As a result, many companies stopped selling homeowners insurance in California, which created an insurance availability crisis.

In an attempt to resolve this crisis in insurance availability, the California Legislature established the California Earthquake Authority (CEA). Companies that did not wish to have the catastrophic exposure of residential earthquake insurance could become CEA Participating Insurers. Membership in the CEA allowed Participating Insurers to offer earthquake coverage to their residential insureds through the CEA.

The CEA is a publicly-managed, privately-financed entity, operating much like an insurance company, though with some significant differences. Funds to pay earthquake claims come from premiums collected and investment income, Participating Insurer contributions and assessments, reinsurance purchased by the CEA, and other CEA risk transfer mechanisms. No funds from the public or from the State of California's General Fund are pledged to cover losses incurred by CEA policyholders.

THE ROLE OF THE PARTICIPATING INSURANCE COMPANY

When an earthquake results in a claim against a CEA policy sold by a Participating Insurer, the claim representative for that insurer handles the claim on behalf of the CEA. The CEA reimburses the Participating Insurer for the indemnity dollars paid, and pays the Participating Insurer a loss adjustment fee to cover claims-adjusting expenses.

Every Participating Insurer has executed a uniform Insurer Participation Agreement, which sets forth that insurer's relationship with the CEA. As the claims agents for the CEA, Participating Insurers are responsible for investigating and adjusting claims made under CEA policies. Section 3.2 of Article III 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 at least as much care or diligence as they use in handling their own non-CEA business.

It is important to understand that CEA policies do not provide the same types of coverages property claim representatives may be accustomed to seeing under a traditional residential fire policy. Each policy issued by the CEA should be carefully reviewed.

1. GENERAL CEA CLAIMS INFORMATION

1-1. Types of CEA Policies

The CEA provides earthquake coverage in the State of California through several different earthquake insurance policies. They are:

A. Basic Earthquake Policy – Homeowners (Form BEQ-3B)

In this Manual, this policy is also referred to as an HO Basic policy. This policy insures owners of dwellings, manufactured homes and mobilehomes. Coverage for dwelling, personal property, and loss of use are included in this policy. This policy provides coverage as follows:

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 that will be the same as the Coverage A limit of insurance listed on the declarations page of the Participating Insurer's companion homeowner fire policy.

2. Coverage C: Personal Property

Coverage C limits will be selected by the policyholder in one of the following amounts:

- \$5,000, \$25,000, \$50,000, \$75,000 or \$100,000

3. Coverage D: Loss of Use

Coverage D limits will be selected in one of the following amounts:

- \$1,500, \$10,000, \$15,000, or \$25,000

The policy includes \$10,000 of Building Code Upgrade Coverage as additional insurance. This is in addition to the Coverage A & B CSL. For an additional premium, Building Code Upgrade Coverage may be increased from \$10,000 to \$20,000 for dwelling owners. This \$20,000 increased limit option is not available for Manufactured Homes/Mobilehomes. Note: Building code upgrade limits are shown on the declarations page on the January 1, 2012 edition of the policy. Prior to that, the increased limits for building code upgrade were added to a CEA policy by endorsement.

B. Basic Earthquake Policy – Homeowners Choice (BEQ-3C)

In this Manual, this policy is also referred to as a HO Choice policy. This policy insures owners of dwellings, manufactured homes or mobilehomes. Coverage for dwelling is mandatory in a HO Choice policy. The consumer may select to add personal property,

loss of use coverage, or both. They may also have a HO Choice policy without including personal property and or loss of use coverage.

The limit of insurance for the Coverage A & B is a combined single limit (CSL) and will be the same as the Coverage A limit of insurance listed on the declarations page of the Participating Insurer's companion homeowner fire policy.

The following coverage options may be purchased separately or in combination by the HO Choice policyholder. The coverage options are as follows:

1. The consumer may choose to add Coverage C: Personal Property

Coverage C limits are available in the following amounts:

- \$5,000, \$25,000, \$50,000, \$75,000 or \$100,000

2. The consumer may choose to add Coverage D: Loss of Use

Coverage D limits are available in the following amounts:

- \$1,500, \$10,000, \$15,000, or \$25,000

The HO Choice policy includes \$10,000 of Building Code Upgrade Coverage as additional insurance. This is in addition to the Coverage A and B CSL. For an additional premium, Building Code Upgrade Coverage may be increased to \$20,000 for dwelling owners. This \$20,000 increased limit option is not available for Manufactured Homes/Mobilehomes.

C. Basic Earthquake Policy - Renters (Form BEQ-4B)

This policy insures tenants of dwellings, manufactured homes (mobilehomes), apartments or condominiums. The CEA participating insurer's companion policy will be similar to or 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

Coverage C and D limits are available in the following amounts:

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

D. Basic Earthquake Policy - Common Interest Development (Form BEQ-6B)

In California, a “common interest development” can be a community apartment project, a condominium project, a planned development, or a stock cooperative, all as further defined in California Civil Code section 1351. Since most people equate “common interest development” with a “condominium,” throughout the remainder of this Manual we will use the term “condominium” interchangeably with “common interest development.”

This policy insures owners of condominium or cooperative units or other 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 similar to or a Condominium Unit Owners (HO-6) or equivalent policy.

This policy provides the availability of three coverage options that may be purchased separately or in combination, at the policyholder's option. The coverages are as follows:

1. Option One – Coverage A: Building Property – \$25,000 limit.

Coverage includes Building Code Upgrade Coverage of \$10,000 as additional insurance.

2. Option Two – Coverage C: Personal Property *and* Coverage D: Loss of Use.

When this option is purchased, the policyholder will have coverage for both Coverage C and D which are available in the following amounts:

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

3. Option Three – Coverage E: Loss Assessment

When this coverage is purchased, the limit of insurance can be \$25,000, \$50,000 or \$75,000.

1-2. Deductibles - Differences Between Homeowners and Homeowners Choice

Basic Earthquake Policy – Homeowners, Form BEQ-3B

Basic Earthquake Policy – Homeowners Choice, Form BEQ-3C

POLICY TYPE	DEDUCTIBLE
<p>Homeowners Homeowners / Manufactured Home (Mobilehome) (BEQ-3B)</p> <p>Dwelling and real property (Coverage A and Coverage B)</p> <p>Personal Property (Coverage C)</p> <p>Loss of Use (Coverage D)</p>	<p>Adjuster must first determine if the pertinent CEA policy is on the Basic form.</p> <p>The deductible is 10 % or 15 % of the Coverage A & B Combined Single Limit (CSL) of insurance. The first \$1,500 of emergency repairs is paid with no deductible. (Section 4-24)</p> <p>Nothing will be paid for personal property damage until the dwelling deductible is met by covered damage to Coverage A and B property.</p> <p>No deductible – Loss of Use can be paid if it was caused by a covered cause of loss.</p>
<p>Homeowners Choice Homeowners/Manufactured Home (Mobilehome) (BEQ-3C)</p> <p>Dwelling and real property (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 pertinent CEA policy is on the Choice form.</p> <p>The deductible is 10 % or 15 % of the Coverage A & B CSL of insurance. The first \$1,500 of emergency repairs is paid with no deductible. (See Section 4-24)</p> <p>The deductible for personal property is 10 % or 15 % of the personal property coverage limit. This deductible is waived if the Coverage A deductible is met. (If coverage purchased.)</p> <p>No deductible – Loss of Use can be paid if it was caused by a covered cause of loss. (If purchased.)</p>

If you are handling a claim under a CEA HO Choice form, it is very important to remember that the personal property deductible is waived when the Coverage A & B CSL deductible is met.

Please note that with the CEA HO Choice form, it is possible that the covered damage to items covered by A & B, might not exceed the A & B deductible. However, if Coverage C personal property damages exceed the coverage C deductible, apply the coverage C deductible and pay for the covered personal property up to the policy limit. If the Coverage A and B deductible is met after a Coverage C payment has been made, a payment to the policyholder for the amount of the Coverage C deductible previously held back will need to be made.

1-3. Companion Policy Required

CEA policies are sold and issued through Participating Insurers.

By law (California Insurance Code section 10089.20), a CEA earthquake policy is valid only if an underlying residential fire insurance policy is in force covering the same property. The CEA policy is legally void if no residential fire 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 has been sent or received at the time of loss.

1-4. Reporting Claims to the CEA

Participating Insurers are to report to the CEA all claims from CEA policyholders, whether or not the Participating Insurer expects the claim to exceed the deductible.

1-5. Claim Reserving

The aggregated reserve on reported claims provides the CEA's first estimate of severity of an earthquake and ultimate exposure for the event. Claim representatives must quickly set reserves that represent the best estimate of a claim's ultimate cost. Reserves should be adjusted as soon as new information is learned that would affect the ultimate cost.

When there is a legitimate question of coverage, set the reserve at the estimated amount of damages (minus the deductible amount) until the coverage issue is resolved.

If the claim is expected to be under the deductible, it should be reported with a zero (\$0) reserve or the lowest reserve amount allowed by the Participating Insurer's claims processing system.

1-6. CEA Earthquake Response Manager – Duties and Responsibilities

The CEA has a Claim Manager, referred to within the CEA as an Earthquake Response Manager (ERM). The duties of the ERM include:

- a. Maintaining and communicating CEA procedures for handling of CEA claims
- b. Assisting Participating Insurers with earthquake claims training
- c. Monitoring Participating Insurers' earthquake claims response procedures
- d. Maintaining an on-site presence after an earthquake
- e. Coordinating claims activity with the Participating Insurers after an earthquake
- f. Chairing the CEA Claims Coverage Committee (See section 1-9.)
- g. Initiating and coordinating reinspections and claim file reviews after an earthquake (See section 1-11.)

1-7. Participating Insurer Claims Liaison – Duties and Responsibilities

Each Participating Insurer must designate a CEA Claims Liaison (and a backup) to work closely with the ERM in coordinating all activities prior to and after an earthquake. The individual selected should be a property claims professional with the knowledge and the authority within the Participating Insurer's company to resolve CEA claim issues in a timely manner.

- The CEA Claim Liaison must be California Earthquake Claims Accredited. The earthquake accreditation process is detailed at: California Code of Regulations, Title 10, Chapter 5, Subchapter 7.5.1 - Insurance Adjuster Training for Evaluating Earthquake Damage, <http://www20.insurance.ca.gov/pdf/REG/33849.PDF>.
- CEA Claims Liaisons must be familiar with this CEA Claim Manual. A copy can be retrieved from the CEA Web site at: www.earthquakeauthority.com - Agent and Adjuster Information Center - Adjuster Information.
- CEA Claims Liaisons must understand CEA coverage. A good way to get training on CEA coverage is to take the CEA's on-line coverage training found on the CEA Web site.
- CEA Claims Liaisons must understand how to calculate and teach others about CEA deductibles. Take the CEA deductible calculation training that is found on the CEA Web site under the Adjuster link.
- Payment Authority - CEA Claims Liaisons have the authority to pay a CEA earthquake claim up to the CEA policy limit.

Following are some matters that must be referred to the CEA:

- **Any legal action filed on a CEA claim, notice or knowledge of any lawsuit against a Participating Insurer on a CEA claim, and any legal action where the name California Earthquake Authority or CEA appears:** Participating Insurers must immediately notify the CEA's Legal Department if they obtain formal or informal knowledge of the initiation of any such legal actions. Participating Insurers must immediately provide copies of all legal papers and pleadings received by the Participating Insurer to the CEA's Legal Department by e-mail attachment or by fax: (916) 327-8270, and follow up with a telephone call to (916) 325-3800 to make sure that the papers were received. Participating Insurers are not authorized to accept service of legal process on the CEA's behalf, and if a Participating Insurer does happen to come into possession of any such legal papers, the papers must immediately be provided to the CEA's Legal Department.

- **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 send or fax a copy of the Department of Insurance complaint to the CEA's Consumer Services Unit Fax: (916) 327-3411, and follow up with a telephone call to (916) 325-3800 to make sure that the document 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 Consumer Services Unit a copy of the response that was sent to the policyholder and the CDI. Until the issue is resolved, the Participating Insurer must mail or fax to the CEA's Consumer Services Unit a copy of all further correspondence with the CDI on the issue.
- **Taking claims to appraisal or Department of Insurance mediation:** Participating Insurers must 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 must provide the CEA with the details on the claim made, settlement demands, offers made, and the reasoning for the position taken by the Participating Insurer.
- **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 on the claim, settlement demands, and the reasons why the Participating Insurer believes an EUO would be appropriate. In the event an examination under oath is set, it must be handled in accordance with California Insurance Code section 2071.1.
- **Claims where the damages are not covered by the earthquake policy in force:** When an insured makes a claim and a Participating Insurer makes no payment because the loss is not covered by the CEA 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 not provided a sample letter for this situation, but some of the wording found in the under-deductible sample letter (Attachment 6 in the CEA Claim Manual) may be useful. Participating Insurers must send a copy (by e-mail) of the denial letter to the CEA's Earthquake Response Manager for review and approval as to form before sending the letter to the insured. See Section 7-22 for more guidance on denial letters and the CEA required under deductible letter.

In addition, CEA Claim Liaisons are required to:

- Attend annual CEA claims manager conference.
- Prepare and submit annual CEA claims response plan (cat plan).
- Know about the CUREE Guidelines and how your company will use the Guidelines after an earthquake. (www.curee.org)
- Prepare and keep updated a list of engineers that can be used after an earthquake catastrophe.
- Maintain relationships with catastrophe adjusting companies and make sure their adjusters are California earthquake accredited.
- Sign up for earthquake notification to your cell phone – www.cisn.org.
- Immediately after an earthquake where the CEA requires it, report nightly claim numbers via e-mail to the CEA until the data systems are in sync. Usually 15 days. See Section 3.2 for details on what to report.

1-8. Adjuster Training Requirements

Consistent claims handling by its Participating Insurers is a top priority of the CEA. Excellence and consistency in claims handling can best be accomplished by regular and comprehensive training.

The CEA does not specify the claim handling forms that a Participating Insurance company is required to use. Each company may use the property claims handling forms that it uses for other types of property claims. The only required CEA form is the under deductible denial letter which is addressed in Section 7-21.

The Participating Insurers are responsible for ensuring that their claim representatives and any independent adjusters that they use are properly trained to handle earthquake claims. This Manual can be used as a resource to train claim representatives on the handling of CEA claims.

a. Training on the CEA Policy

On an ongoing basis, but not less than every three years and within one year after the approval by the CEA Governing Board and the Insurance Commissioner of any revised version of this Claims Manual, Participating Insurers must provide detailed training to their claim representatives who will be handling claims for the CEA on the CEA coverages and on this Claims Manual. Participating Insurers must also require those claim representatives to complete the on-line training offered by the CEA prior to being dispatched to handle any CEA claim. This on-line training is available at the CEA Web site at www.earthquakeauthority.com, under the “Agent and Adjuster Information Center” tab on the CEA Web site.

b. Fair Claims Practices Training

It is the responsibility of Participating Insurers to make sure their claim representatives, including any independent claim representatives they may employ,

are trained on California Fair Claims Settlement Practices found in the California Code of Regulation, Title 10, Chapter 5, Subchapter 7.5.

Any apparent conflict between this Claims Manual and the regulations is to be resolved through strict compliance with the regulations.

As defined in the regulations, Participating Insurers are considered claims agents for the California Earthquake Authority. The CEA requires that Participating Insurers follow the time and notice provisions in the Regulations, as provided for in the regulations under Section 2695.7, Standards for Prompt, Fair and Equitable Settlements.

All requirements under Section 2695.3 of the regulations, File and Record Documentation, are to be fulfilled by the Participating Insurers. The CEA does not keep a physical file for individual claims, and requires the Participating Insurers to retain the physical claim file in compliance with Section 2695.3.

All requirements under Sections 2695.4 and 2695.5 of the regulations, Representation of Policy Provisions and Benefits and Duties upon Receipt of Communications respectively, are the responsibility of the Participating Insurers as claims agents for the CEA. Should the CEA receive any written or oral inquiry per Section 2695.5 (a) (such as a Department of Insurance complaint), it will forward any such inquiry to the Participating Insurer for response directly to the party that generated the inquiry. The CEA is to be provided a copy of all such responses, directed to the attention of the CEA Earthquake Response Manager.

Section 2695.6 of the regulations requires annual certification of written claim-handling standards and training of all Claims Agents used by the Participating Insurers. In this context, independent adjusting individuals and companies are by definition "Claims Agents." The CEA intends to use the Participating Insurers' Certifications as its own. These Annual Certifications are subject to audit by the CEA.

In order to meet the requirements of these regulations, Participating Insurers are to note in the claim file and/or in their computer systems each instance where a claim or coverage is declined in whole or in part with respect to the party making the claim.

The complete California Department of Insurance Regulations can be viewed online at <http://www.insurance.ca.gov>.

c. Insurance Adjuster Training For Evaluating Earthquake Damage

The CEA requires that Participating Insurance companies handling claims on behalf of the CEA 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*, or on the Web at:

<http://www20.insurance.ca.gov/epubacc/REG/33849.htm>.

d. Unique Issues when Handling Earthquake Damage – CUREE Guidelines

Participating Insurers are encouraged to use the CUREE Guidelines EDA2 (a free download at www.curee.org) as one source of training material that can be used to train claims representatives on the unique issues involved in evaluating damage to residential structures caused by an earthquake. Some examples of the information available are:

- Where to get and how to use an earthquake shaking intensity map – ShakeMap.
- Archive of all earthquake ShakeMaps. [www.earthquake.usgs.gov ShakeMaps, Archive](http://www.earthquake.usgs.gov/ShakeMaps/Archive)
- When evaluating a home, what to look for, where to look, when to call an engineer, and suggested repair guidelines.
- What a complete engineer’s report should include. See Chapter 9.
- Glossary and acronyms of common earthquake technical terms.

1-9. Policy and Coverage Interpretations

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

- a. Participating Insurers should first attempt to resolve policy and claim coverage questions by consulting this Manual and by using the expertise of their senior claims professionals and claims management.
- b. Remaining unresolved policy coverage questions should be referred to the CEA on the CEA Coverage Review Form with a narrative report under each of the applicable headings. An example of a completed form and a blank Coverage Review Form are included as “Attachment 3” to this Manual.
- c. The Coverage Review Form should be submitted to the CEA ERM along with a copy of all claim file materials necessary for the proper review of the issue. Participating Insurers must use overnight mail or e-mail attachments of electronic copies when sending a file to the CEA for consideration.
- d. If relevant to the question, the file should include photographs of the damage, documentation regarding the amount of the loss, transcribed statements of interested

parties, a declarations page, endorsements, correspondence, and copies of the electronic notes. All other information pertinent to the coverage question under review should also be provided.

- e. Upon receiving a coverage question from a Participating Insurer, the CEA Claims Coverage Committee reviews the question and the CEA ERM notifies the Participating Insurer of its coverage decision.

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 ERM will endeavor to respond as quickly as possible, given the constraints associated with resource allocation in response to larger earthquake events. The Participating Insurer should notify the CEA ERM if there are circumstances requiring a specific turnaround time (other than the response times required by the California Fair Claim Settlement Practices Regulations). If you do not receive a response from the CEA in 15 days, please follow up with the ERM. During the period of time used for a coverage review, the Participating Insurer's claim representative must keep the claimant informed in writing, as provided in the Fair Claim Settlement Practices Regulations section 2695.7(c)(1).

In order to help achieve the CEA's goal of claim-handling consistency, Participating Insurers must not send a question regarding coverage for a CEA claim or CEA policy interpretation to counsel for a legal opinion before submitting the question to the CEA and obtaining the CEA's written consent for the Participating Insurer to seek a legal opinion on that question. In some circumstances, the CEA may have already obtained a coverage opinion on the general or specific topic in question, and may be able to share the conclusions of that opinion with the Participating Insurer.

1-10. Mediation – Department of Insurance Earthquake Mediation Program

The California Department of Insurance Web site reads in part:

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. www.insurance.ca.gov

The CEA realizes that during an earthquake catastrophe response, there will be a small number of claims where the claims representative and the policyholder disagree on the scope of and the amount of repair costs for the covered damage.

Participating Insurers are strongly encouraged to incorporate the requirements of the Earthquake Mediation program into their CEA claims handling procedures. Upon notice of a demand for mediation by any party, the Participating Insurer must provide a detailed report to the CEA's ERM, describing the claim made, settlement demands, offers made and the full reasoning for the position taken by the Participating Insurer.

All mediation dates must be immediately communicated to the ERM. Participating Insurers will handle all communications directly with the CDI, and will immediately provide copies of all written materials to the CEA's ERM. The Participating Insurer will provide the most knowledgeable member of its staff to attend the mediation. Notice of the mediation must be given to the CEA's ERM sufficiently in advance of the mediation to enable the CEA to make an informed decision about whether to attend.

1-11. Reinspections and Claim File Reviews

The CEA uses both physical claim reinspections and claim file reviews to monitor whether CEA claims are handled in a prompt, consistent, and fair manner. A physical claim reinspection involves actually visiting and evaluating the earthquake-damaged home, while a claim-file review is generally accomplished in an office by looking at the claim file and all supporting electronic records.

a. Reinspections and Claim File Reviews Performed by the Participating Insurer

The CEA expects that Participating Insurers will have their own claims quality assurance programs, including a program for field reinspections of open claims, as well as reviews or audits of claim files. These plans should be documented in the earthquake response plan each Participating Insurer submits to the CEA every year. (See section 2-2.)

- **Reinspections:** It is important to conduct reinspections on open claims early in the claim-handling process so that the damage can be viewed before repairs are completed. Of course, the policyholder's permission must always be obtained. The reinspection program should look at a statistically-valid sample of all claims from a specific earthquake. The ERM or the ERM's designee may be available to join Participating Insurer inspectors when they are conducting CEA earthquake claim reinspections. Requests to participate in the reinspections should be made through the ERM, who will try to accommodate these requests according to the available resources. Copies of results should be retained, since the CEA may request copies of any review at a later date.
- **Claim file reviews:** In addition to physical claim reinspections, Participating Insurers are required to have a regular claim file quality review program. The Participating Insurer should apply the same quality of review and look at the same

number of claim files as it would for its own claims. Copies of results should be retained, since the CEA may request copies of any review at a later date.

b. Reinspections and Claim File Reviews Performed by the CEA

The CEA may conduct field reinspections of open claims and/or reviews of claim files after an earthquake. While field reinspections are generally performed on open claims, 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 the CEA Claim Manual
 2. Verify the accuracy of claims settlements, and
 3. Determine whether claims are being handled in accordance with the California Fair Claims Settlement Practices Regulations and other applicable regulations and statutes.
- Reinspections: All CEA claim reinspections will be conducted separately and in addition to any Participating Insurer 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 also elect to conduct claim file reviews on open or closed claim files. These may be done at the Participating Insurer's office or the CEA may request that copies of the claims files be sent to the CEA office for review.

In either case, the CEA will endeavor to give sufficient notice to the Participating Insurer so as not to disrupt the Participating Insurer's ongoing claims-handling process.

It is the CEA's intent to communicate any issues discovered by the reinspections or claim file reviews to the relevant Participating Insurer.

c. Claim File Review Elements

CEA claim reviews may include, in addition to other elements, an evaluation of some or all of the following elements, depending on what may be appropriate to the facts and circumstances of the particular claim being reviewed:

1. Promptness of first contact
2. Development of initial information
3. Timely and thorough completion of the scope of damage (listing of damage)
4. Repair estimate of damages
5. Statements from the policyholder, if warranted
6. Reserve calculations and adequacy of reserves

7. Coverage information and how it applies to the claim
8. Effective use of a diary that results in timely claims handling
9. Timeliness of communication with insured regarding claim status
10. Alertness to fraud and prompt notice given to appropriate parties
11. Appropriate use of engineers or other experts
12. Completeness of documentation of the amount of loss – Statement of loss
13. Timeliness of claim payments
14. Quality of written adjuster communications to the policyholder
15. Compliance with the CEA Claims Manual
16. Compliance with California Fair Claims Practices Regulations
17. Was adjuster (independent or company) earthquake claim handling accredited
18. Periodic guidance on open files by Claims Management
19. Effectiveness of Participating Insurer's reinspection program and claim file reviews

d. Timing of CEA Claim Reviews

Field reinspections: The CEA will typically begin conducting physical reinspections of claims around 30 to 45 days after an earthquake; however they can begin at any time.

Office claim file reviews: Claim file reviews can begin at any time after an earthquake, but most likely will begin after a majority of the claims have been completed and closed.

1-12. Overlapping or Coexistent Insurance Coverage

To help resolve issues of overlapping insurance or coexistent insurance coverage, the claim representative should follow the Other Insurance provisions in the CEA policy. Further help can be found in the *Guiding Principles for Overlapping Insurance Coverage* published in 1963 by a consortium of underwriting organizations. This document should be available from your claim manager.

When dealing with condominium policies, pay particular attention to the Other Insurance wording in the policy. This is discussed in more detail in sections 5-2 and 5-3 of this Manual.

1-13. ISO ClaimSearch® (PILR)

The CEA requires that every CEA earthquake claim be entered into ISO Claim Search.

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 on the same property address, a report is generated.

CEA claims are handled by many different Participating Insurance companies and policyholders sometimes move from company to company. The CEA regularly receives earthquake claims from small earthquakes and upon investigation, it is not uncommon for these claims to be denied when the damage being claimed is determined to be caused by something other than an earthquake.

By having CEA claims in ISO Claims Search, our participating Insurers will be notified of prior earthquake claims and the claims representative can evaluate if any unrepaired prior damage is being claimed in the new CEA earthquake claim.

1-14. Claim Representatives Should Handle Claim 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 transfer of the files, including instructions in each file on what remains to be done to complete the handling on each claim.

California Insurance Code section 10082.3 addresses this issue where it reads, in part:

“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.”

2. PRE-EARTHQUAKE DISASTER RESPONSE PREPARATION

2-1. Pre-Earthquake Planning - General

Response planning before an earthquake occurs is very important. The ERM is available to the Participating Insurer claim liaison to assist with pre-earthquake training and planning.

2-2. Participating Insurer Earthquake Response Plan

Each Participating Insurer is responsible for its own earthquake catastrophe response planning. By the end of each calendar year, an updated claims-oriented response plan specific to earthquake claims is to be filed with the CEA. It must address, at a minimum, the following aspects of catastrophe planning:

- a. Processes to make sure staff and independent adjusters are trained before they are needed for earthquake catastrophe claims handling duty. It is the Participating Insurer's responsibility to make sure that every claim representative working on a CEA claim meets the following criteria:
 - Is trained on the California Department of Insurance Fair Claims Settlement Practice Regulations
 - Is trained and accredited on the CALIFORNIA CODE OF REGULATIONS, TITLE 10, CHAPTER 5, SUBCHAPTER 7.5.1: INSURANCE ADJUSTER TRAINING FOR EVALUATING EARTHQUAKE DAMAGE
 - Is trained on Department of Insurance standards for evaluating damage caused by earthquakes
 - Has received training in the handling of CEA claims and at a minimum, has recently taken the CEA on-line claims coverage and deductible calculation courses
 - If using any independent adjusters, plans to confirm that all such adjusters are properly licensed to investigate and adjust claims in California
- b. Procedures for the initial (first 48 hours) earthquake catastrophe response:
 - Processes for accepting new earthquake claims
 - Plans for properly trained and accredited initial response adjusters
 - Plans for claims management including the ability to determine affected policies-in-force
 - Resources available - buildings, cars, computers, etc.
 - Logistical details on how response activities will be coordinated
- c. Procedures for full term earthquake catastrophe response:
 - Plans for a sufficient number of properly trained and accredited earthquake adjusters
 - Plans for the longer term management of CEA earthquake claims
 - Resources available – buildings, cars, computers, independent adjusters, etc.

- Logistics - details on how response activities will be coordinated
- d. Procedures for how experts, including engineers, will be used and details on pre-earthquake arrangements for these services.
- e. Procedures for handling first reports of CEA claims and other phone-related support programs, such as the availability of national catastrophe call centers, etc.

3. POST-EARTHQUAKE RESPONSE

3-1. CEA Earthquake Response Manager

Following the occurrence of an earthquake from which a significant number of CEA claims is expected to be presented, the CEA Earthquake Response Manager most likely will travel to the general area of the earthquake and make efforts to be available to consult with the Participating Insurers' CEA Claims Liaisons.

3-2 Claims Counts

The CEA does not know about a claim until the Participating Insurer opens a new claim and that claim record is transmitted to the CEA data system. Due to this delay, after an earthquake that is expected to generate a significant number of claims, or when notified by the CEA ERM, participating insurers need to manually report claim counts to the CEA. This daily claim count reporting will continue until such time as the CEA's data systems sync up with the actual amount of CEA claims. This generally takes about three weeks.

When notified by the CEA ERM, please report the following information by e-mail to ceaclaims@calquake.com, with a copy to the ERM, by the end of every working day.

Date of the report:

Name of company:

Name of contact person at company:

Contact person e-mail and phone number:

Total Number of claims, open & closed (not suffixes/coverages) received so far from the earthquake:

Out of the total # of claims, how many are now closed:

What is the current total dollar amount of all open reserves:

What is the current total dollar amount of all paid CEA claims to date:

3-3. Media Communications Following an Earthquake

After an earthquake, the CEA will endeavor to maintain communications with the Participating Insurers in order to provide the public with helpful, accurate, and timely information. Participating Insurers must work with the CEA's Director of Communications on communications with the media or outreach to the general public. 916-325-3800

The CEA maintains specific guidelines on how the CEA name, logo, and trademarks should be used. All advertising that a Participating Insurer might do must be consistent with CEA directives that have been provided to each Participating Insurer. Copies of these directives are available from the CEA's Director of Communications.

3-4. Participating Insurer Catastrophe Claim Managers

Participating Insurers' key on-site personnel should be determined by the insurer at the outset of the catastrophe, and a list containing their names should be forwarded via e-mail to the ERM within 24 hours of the earthquake.

The ERM will endeavor to meet with the Participating Insurer claims liaisons near the earthquake site on an as-needed basis. The meetings between the ERM and the Participating Insurer representatives can serve as a forum to resolve issues, such as:

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

3-5. Catastrophe Offices

Although Participating Insurers must provide adequate staffing and operations, the establishment, number, and location of catastrophe response offices is left to the discretion of the Participating Insurers. Participating Insurers should provide the CEA with the address and telephone number of their catastrophe offices as they are established.

Participating Insurers must make it reasonably easy for new CEA claims to be reported by policyholders. This may include the use of agents, the Internet, and/or prominently publicized toll-free telephone numbers.

3-6. CEA Event Code

Immediately following an earthquake where the CEA expects to receive claims against CEA policies, the CEA will assign an Event Code. Specific 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. While the first two digits of the event code change with the New Year, the next three digits are sequential over the years. For example, if the last Event Code issued in 2012 had been 12410, the first Event Code issued in 2013 would have been 13420.

For claims where the CEA has not provided 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 following the earthquake's initial seismic activity. All claim-related data transmissions to the CEA must include an event code.

3-7. New Claims Reported to the CEA

Presentation of claims directly to the Participating Insurer will result in the most timely claims service, and most claims will be reported directly to the Participating Insurers. However, the CEA may receive calls in which the policyholder or another interested party wishes to report a claim under a CEA policy to the CEA, rather than to the Participating Insurer. Callers will be encouraged 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 make the report of a claim to the responsible Participating Insurer, the CEA representative will complete a property loss notice form and fax it to the appropriate Participating Insurer's claims department. (See Attachment 7.)

3-8 EARLE (Earthquake Loss Estimation System)

The CEA has developed a proprietary software system called "EARLE" (Earthquake Loss Estimation System), which is used to provide a rapid estimate of the CEA's total insured losses arising from a major earthquake, and enables the CEA to provide a prompt report of that estimate to the CEA Governing Board as required by law.

Participating Insurer CEA Claims Liaisons will be notified when the EARLE process is to be used by the CEA. Once the EARLE process is initiated, the EARLE system computer statistically selects a pool of CEA insured properties for immediate inspection and damage estimation. The CEA will use independent adjusters to inspect 200 homes. To distinguish these home inspections from claim adjusting work, this work is called an "EARLE Inspection" and the independent adjusters who conduct these inspections for the CEA are called "EARLE inspectors".

The inspectors will make it clear to the property owners that they are not their insurance claim representative, and if the homeowner has new earthquake damage, they need to report their damage to their Participating Insurance Company who will establish a CEA claim and send out a claim representative to handle their claim. The CEA is not allowing an EARLE inspector to handle the claim for the Participating Insurance Company on the property they inspected.

An electronic copy of the scope, estimate of damage, and any photographs that were taken to support the estimate, will be provided to the appropriate Participating Insurance Company.

The CEA uses these EARLE estimates by integrating them into modeled estimates of loss to come up with a more accurate estimate of potential total loss to the CEA.

3-9. Pro Rata or Installment Claims Payments

If an earthquake or series of earthquakes threatens to exhaust the CEA's claims-paying capacity, statute provides that the Insurance Commissioner may authorize the CEA to pay policyholder claims on a *pro rata* basis. Once an earthquake occurs, the CEA estimates probable losses based on in-force coverages and damage models. The CEA will then compare its preliminary overall loss reserve estimate of the earthquake to the claims-paying capacity of the CEA.

In case of a severe earthquake, or several significant earthquakes over a relatively short period of time, it is possible that the CEA could declare a Claims Payment Ratio (CPR) of less than 100%. If a CPR is declared, the CPR is used to determine 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.

The CPR may be adjusted during the handling of claims arising out of an earthquake based upon actual paid claim amounts and the resources available to the CEA for payment of claims. If the CPR is adjusted, paid claims will need to be recalculated and additional payments forwarded to the insured.

This discussion about the CPR does not change the way Participating Insurers are to handle, report, or seek reimbursement from the CEA for claims payments. Claims reimbursement procedures are found in the CEA Participating Insurer Operating Procedures Manual.

4. BASIC EARTHQUAKE POLICY - HOMEOWNERS

- This Manual does not create coverage where none is provided by the policy of insurance in force at the time of the loss.
- Items in italics below are quoted directly from the policy.
- The CEA homeowner policy is used to insure one to four unit residential dwelling structures and manufactured home and mobilehomes.

The CEA has two forms for its homeowner / manufactured home / mobilehome policies:

1. Basic Earthquake Policy – Homeowners, form BEQ-3B
(In this Manual this policy is referred to as the HO Basic policy.)
2. Basic Earthquake Policy – Homeowners Choice, form BEQ-3C
(In this Manual this policy is referred to as the HO Choice policy.)

The main difference between these two policies is how the policy is structured and as a result how the deductible is applied. All other policy provisions, coverage, sublimits, etc. are the same. See Section 1-2 for an overview of deductibles in these two policies.

In contrast to the CEA HO Basic policy, the CEA HO Choice policy provides for three coverage options that can be purchased together in any combination or separately. They are:

Coverage A & B CSL: DWELLING
Coverage C: PERSONAL PROPERTY
Coverage D: LOSS OF USE

Coverage A & B CSL: DWELLING is required on a Homeowners Choice policy.

Coverage C: PERSONAL PROPERTY is an optional coverage that a policyholder may elect to add to a Choice policy. If selected, the insured may choose limits ranging from \$5,000 to \$100,000. This coverage has its own 10% or 15% deductible that is waived if the damage to coverage A & B CSL exceeds the coverage A & B CSL deductible.

See the chart in Section 1-2 for information on how deductibles are applied in a Choice policy.

Coverage D: LOSS OF USE is an optional coverage that a policyholder may elect to add to a Choice policy. If selected, the insured may choose limits ranging from \$1,500 to \$25,000.

The fact that these coverages can be purchased separately and with different coverage limits requires the claim representative to be vigilant in confirming coverage, limits, and deductible amounts.

4-1. Introduction to the CEA Homeowners Policy

The CEA Homeowners earthquake policy has a combined single limit for Coverage A: DWELLING and Coverage B: EXTENSIONS TO DWELLING that will match the amount of the Coverage A: limit in the companion fire policy. Adjusters may need to explain this to the insured since this is different from the way most fire policies are structured.

The policy has a table of contents, which makes it easy to read and follow. All claim representatives 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 the policy.

4-2. Covered Losses

The CEA policy is a specified peril policy. It insures against only one peril, specifically: *...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.) Read the complete policy definitions for “earthquake,” “seismic event,” and “tectonic processes.”*

In order for a claim to be covered, the earthquake and the seismic event (i.e., the first in time of any series of related earthquakes) both must have commenced during the CEA policy period.

4-3. Losses Excluded

As mentioned above, the CEA policy covers only the peril of an earthquake that occurs during the policy period as part of a seismic event that commences during the policy period. Losses caused by any peril other than an earthquake commencing during the policy period, do not fall within the insuring agreement of the policy. The policy also contains a list of excluded perils. Losses caused by these perils are excluded even if an earthquake contributes to the loss. The exclusions should be read carefully as there are exceptions. For example:

- Under Losses Excluded, number 2, water damage, the policy reads:

*This water damage exclusion, (however) does not exclude loss that results from water damage to covered property as a result of an **earthquake**, which causes:*

- the release of water from water heaters, refrigerators, or water supply pipes within the **dwelling**;*
- the displacement of water from a swimming pool, decorative pool, spa, or hot tub; or*

- (iii) *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**.*
- Under Losses Excluded, number 5, non-earthquake earth movement is excluded, but there are exceptions: That exclusion reads in part:
 - 5. *Earth movement, settling of land, land sliding, subsidence, mudflows, or earth sinking, rising or shifting, unless the 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.**

The above are merely illustrative examples of excluded perils. There are several other excluded perils listed in the policy—carefully read the policy for the complete list.

4-4. Loss Settlement is at Replacement Cost

The BASIC EARTHQUAKE POLICY – HOMEOWNERS is a replacement cost policy both for real property and for most personal property.

The real property Loss Settlement condition of the policy (Condition 5) specifies that, once losses on building property exceed the deductible, settlement . . . *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)**.*

Personal property is also settled at replacement cost, except for certain limited categories of personal property that are settled at actual cash value. These categories are described in Condition 6 of the 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' underlying policies, actual repair or replacement is not required to collect the replacement cost with regard to Coverage A Dwelling, Coverage B Extensions to Dwelling or Coverage C Personal Property. (Remember that there are certain limited categories of personal property which are payable at actual cash value only. See Conditions, Loss Settlement, Coverage C.)

However, if the property has already been repaired or replaced at the time payment is made, the amount payable is limited to the amount spent. The exception to this rule is losses covered under "Other Coverages for Building Code Upgrades." This cost is paid only if the property is actually repaired and the cost is incurred. The CEA permits the pre-payment of code upgrades if it is clear, in the claim representative's professional judgment, that property is going to be repaired, the code upgrade cost is known (or it is known that code upgrade costs will exceed the Building Code Upgrades coverage limit), and making this payment would complete the claim process.

4-5. Types of Building Property Insured – Dwelling is Defined

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

The CEA homeowners policy covers the residence premises, which can be a one, two, three, or four unit dwelling or a manufactured / mobilehome located at the address shown in the declarations. "Dwelling" is specifically defined in the DEFINITIONS found in the policy. It 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.

4-6. Chimneys – Coverage A: \$5,000 Sublimit of Insurance

Chimneys are covered up to a \$5,000 sublimit regardless of the number of chimneys covered. For purposes of applying the sublimit: "**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, or the firebox where combustion takes place. The hearth, mantel and firebox are not subject to this \$5,000 sublimit and damage to them is covered under the dwelling limit.

The homeowners policy condition 5(g), reads:

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

- (i) *the sublimit of \$5,000 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**.*

There are three things to remember when working with chimneys.

1. Follow the chimney definition and don't include the hearth, mantel, and firebox in the estimate of chimney damage.
2. The CEA policy has a \$5,000 chimney sublimit, no matter how many chimneys there are on the property. This is not \$5,000 per chimney, but \$5,000 total for all chimneys.
3. The settlement provisions provide for the least of three different options, one being that chimneys are replaced with a non-masonry, earthquake resistant chimney.

4-7. Equipment and Utility Service Structures - Coverage B

The policy covers 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, must be on the residence premises, and must affect the habitability of the dwelling.

In order to determine whether any such item is covered, the claim representative must determine the answer to the following four questions:

1. Does the insured own the item?
2. Is the item that was damaged 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?

There is coverage under a CEA homeowners policy only when the answer to all four questions is "yes."

4-8. Walkways, Driveways, Decks, Patio Slabs - Coverage B

The policy reads in part as follows: ... *we cover... 2. That portion of any walkway, driveway, deck, or patio that is necessary for regular pedestrian ingress to or egress from the **dwelling** and for the regular ingress to and egress from the **dwelling** by any non-ambulatory insured.* The scope of this coverage is to allow for safe pedestrian passage to and from the dwelling for the insureds. The scope is best appreciated by breaking down the coverage language as follows:

- *That portion* – This language obviously states that only the relevant *portion* of the property is covered. Use the local city or county building codes, where the codes speak to this issue, to determine what “that portion” necessary for safe ingress and egress is.
- *Any* should be interpreted to mean *all* walking surfaces that are used for regular pedestrian ingress or egress.
- *Pedestrian* - Means that ingress and egress necessary for vehicles is not covered. (An exception could be made for a non-ambulatory insured.)
- *To or from the dwelling* - This means that the policy covers regular pedestrian ingress and egress from the home to a public sidewalk or to the 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 should have a detailed drawing of what ingress and egress was allowed, and the file should contain documentation as to how and why the dimensions and amounts paid were arrived at. This coverage is for replacement cost with materials of like kind and quality and for the same use. (See the definition of “replacement cost” in the policy.)

4-9. Bulkheads, Piers, and Retaining Walls - Coverage B

The 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 policy applies only to property located on the residence premises and in which the named insured holds an insurable interest. Therefore, to the extent that bulkheads, piers, and retaining walls are not entirely located on the residence premises, the insurable interest must be fully investigated and coverage based on the extent of the policyholder’s insurable interest.

4-10. Property Not Covered: Coverage A and Coverage B

The CEA BASIC EARTHQUAKE POLICY – HOMEOWNERS does not cover certain items of real property. For example, the following are not covered:

- Detached garages, outbuildings, pools, spas, fences, and other structures not set forth in Coverage B: EXTENSIONS TO DWELLING.
- Exterior water supply systems including, but not limited to, irrigation systems, sprinkler systems, and water reclamation systems.
- Underground structures or equipment located outside the foundation wall of the structure (except equipment and utility services which affect habitability of the dwelling).
- Land, other than that portion of land stabilization expenses covered under OTHER COVERAGES, item 4. (See section 4-27.)

These are only a few examples. It is important to read the policy for a complete list of property that is not covered.

4-11. Property Not Covered: Exterior Masonry Veneer

The CEA policy does 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” are common terms, and definitions for them can be found in the dictionary. The common understanding in a construction context is that the term “veneer” refers to a *nonstructural* facing of brick, concrete, stone, tile, or other similar material attached to a backing for the purpose of ornamentation.

The question sometimes arises about what can be allowed (paid for) under the CEA policy coverage if the masonry veneer falls off a home. The answer is nothing can be paid for any such loss. Masonry veneer is not covered and there is no policy provision or requirement to pay for replacing it with something else.

Also, take note that the brick on a home may not be masonry veneer. If the structure is a masonry structure, then any part of that masonry structure that is not veneer may be covered under the CEA policy.

4-12. Property Not Covered: Exterior and Underground Systems and Structures

Except as provided under Coverage B: EXTENSIONS TO DWELLING, the policy does not cover exterior water supply systems including, but not limited to irrigation systems, sprinkler systems, and water reclamation systems; underground structures or equipment located outside the perimeter of the dwelling foundation, including but not limited to underground pipes, cables, flues, drains, electrical supply systems and electrical lighting systems. (This is found in the policy, under Property Not Covered, Coverage A and Coverage B, Item 10.)

4-13. Property Not Covered: Antennas and Satellite Dishes

The policy does not cover antennas, satellite dishes and any towers, brackets, or attachments that support or secure them.

4-14. Property Not Covered: Decorative or Artistic Features of the Dwelling

The policy does not cover: *Any decorative or artistic features of the property, including but not limited to works of art; items such as murals; stained or leaded glass; mirrors; chandeliers; mosaics; statuary or sculpture; carvings, inlays, and reliefs or bas reliefs; and fountains, aquariums, and their systems. If at the time of loss a 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.*

In applying this policy provision, the CEA recommends the following approach. If an item on the above list is damaged by the earthquake, it is not covered and if an item is not listed, it probably is covered. If a claim representative is unsure if an item rises to the level of being a decorative or artistic feature of the property, they should e-mail a picture to his or her company CEA Liaison, who can consult with the CEA if necessary.

For purposes of illustration, the following lists the common meaning of the words used in this section of the policy. These definitions were taken from a standard dictionary.

Murals – a painting that is applied to a wall, ceiling, or floor surface

Stained glass – glass that has been colored in some way

Leaded glass – pieces of glass held together by lead, can be clear, stained, or etched glass

Mirrors – a polished or smooth surface (as of glass) that forms images by reflection

Chandeliers –light fixture, hangs from the ceiling, branched, often ornate

Mosaics – design made of small pieces of colored stone or glass

Statuary – statues collectively

Statue – a sculpture representing a human or animal

Sculpture – a three-dimensional work of art

Carvings – an object created by carving (as wood or ivory or stone)

Inlays – decorate the surface by inserting wood, stone, or metal

Reliefs and bas reliefs – Decorative features in which figures or designs are raised above (or indented into) the surrounding flat surface

Fountains - a structure from which an artificially produced jet of water arises

Aquariums - tank with water for keeping fish and underwater animals, or a tank for reptiles

The claim representative should identify the listed decorative or artistic features of the home during the initial assessment of the scope of the damage and discuss any excluded items with the insured. The claim representative should also discuss any items with a utilitarian purpose and what the reasonable non-decorative, functional replacement, should be. (e.g., chandelier verses a non-decorative replacement light fixture of equivalent quality of other light fixtures in the home)

4-15. Property Not Covered: Awnings and Patio Coverings

The policy does not cover *awnings and patio coverings, or their support structures*. 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.

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. (See section 4-8.)

4-16. Property Not Covered: Landscaping

Damage to *Landscaping, trees, shrubs, lawns, or plants, even if damaged by necessary repairs to covered property*, are not covered. If it is necessary to remove a landscape element in order to access the structure for repairs, an allowance for removal may be considered, but policy coverage does not allow for replacement of the landscaping element.

4-17. Property Not Covered: Swimming Pools, Spas, and Hot Tubs

The policy does not cover swimming pools, spas, or hot tubs, 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. The policy reads as follows:

*Property Not Covered—Coverage A and Coverage B We do not cover: Swimming pools, spas, and hot tubs, whether part of the **dwelling** or not, including the tile or other material linking or attaching the pool, spa or hot tub to a deck or to the **dwelling**.*

4-18. Garages and Outbuildings

Detached garages and outbuildings are not covered. However, 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 would be covered under the structure policy limit.

4-19. Plaster - Limited to the Cost of Sheetrock or Drywall

The policy does not cover plaster, to the extent that the cost to repair or replace it exceeds the value of its replacement with Sheetrock or drywall. The claim representative should consider whether minor repairs with plaster may be less costly and more beneficial to the insured than repair or replacement with Sheetrock or drywall.

4-20. 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 you are paying for broken building window glass, and building codes require that it be replaced with safety glass. This increased cost falls under the policy building code upgrade coverage.

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.

4-21. Coverage C - Personal Property Not Covered or Subject to a Sublimit

Certain types of personal property are not covered. Other categories of personal property are covered, but only up to a sublimit. Read the policy for a complete list of not covered and sublimited personal property. Here are some examples:

- Glassware, crystal, china, and porcelain are not covered. (Structural glass found in windows and doors is covered under Coverage A.) Food products packaged in glass are not considered glassware and may be covered. For example, bottles of wine, and the replacement cost of the product at today's prices (including the glass container) can be considered as covered personal property.
- The policy does not cover: *artwork, including but not limited to paintings, drawings, framing, sculpture, photographs, handmade tapestries and rugs, pottery, and ceramics.*
- Motor vehicles, watercraft, *and trailers are not covered.*
- *Business property: Coverage C has a sublimit of \$1,000 on business property. There is a separate sublimit of \$3000 on computers and other electronic data processing equipment, whether or not it is business property. Therefore, a computer used for business is not limited by the \$1,000 business property sublimit.*
- Personal Property owned by others: Property owned by roomers, boarders, or renters not related to an insured is not covered. For property owned by all other persons other than an insured, there is a sublimit of \$2,500 on covered personal property, regardless of the Coverage C limit of insurance.

4-22. Coverage D: Loss of Use

Coverage D: Loss of Use coverage can be purchased up to a maximum of \$25,000. If a covered loss makes the dwelling unfit to live in, and the insured vacates the dwelling, the necessary increase in living expenses actually incurred is covered. The claim file should contain documentation to support all loss of use expenses that were paid for.

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.

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. Other premises include roads and bridges.

This coverage is not subject to any deductible. Even if their property losses are under the policy deductible, there is coverage for policyholders whose dwellings are temporarily unfit to live in while they repair damage to the dwelling caused by a covered earthquake.

There is no maximum period of time after the occurrence of an earthquake for covered Loss of Use expenses to be incurred. Loss of Use coverage applies even if the insured is not required to vacate the insured premises until months after the earthquake (such as, for example, when repairs to the property cannot be started until a substantial period of time 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.

4-23. Protection of Property - Emergency Repairs – No deductible on first \$1,500

In the Homeowners and Homeowners Choice policies, it is important to note that the first \$1,500 of emergency repairs does not have a deductible. This provision is not available in a renter or condo policy. The specific policy coverage in the CEA homeowners policy reads in part:

OTHER COVERAGES

The following other coverages are provided subject to all terms and conditions of this policy. Except for the first \$1,500 of losses covered under Item 1, "Emergency Repairs," the coverages are provided subject to the application of the DEDUCTIBLE CLAUSE.

- 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, (2) to remove from covered property in the **dwelling** the residue of broken glass if the **dwelling** is otherwise habitable, or (3) to repair or replace covered broken windows in the **dwelling** or other covered structural glass that is part of the **dwelling** if the **dwelling** is otherwise habitable. 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 the **DEDUCTIBLE CLAUSE**. Costs **you** incur for such emergency measures in excess of \$1,500 are subject to the application of the **DEDUCTIBLE CLAUSE**, which means that until **you** satisfy the deductible amount, you will not be paid for any such costs **you** incur above \$1,500.*

This means that the claim representative should pay for covered emergency repairs up to \$1,500 without applying a deductible.

In addition, the representative must keep track of all covered emergency repairs because they are subject to the policy sublimit of 5% of coverage A & B CSL.

Use the following mathematical steps to calculate how much you should pay on a claim.

Step 1: Pay all the dwelling emergency repairs up to \$1,500 with no deductible

Step 2: Add up the total covered dwelling damage, including emergency repair expenses paid in step 1, and subtract the dwelling policy deductible to see how much is owed. Remember that dwelling emergency repairs are subject to a 5% policy sublimit of the Coverage A and B CSL.

Step 3: If step 2 produces an amount owed to the policyholder, subtract the amount paid in step 1 and pay the difference.

Regardless of whether or not the claim exceeds the dwelling policy deductible, the policyholder is still entitled to the first \$1,500 of any covered Coverage A & B emergency repairs with no deductible.

4-24. Other Coverages: Debris Removal

The policy reads in part: ***We will pay the reasonable expense you incur in removing from the **residence premises** the debris of covered property that is damaged by an **earthquake** This coverage provides up to 5% of the combined single **limit of insurance** for “**COVERAGE A: DWELLING**” and “**COVERAGE B: EXTENSIONS TO DWELLING**” as additional insurance.***

No coverage for debris removal is provided until and unless losses covered under Coverages A or B have exceeded the policy deductible.

This is similar to the provision found in most HO fire policies and is used when you have a total loss that exceeds the policy limits and when there has been extra expenses for debris removal over and above the policy limit. In cases where you can document this extra debris removal expense, you can pay up to an additional 5% of coverage A.

4-25. Other Coverages: Building Code Upgrade

Building code upgrade coverage in the amount of \$10,000 is provided as additional insurance in a CEA homeowners policy. For dwellings other than mobilehomes, the policyholder can select a limit of \$10,000 or \$20,000.

Some things to remember about this coverage are:

- The covered property must actually be repaired before payment may be made for Building Code Upgrade coverage. The CEA permits the pre-payment of code upgrades if it is clear, in the claim representative's professional judgment, that property is going to be repaired, the code upgrade cost is known (or it is known that code upgrade costs will exceed the Building Code Upgrades coverage limit), and making this payment would complete the claim process.
- This coverage is additional insurance to the Coverages A and B combined single limit.
- This coverage is to bring the covered property up to local residential building code standards that were in effect *on the date of the earthquake* that caused the loss.
- The coverage pays only for the *Building Code Upgrade costs necessary to secure a reconstruction permit for repair of the covered property.*
- Building code upgrade is not one of the four items that are included in the HO deductible calculation. See the HO policy deductible section where it reads in part:

2. Only the following will be applied to meet the deductible:

- a. The reasonable and necessary **replacement cost** of the covered damage to property covered under "COVERAGE A: DWELLING," but only up to the amount of the applicable **sublimit** for property for which there is a **sublimit** under "COVERAGE A: DWELLING," and*
- b. The reasonable and necessary **replacement cost** of the covered damage to property covered under "COVERAGE B: EXTENSIONS TO DWELLING," but only up to the amount of the applicable **sublimit** for property for which there is a **sublimit** under "COVERAGE B: EXTENSIONS TO DWELLING," and*
- c. The reasonable and necessary cost of emergency measures in excess of \$1,500 covered under "OTHER COVERAGES," item 1, that **you** actually take to protect property that is covered under "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" against further damage or secure the **dwelling**, but only up to the **sublimit** of 5% of the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B:*

EXTENSIONS TO DWELLING,” and

*d. The reasonable and necessary cost to replace, rebuild, stabilize or otherwise restore the land that is covered under “OTHER COVERAGES,” item 4, but only up to the **sublimit** of \$10,000.*

3. The cost to repair or replace personal property, or any other cost not set forth in 2.a through 2.d, above, will not be applied to meet the deductible.

As you can see, building code upgrade is not mentioned in a. through d. above and therefore is not one of the four items you can use in the deductible calculation.

4-26. Other Coverages: Land Stabilization

The policy covers up to \$10,000 for the cost to replace, rebuild, stabilize, or otherwise restore land owned by the insured necessary to support the dwelling, if the need for stabilization is caused directly by a covered earthquake and is necessary for the habitability of the dwelling. This coverage is provided as a \$10,000 sublimit of the Coverages A and B combined single limit. Other than this, there is no coverage for land. Note: Land is excluded in the definition of “Dwelling.” The cost of engineering work done to determine the need for land stabilization is included in this \$10,000 limit.

Minor movement of land (not land stabilization) to accommodate a foundation repair covered under the policy is properly placed under Coverage A, and is not subject to the land stabilization sublimit of \$10,000.

4-27. Losses Excluded

The CEA policy covers only one peril, earthquake. The LOSSES EXCLUDED section of the policy provides as follows: *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 these are discussed below, but claim representatives must read the policy and familiarize themselves with the complete list.

4-28. Losses Excluded: Fire and Explosion

The policy does not cover losses resulting from fire or explosion. This includes fires resulting from such things as broken gas lines, exposed wiring, or other factors directly resulting from an earthquake. Any losses resulting from fire must be handled under the policyholder’s fire insurance policy, not under the CEA policy.

In situations where part of the home is damaged by a covered earthquake and part of the home is damaged by a fire, the claim representative working on each claim will need to properly allocate the damage to either the fire or earthquake policy.

NOTE: The CEA must be immediately notified, by e-mail to the Earthquake Response Manager, about any CEA claim opened up on a fire-damaged home where the CEA claim has a claim reserve of greater than zero (or whichever other minimum reserve amount that Participating Insurer uses to open up a CEA claim). The CEA intends to inspect these claims to make sure the damages are appropriately allocated.

4-29. 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 will not cover asbestos removal, including the cost of testing, when the expense is necessary to repair or replace damaged items under Coverage C. Damage to any personal property, including furniture, furnishings, and clothing that are contaminated by asbestos is not covered.

The policy would, however, cover asbestos removal (including the cost of testing) or other earthquake-caused pollution damage to the dwelling when the expense is necessary to repair or replace damaged items or real property covered under Coverages A or B. Where the claim representative suspects that asbestos may be present, an expert should be consulted.

4-30. Losses Excluded: Non-Earthquake Earth Movement and Land Sliding

The policy does not cover any loss caused directly or indirectly by non-earthquake earth movement: *Earth movement, settling of land, land sliding, subsidence, mudflows, or earth sinking, rising or shifting . . .* There is an exception to this exclusion, however—the policy *does* cover the loss if such earth movement, settling of land, land sliding, subsidence, mudflow, or earth sinking, rising, or shifting satisfies both of the following requirements:

- 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 may be covered. However, if the landslide occurs or the loss manifests anytime after the first anniversary of the earthquake, the damage is not covered under the CEA policy.

4-31. Losses Excluded: Theft or Vandalism

Theft, vandalism, or other human conduct causing loss following an earthquake is excluded. The policy provides that it does not cover any loss that is caused directly or indirectly by . . . *Theft, vandalism or other human conduct causing loss following an earthquake.*

5. BASIC EARTHQUAKE POLICY - COMMON INTEREST DEVELOPMENT

In California, a “common interest development” can be a community apartment project, a condominium project, a planned development, or a stock cooperative, all as further defined in California Civil Code section 1351. 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 condominium policy. This policy has many of the same provisions found in the BASIC EARTHQUAKE POLICY – HOMEOWNERS. The purpose of the following is to point out some of the unique features of the condominium policy.

Read the specific policy in force at the time of the claim to determine the appropriate coverages, limits, and exclusions. This summary is not a substitute for reading the policy. You will also need to review the association master policy and the association governing documents in order to adjust a condominium loss.

5-1. Policy Definitions

The vast majority of the key definitions found in the BASIC EARTHQUAKE POLICY – HOMEOWNERS are also found in the BASIC EARTHQUAKE POLICY – COMMON INTEREST DEVELOPMENT. There are, however, some additional definitions that are unique to this policy. Read the definitions for the following terms, none of which is contained in the other policies: “association governing documents,” “association master policy,” “association of owners,” “common interest development,” and “dwelling unit.”

5-2. Adjusting Condominium Claims – Coordination

The greater the number of units in a complex, the greater the need for coordination. Participating Insurers should identify the number of policies they have issued within a given condominium complex. To the extent possible, claims assignments should be given to the same claim representative and supervised by the same individual.

5-3. 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 you have 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 covers the same loss or damage, other than as described in 8.a above, 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 makes it clear that the association earthquake coverage is primary.

5-4. Duties after a Loss

While the insured's duties after a loss are basically the same as the BASIC EARTHQUAKE POLICY - HOMEOWNERS, the following is unique to the condominium policy:

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

5-5. Overview of the Declarations Page and Coverage Options

In contrast to the CEA homeowner's policy, the common interest development policy provides for three coverage groups that can be purchased together in any combination or separately. They are:

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 limit is always \$25,000. Building code upgrade coverage of \$10,000 additional insurance comes with Coverage A.

Coverage C: PERSONAL PROPERTY is sold together with Coverage D: LOSS OF USE. The base-limits policy carries \$5,000 in Coverage C and \$1,500 in Coverage D. The insured may select higher limits up to \$100,000 for Coverage C and up to \$25,000 for Coverage D. Coverage C and Coverage D can be purchased in combination with other coverages, or as the only coverages under the policy.

Coverage E: LOSS ASSESSMENT can be purchased alone or in combination with other coverages. Depending on the value of the condominium, the limit will be either \$25,000, \$50,000 or \$75,000.

The fact that these coverages can be purchased separately and with different coverage limits of insurance, each coverage with its own deductible provisions, requires the claim representative to be vigilant in confirming coverage, limits, and deductible amounts. Always check the declarations page for the coverage, limits, and deductible.

5-6. Losses Excluded

Losses excluded are the same as those found in the BASIC EARTHQUAKE POLICY - HOMEOWNERS policy.

5-7. Deductibles

One difference between the condominium policy and the homeowners policy is how deductibles are handled. Unlike the homeowners policy, in the condominium policy each coverage has its own separate deductible, and only loss to property covered under that coverage counts against the deductible. In the condominium policy, there is:

- A separate deductible for Coverage A: BUILDING PROPERTY. The deductible is always \$3,750 (15% of the Coverage A limit). Only losses subject to coverage under Coverage A can be used to meet the Coverage A deductible.
- A separate deductible for Coverage C: PERSONAL PROPERTY. The deductible is always \$750, regardless of the Coverage C limit of insurance. Only losses subject to coverage under Coverage C can be used to meet the Coverage C deductible.
- No deductible for Coverage D: LOSS OF USE.
- A separate deductible for Coverage E: LOSS ASSESSMENT. The deductible is 15% of the Coverage E limit (i.e., \$3,750 for \$25,000 limit policies, \$7,500 for \$50,000 limit, and \$11,250 for the \$75,000 limit policies). Only losses subject to coverage under Coverage E can be used to meet the Coverage E deductible.

Since Coverages A, C, and E can be purchased independently and each has its own separate deductible, it is best to refer to the Declarations page to determine the correct deductible to apply.

5-8. Building Property - Coverage A

Coverage A is optional in the BASIC EARTHQUAKE POLICY – COMMON INTEREST DEVELOPMENT, 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” in the CEA policy, which may insure against the perils of fire, earthquake, or both.

The first step to be taken in order to determine whether the property is covered under Coverage A: BUILDING PROPERTY is to review:

- The association governing documents to determine whether the insured has the obligation to repair or maintain the property, and
- The association master policy to determine whether the property is covered for the risk of earthquake under the association master policy.

There are two basic categories of property covered under Coverage A: BUILDING PROPERTY. The first category is covered regardless of what the policyholder’s individual maintenance obligations are under the association governing documents. That category consists of the following property:

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**.*

In addition to the above items, the policy covers the following second category of property, which is only covered if the insured has an obligation to maintain the property under the association governing documents. Therefore, the claim representative will need to review those governing documents to determine whether any of the following property is covered:

- 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 \$5,000, regardless of the number of **chimneys** covered.*

5-9. Emergency Repairs – Coverage A

Emergency repairs to protect Coverage A: BUILDING PROPERTY will only be paid if damage exceeds the Coverage A deductible. The emergency repairs coverage provides coverage up to a sublimit of \$1,500 of the policy limit for Coverage A: BUILDING PROPERTY.

5-10. Debris Removal – Coverage A

The policy allows for an additional 5% of Coverage A to be paid in cases of a total loss.

Debris Removal. We will pay the reasonable expense you incur in removing from the common interest development the debris of property covered under “COVERAGE A: BUILDING PROPERTY” that is damaged by an earthquake that commences during the policy period as part of a seismic event that commences during the policy period. This coverage provides up to 5% of the limit of insurance for “COVERAGE A: BUILDING PROPERTY” as additional insurance.

Removal of debris is included when handling a claim. For claims where the Coverage A policy limit is reached, and the claim included debris removal, up to an additional 5% of Coverage A can be paid as additional insurance.

5-11. Loss Settlement – Coverage A

Loss settlement under Coverage A: BUILDING PROPERTY is basically the same as loss settlement under Coverages A and B of the BASIC EARTHQUAKE POLICY - HOMEOWNERS.

However, considering the nature of common ownership versus individual ownership of property found in common interest developments, it is particularly important to remember to determine whether the insured has an insurable interest and a responsibility to insure the property. Also, determine whether the CEA policyholder's loss may be covered or collectible under an association master policy in which case you should refer to the “Other Insurance” provision of the policy.

5-12. Personal Property – Coverage C

The adjusting is the same under the homeowners, renters, and condominium policy, except for the application of the deductible. Coverage C is an optional coverage in the BASIC EARTHQUAKE POLICY – COMMON INTEREST DEVELOPMENT, so it is important to carefully review the Declarations page to determine whether the policyholder has purchased Coverage C, and if so, in what coverage amount.

The deductible under Coverage C of the BASIC EARTHQUAKE POLICY – COMMON INTEREST DEVELOPMENT is \$750. This is 15% of the \$5,000 base limits offered for

Coverage C. The deductible amount of \$750 remains the same even if the policyholder purchases higher Coverage C limits.

Under the BASIC EARTHQUAKE POLICY – COMMON INTEREST DEVELOPMENT, a claim can be paid as soon as the loss to personal property exceeds the \$750 Coverage C: PERSONAL PROPERTY deductible. This is different from the structure of the BASIC EARTHQUAKE POLICY – HOMEOWNERS, where regardless of the amount of loss to personal property, there is no payment for any loss to personal property until after the loss to dwelling and extensions to dwelling exceeds the amount of the dwelling deductible.

5-13. Emergency Repairs – Coverage C

The cost of emergency measures undertaken to protect damaged personal property from further damage is part of the Coverage C limit and will only be paid if damage to personal property exceeds the Coverage C deductible. The coverage reads, in part, as follows:

*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.*

5-14. Debris Removal – Coverage C

Coverage C of the policy provides for removal of the debris of damaged personal property as follows:

*Debris Removal. We will pay the reasonable expense **you** incur in removing from the **common interest development** the debris of property covered under “COVERAGE C: PERSONAL PROPERTY” that is damaged by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period. This coverage provides, as additional insurance, up to the lesser of (i) 5% of the **limit of insurance** for “COVERAGE C: PERSONAL PROPERTY” or (ii) \$1,000.*

If the Coverage C limit has been exhausted, there is still additional coverage for debris removal (up to the lesser of 5% of the Coverage C limit or \$1,000). This is additional insurance.

5-15. Loss of Use – Coverage D

Coverage D: Loss of Use is an optional coverage in the BASIC EARTHQUAKE POLICY – COMMON INTEREST DEVELOPMENT, so it is important to carefully review the Declarations page to determine whether the policyholder has purchased Coverage D, and if so, in what coverage amount. If the policyholder purchased Coverage

D, the calculation for Loss of Use or Loss of Rents is functionally the same as under the homeowners policy.

In order to collect Loss of Use or Loss of Rents, under the BASIC EARTHQUAKE POLICY - HOMEOWNERS, the dwelling must be unfit to live in. Under the condominium policy, even if the dwelling unit is undamaged or not unfit to live in at the time of the earthquake, but the insured is forced to vacate because of repairs to other units, Loss of Use or Loss of Rents may be paid. Check the specific policy provision for the exact terms and conditions for Loss of Use coverage.

5-16. Loss Assessment - Coverage E

A loss assessment is a demand by an association of owners, telling the dwelling unit owner that he or she has to pay for damage to common property. That loss assessment is covered, but only to the extent that the assessment relates to the repair or replacement of damaged association property that is the kind of property that is covered under Coverage E. For example, swimming pools are listed as “Losses Not Covered” under Coverage E, so if the association assesses a CEA policyholder for a share of the damaged pool, the CEA policy cannot pay for any part of loss assessment attributable to the repair of the damaged pool.

Coverage E: LOSS ASSESSMENT is an optional coverage in the BASIC EARTHQUAKE POLICY – COMMON INTEREST DEVELOPMENT, so it is important to carefully review the Declarations page to determine whether the policyholder has purchased Coverage E, and if so, in what 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 there may be portions that are not covered.

The claim representative must obtain sufficient documentation and records to understand the basis for the assessment. For example, suppose there is no association master policy that covers earthquake damage, and suppose each owner is assessed \$10,000 to fix the roof of the complex. Assuming the deductible has been met, this could be a covered loss.

However, assume the loss assessment for \$10,000 was to repair landscaping. This would not be covered. To determine the covered portion of the claim, the claim representative should 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 as set forth in Coverage E: LOSS ASSESSMENT or to causes excluded in any of the policy exclusions.

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

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

5-17. 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.

- i. *As a result of the unrepaired damage, the **dwelling unit** either is unfit to live in or cannot legally be occupied; and*
- ii. *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."*

The way to calculate the proper amount to be paid for this type of claim is specified in detail in the policy language. It is essential that the policy language be carefully reviewed if such a claim is presented.

5-18. Compliance with Ordinance and Law – Coverage A and Coverage E

The policy provides that losses relating to the following are not covered:

7. *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 \$10,000 **sublimit.***

5-19. Ingress and Egress

The condominium policy specifies, under Losses Not Covered, Coverage A, Building Property and Coverage E, Loss Assessment, that losses to walkways, driveways, decks, and patios are not covered, except for those walkways, driveways, decks, and patios necessary to provide ingress to and egress from the insured's dwelling unit.

The ingress and egress exception 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 policy, claim representatives should 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.

6. BASIC EARTHQUAKE POLICY – RENTERS

The BASIC EARTHQUAKE POLICY – RENTERS does not provide coverage for loss to real property, it provides only Coverage C: PERSONAL PROPERTY and Coverage D: LOSS OF USE.

The scope of these two coverages is basically the same under the RENTERS policy as it is in the HOMEOWNERS and CONDO policy.

6-1. Personal Property – Deductible

The deductible under the BASIC EARTHQUAKE POLICY – RENTERS is \$750. This is 15% of the \$5,000 base limits offered for Coverage C. The deductible amount of \$750 remains the same even if the policyholder purchases higher Coverage C limits.

Under the BASIC EARTHQUAKE POLICY – RENTERS, a claim can be paid as soon as the loss to personal property exceeds the \$750 Coverage C: PERSONAL PROPERTY deductible. This is different from the CEA HO earthquake policy.

6-2. Loss of Use

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 policy. 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 actually loses rental income due to earthquake damage, the insured may also collect under Coverage D for that loss of rent.

6-3. Policy Exclusions – Renters Policy

The items that are not covered and the exclusions that apply to a renters policy are the same as those found in the homeowners policy, under personal property coverage.

7. 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. They 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.

7-1. A Companion Policy Must Be in Force

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

7-2. 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 are expected to be familiar with the California Insurance Code section 790.03(h), setting forth certain specified unfair claim-handling practices; and 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 knowingly engage in any of the unfair claims handling practices listed in these statutes.

7-3. Claim File Documentation

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

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

7-4. 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 no less than every 30 days. Estimates and expert

reports should be shared with the insured as soon as possible. Keep the insured informed when key decisions will be made on their claim. When a report from an expert is relied on to form an opinion regarding damage, provide a copy of that report to the insured. Give the insured a copy of the claim representative's scope and estimate as soon as possible.

The CEA values the privacy of its insureds; therefore the CEA insists that no one discuss a claim with the media. Furthermore, California law, including California Insurance Code sections 791 through 791.21, protects the confidentiality of private policyholder-related information. Refer all media inquiries you receive to your company media spokesperson, your team leader, or to the CEA at (916) 325-3800.

Claim representatives must be trained on the current law regarding the obligation of the insurer to fully investigate earthquake damage that is discovered or reported after the earthquake damage claim is initially 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 it invokes any policy provisions. All such investigations should be made subject to a written reservation of rights.

All claims should 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.

7-5. Timely Adjusting - SBA and FEMA Requirements

In light of the policy deductible, policyholders generally will not receive payment for the total amount of the damage, and will be required to bear some portion of the financial costs of the earthquake themselves. As a result they may be looking 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 and FEMA assistance, the insured will need documentation from the claim representative. Usually these agencies require a statement of loss or a denial letter. The SBA and FEMA have loan-submission deadlines, so the insureds will need this documentation as quickly as possible. It is important that the handling of the claim and final paperwork be timely.

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

7-6. 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 tests. The CEA policy provides as follows:

*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.*

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

7-7. 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 and extent of loss and the proper way to repair the damage. It is important that the claim representative 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 CUREE *General lines for the Assessment and Repair of Earthquake Damage in Residential Woodframe Buildings*. (www.curee.org) Look for the EDA2 document.

a. When to Retain an Engineer or Expert

Participating Insurers will determine the need for engineers or other experts as soon as possible in the claim adjustment process. It is not necessary to request approval from the CEA.

Some of the conditions you should consider when retaining an engineer to inspect the properties are:

- Building has collapsed or partially collapsed,
- Building superstructure has shifted relative to or off its foundation,
- Building as a whole, any story, any walls, any cripple walls, or columns are visibly out of plumb,
- Shifting or movement of interior walls and partitions relative to the floor,
- A pattern of broken windows or a pattern of sticking or inoperable hinged doors,
- For hillside houses, 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,
- Visible distortion of the roofline or significant fresh damage to attic framing,
- Damage to the structure in the vicinity of the chimney,
- A pattern of splitting of framing members (sill plate, hold down locations, floor joists, etc.), and
- 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. The structural specialist should be consulted regarding the need for a soils specialist or other technical consultants.

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

- Identification of all structurally significant earthquake damage, especially those damage patterns that might not be obvious to owners and adjusters,
- Causation (i.e. distinguishing between damage caused by the earthquake and conditions/damage attributable to other causes),
- Scope of work necessary to repair the damage caused by the earthquake in accordance with the terms of the policy, and
- Any building code upgrades that may be required as a part of the repair of the earthquake damages.

c. Locating Qualified Engineers

Ideally, carriers 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 www.asce.org/inside/sec_brnch.cfm for links to local chapters).

Prior to retaining an engineer, check credentials, by obtaining a copy of the engineer's curriculum vitae (résumé) or statement of qualifications that should include information on education, work experience, technical expertise, and professional registration (or engineering license) numbers.

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

Assuming that the engineer's credentials are acceptable, the next step is executing a written agreement or contract with the engineer. California Business and Professions Code section 6749 requires, with some exceptions, that engineers 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 upon 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 that the professional engineer and the client will use to accommodate additional services.
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. Claim representatives should ask for and agree to the delivery time for any written reports before authorizing the work.

e. Payment of Expert Fees

Claim representatives should ask for 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 them for these fees.

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

7-8. 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 make sure their estimating programs have been 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 that statute 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.

7-9. 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 control the job. It is not appropriate to allow for O&P when you are 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 on an estimate, add the overhead percentage and the profit percent together and 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. The reasons for any exceptions to these O&P lines should be documented in the claim file.

7-10. 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 bases. If this were ever to be needed, the CEA would declare a "claim payment ratio". This would mean that the adjuster would determine the total amount payable on a claim and then pay the insured a percentage of that total amount based on the CEA's declared claim payment ratio.

If a ratio other than 100% is to be used, it will be communicated to the Participating Insurers as soon as possible and will apply to all loss settlements from the date of notification onward.

7-11. Double Coverage

To help resolve issues of overlapping insurance or coexistent insurance coverage, the claim representative should follow the Other Insurance provisions in the policy involved. Further help can be found in the *Guiding Principles for Overlapping Insurance Coverage* published in 1963 by a consortium of underwriting organizations. This document should be available from your claim manager.

7-12. Suspected Fraudulent Claims

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

Refer suspected fraudulent claims to the Participating Insurer's Special Investigation Unit (SIU). Request a Proof of Loss as stated in the policy conditions. It is expected that claim representatives be trained to recognize insurance fraud. The claim file should have 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 that investigation is not a commitment as to payment.

7-13. Emergency Repairs

The policyholder is always responsible for taking the necessary steps to protect property from further damage under the "Your duties After Loss" condition found in every CEA policy.

Different CEA policies pay for emergency repairs in different ways so you need to read the policy language carefully. Here is a summary of how the various CEA policies provide for handling emergency repairs.

Homeowners and Homeowners Choice – Emergency repairs to Coverage A and B

- The first \$1,500 of emergency repair is paid without a deductible
- The claim representative must keep track of all covered emergency repairs because they are subject to the policy sublimit of 5% of coverage A & B CSL.
- All emergency repairs up to the 5% emergency repairs sublimit are used in the deductible calculation. (See Section 4-24 for more details)

Condo – Emergency repairs

- Cov A: Covered up to \$1,500 as sublimit of Coverage A

- Cov C: Covered for the lesser of 5% or \$1,000 sublimit of C if Coverage C purchased
- Subject to the policy deductible

Renter – Emergency repairs

- Cov C: Covered for lesser of 5% or \$1,000 sublimit of Coverage C
- Subject to the policy deductible

7-14. Scope of Loss and Estimates

In most cases, the claim representative should 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 should 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 that were listed on the original estimate. Any additional earthquake damage found after repairs have begun should also be evaluated for coverage.

Engineers or experts should be used when appropriate. (See section 7-7.)

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

7-15. 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 that were in the concrete prior to the earthquake is not covered; however, new damage due to the earthquake, which may include expansions of old cracks, is covered.

The claim representative, with the advice of an appropriate expert, will need to 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 and the CEA 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. Then value the cost to repair the crack after the earthquake. The difference in those two numbers is the value of the damage caused by the exacerbation.

7-16. Subrogation

While there is less likelihood that there is third-party liability for the damages suffered by an insured from an earthquake than from most other perils, 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 that the loss may have occurred as a result of negligence of a third party, proper documentation must be gathered so that 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 that a subrogation claim may be presented.

7-17. Salvage

As in any other claim, consideration should be given as to whether any damaged items have salvage value. The CEA's position is that the policyholder should be made whole, including the deductible, before any salvage is taken. If there are salvageable items that need to be dealt with, follow your company procedures for dealing with salvage in the claim handling process.

7-18. Proof of Loss

The CEA does not require a Proof of Loss on every claim. However, the CEA has a right to one where necessary. The policy provides that, upon the Participating Insurer's request, a Proof of Loss must be provided within 60 days.

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

7-19. 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. Personal 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)

7-20. 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 or resolved in appraisal. When investigating a claim where coverage is an issue, consider a reservation-of-rights letter. Procedures to resolve coverage disputes are explained in section 1-9.

7-21. Denying Damages Not Covered and Claims Under the Deductible

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

1. Claims under the deductible:

Where 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 that “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.

2. Claims where the damages are not covered by the earthquake policy in force

Where 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 not provided a sample letter for this situation, but some of the wording found in Attachment 6 may be useful. Participating Insurers must send a copy by e-mail, of the denial letter to the CEA’s ERM for review and approval as to form before mailing it to the insured. (See Section 1-7.)

3. Claims with a combination of both of the above situations

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

With regard to 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 HO Basic 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 HO 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 that the loss exceeds the deductible.
- Advise the insured of the one-year requirement to bring legal action and quote the language from the policy.
- Include the required wording on how to contact the California Department of Insurance.

Always include any expert's reports that you used to make your decision with the denial letter.

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

7-22. 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. (Questions about the approval process to use the CEA mark (logo) are found in CEA Circular #OPS-00-06.)

Whenever the words "California Earthquake Authority" are used they may be in title case (first letter of each word capitalized) or in all capital letters. It is not appropriate to use these words in all lower case. The acronym "CEA" is always used in upper case with no periods.

Letterhead: You should use your company letterhead or name and you should include the words "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 you do not know the name of the policyholder, however, you may 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: You may use your normal signature block, and while not required, you may add "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: You may use “A Participating Insurer of the California Earthquake Authority” as part of your return address shown in a letter.

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

CEA return address: It is not appropriate to use the CEA home 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].”

7-23. 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, it is important that the relevant loan documents 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 is to 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 claims indemnity payment.

Under longstanding informal lines, when the total indemnity payment will be \$10,000 or less, the payment may be made to the policyholder(s) only. However, you may need to follow any specific requirements that are found in a mortgage contract.

The lender is not entitled to any control over payments for ALE.

In summary, it falls to the claim representative to determine whether a mortgagee needs to be named on a claim payment check. The claim file must be documented to support the decision made by the claim representative.

7-24. 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 the claim file about rooms that do not have damage. This is important if and when the claim file reopens at a later date with an allegation that the claim representative missed finding some earthquake damage or did not conduct a complete investigation.

All CEA claim files are expected to include the CUREE Guidelines General Damage Earthquake Inspection Checklist found in the CUREE EDA2 document available for free from the CUREE Web site at www.curee.org. This checklist is to be used by a claim representative on the initial inspection of the home. The purpose of requiring this inspection checklist is to work towards consistent and complete inspections by all the CEA participating insurance companies. This checklist is to be used by company as well as independent adjusters.

When a claim representative is investigating a claim and there is evidence that there may be damage in the attic or crawlspace, or the home has suffered structural earthquake damage, the CEA expects that the claim representative will inspect the home's attic and crawlspace (if they exist and they are accessible). In these cases it is recommended that the claim representative use the attic or crawlspace inspection checklist found in the CUREE Guidelines at www.curee.org. You can download a free copy of these checklists from this Web site. These checklists are contained within document EDA2. (Earthquake Damage Assessment) These inspection checklists can also be requested from the CEA's ERM.

While most inspections will be done by a claim representative, it is understood that the claim representative may have an engineer or a contractor, etc. do an inspection for them. The claim file should reflect the results of these inspections. Appropriate personal safety measures should be taken during these inspections.

7-25. 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, but generally if a match cannot be found, doorways with doors that can close (swinging or pocket) can be used as the dividing line between rooms where there will be replacement of floor covering damaged by this 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, such closets should be considered part of the room.)

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

It will generally not be 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. Repairs most likely will be made with new materials of like kind and quality, which generally fade to match the existing materials.

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

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	10% or 15% of A & B Combined Single Limit	10% or 15% 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	\$5,000 Included	Optional Coverage – insured can buy or not buy this coverage
Contents – Coverage amounts selected by Insured	Higher limits that can be purchased \$25,000 \$50,000 \$75,000 \$100,000	\$5,000 \$25,000 \$50,000 \$75,000 \$100,000
Deductible	Deductible on A must be exceeded before C can be paid.	Separate 10% or 15% deductible for C. Deductible waived if A deductible met
COVERAGE D	\$1,500 included	Optional Coverage - Insured can buy or not buy this coverage
Loss of Use—Coverage Amounts selected by Insured (No deductible)	Higher limits that can be purchased \$10,000 \$15,000 \$25,000	\$1,500 \$10,000 \$15,000 \$25,000
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, rest subject to 5% policy sublimit and included in deductible calculation	No deductible on first \$1,500, rest 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, Dwelling: \$10,000 or \$20,000, Mobilehome: \$10,000 only	This is additional insurance, Dwelling: \$10,000 or \$20,000, Mobilehome: \$10,000 only

Attachment 2. Coverage Chart – Common Interest Development, Renters

	COMMON INTEREST DEVELOPMENT (Condo)	RENTERS
COVERAGE A	Optional Coverage in condo policy	No Coverage
Dwelling	\$25,000 Real Property	No Coverage
Policy Deductibles	Real prop. Cov. A: \$3,750 Pers. Prop. Cov. C: \$750 Loss Assessment Cov. E: \$3,750, \$7,500, or \$11,250	Pers. Prop. Cov. C: \$750
Emergency Repairs	Cov. A: \$1,500 Cov. C: Lesser of 5% or \$1,000	Cov. C: Lesser of 5% or \$1,000
COVERAGE B Other Structures	No Coverage	No Coverage
COVERAGE C	Optional Coverage in condo policy	Always included in renter policy
Contents Coverage amounts are selected by Insured	\$5,000 \$25,000 \$50,000 \$75,000 \$100,000	\$5,000 \$25,000 \$50,000 \$75,000 \$100,000
COVERAGE D	Optional Coverage in condo policy	Always included in renter policy
Loss of Use—Coverage Amounts selected by Insured (No deductible)	\$1,500 \$10,000 \$15,000 \$25,000	\$1,500 \$10,000 \$15,000 \$25,000
COVERAGE E	Optional Coverage in condo policy	No Coverage
Loss Assessments	Condo value \$135,000 or less \$75,000, \$50,000 or \$25,000 is available; Condo value greater than \$135,001, limit can be \$50,000 or \$75,000	No Coverage
OTHER COVERAGES		
Debris Removal	Additional insurance, Cov. A: 5% of A, if A is purchased Cov. C: Lesser of 5% of C or \$1,000 if C is purchased	Cov. C: Lesser of 5% of C or \$1,000 as additional insurance
Emergency Repairs	Cov. A: \$1,500 as sublimit of Cov A Cov. C: Lesser of 5% or \$1,000 sublimit of C if Cov. C purchased	Cov. C: Lesser of 5% or \$1,000 sublimit of Cov. 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: 916-236-3698	
XXX Insurance Company			
Your claim representatives Name:	<u>Date of Loss:</u>	<u>Coverage</u>	<u>Coverage</u>
John Q. Adjuster	9/03/06	<u>Limit:</u>	<u>Deductibles:</u>
Policy #:	Policy Period:	A	A
123-456-789	02/07/06 – 02/07/07	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 90210		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 9/03/2006. 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: 10/03/06	

Coverage Review Form - California Earthquake Authority

Your Name:		Contact phone number:	
Insurance Company:			
Your claim representatives Name:	<u>Date of Loss:</u>	<u>Coverage</u> <u>Limit:</u>	<u>Coverage</u> <u>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: xx/xx/xxxx	

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 has 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.

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.

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

cc: Agent

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 Renter 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: _____