GOVERNING BOARD MEETING
FRIDAY, APRIL 10, 2020
1:00 P.M.

California Earthquake Authority

Date of Notice: Wednesday, April 1, 2020

PUBLIC NOTICE

A PUBLIC MEETING OF THE GOVERNING BOARD
OF THE CALIFORNIA EARTHQUAKE AUTHORITY

NOTICE IS HEREBY GIVEN that the Governing Board of the California Earthquake Authority ("CEA") will conduct a **teleconference meeting**. Pursuant to California Insurance Code §10089.7(l), the Bagley-Keene Open Meeting Act applies generally to meetings of the Governing Board, and the meeting is open to the public—public participation, comments, and questions will be welcome for each agenda item. Pursuant to Insurance Code §10089.55, please take further notice that this meeting relates to the business of earthquake insurance conducted by CEA.

Pursuant to Governor Newsom's Executive Order N-29-20, issued March 17, 2020, certain provisions of the Bagley-Keene Open Meeting Act are suspended or waived during the declared State of Emergency in response to the COVID-19 pandemic. Consistent with the Executive Order, in order to promote and maximize social distancing and public health and safety, this meeting will be conducted by teleconference only. None of the locations from which Governing Board members will participate will be open to the public. All members of the public shall have the right to observe the meeting and offer comment at this public meeting as described in this Notice.

DATE: **Friday, April 10, 2020**

TIME: **1:00 p.m.**

TELECONFERENCE ACCESS:*

Dial-in Number: **1 (669) 900-6833**
Enter Meeting ID: **484 381 150#**

Public Participation: The telephone lines of members of the public who dial into the meeting to observe and comment will initially be muted to prevent background noise from inadvertently disrupting the meeting. Phone lines will be unmuted during all portions of the meeting that are appropriate for public comment to allow members of the public to comment. Please see additional instructions below regarding Public Participation Procedures.

*** CEA is not responsible for unforeseen technical difficulties that may occur in the audio feed.**

PUBLIC PARTICIPATION PROCEDURES: All members of the public shall have the right to observe the meeting and offer comment at this public meeting. The member of the Governing Board acting as Chair of the meeting will indicate when a portion of the meeting is to be open for public comment. **Any member of the public wishing to comment must press *9 on their phone.** Pressing *9 will notify the call moderator that you wish to comment, and you will be placed in line to comment in the order in which requests are received by the moderator. When it is your turn to comment, the moderator will unmute your line and announce your opportunity to comment. The Chair of the meeting reserve the right to limit the time for comment. Members of the public should be prepared to complete their comments within approximately 3 minutes, but more or less time may be allotted by the Chair.

ACCESSIBILITY FOR DISABLED PERSONS: Persons who, due to a disability, need assistance in order to participate in this meeting should, prior to the meeting, contact CEA's ADA Coordinator either by phone by dialing (916) 661-5400, or by e-mail addressed to EEO@calquake.com and CEABoardLiaison@calquake.com. TTY/TDD and Speech to-Speech users may dial 7-1-1 for the California Relay Service to submit comments on an agenda item or to request special accommodations for persons with disabilities. Persons with disabilities may request special accommodations at this or any future Governing Board meeting or may request the accommodation necessary to receive agendas or materials CEA prepares for its Board meetings. Please contact Shannon McEuen by telephone, toll free, at **(877) 797-4300** or by email at CEABoardLiaison@calquake.com. We would appreciate hearing from you at least five days before the meeting date to best allow us to meet your needs.

AGENDA

Preliminary Matters

1. Call to order and member roll call:

   Governor
   Treasurer
   Insurance Commissioner
   Speaker of the Assembly
   Chair of the Senate Rules Committee

   Establishment of a quorum

2. Consideration and approval of the minutes of the December 11, 2019, CEA Governing Board meeting.
3. Consideration and approval of the minutes of the January 30, 2020, CEA Governing Board meeting.

CEA Enterprise – Executive and Operations Reports

4. Executive Report by Chief Executive Officer Glenn Pomeroy, which will include among other things a report on CEA's response to the COVID-19 crisis and legislative activities of interest to CEA.
5. Chief Financial Officer & Chief Insurance Operations Officer Tom Hanzel will present to the Board the quarterly CEA financial report.
6. Mr. Hanzel will seek Board authorization to set the CEA participating insurers' respective maximum earthquake-loss funding assessment levels, effective April 1, 2020.
7. Senior Staff Counsel, Mr. Joe Zuber, will seek Board approval for statutory revisions to CEA earthquake policy contracts and CEA claim manual.
8. Mr. Pomeroy will propose, for Board approval, a routine update to CEA's Governing Board resolutions pertaining to certain CEA bank accounts.
9. Chief Information Security Officer, Ms. Kim Owen will seek Board authorization to contract for cyber insurance.
10. General Counsel and acting Chief Operations Officer, Mr. Tom Welsh, will report on the procurement and implementation of a Human Resource Management System.
11. Chief Risk and Actuarial Officer Shawna Ackerman will deliver a quarterly report to the Board on the CEA enterprise-risk-management-program.

Insure – Matters Related to CEA's Insurance Business

12. CPP Portfolio Manager, Ms. Sonya Berry, will provide a status report on CEA's Centralized Policy Processing program (CPP).

Mitigate – Matters Related to CEA's Mitigation & Research Missions

13. Chief Mitigation Officer Janiele Maffei will update the Board on developments in the CEA mitigation programs (CRMP Earthquake Brace+Bolt, and CEA Brace+Bolt) and the CEA Research Program.

CONCLUSION

14. Public comment on matters that do not appear on this agenda and requests by the public that those matters be placed on a future agenda.
15. Adjournment.

For further information about this notice or its contents:

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To view this Notice on the CEA website, to access meeting materials, or to learn more about CEA, please visit www.EarthquakeAuthority.com.

Governing Board Memorandum

10 April 2020

Agenda Item 2: Meeting minutes

Recommended Action: Approve meeting minutes

Review/approve minutes of the December 11, 2019 meeting of the CEA Governing Board.

DRAFT

CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES

Wednesday, December 11, 2019
9:00 a.m.

Location: California Earthquake Authority
Main Conference Room
801 K Street, Suite 1000
Sacramento, California

Members of the Governing Board in attendance:
Mark Ghilarducci, designee of Governor Gavin Newsom, Board Chair
Matthew Saha, designee of State Treasurer Fiona Ma
Michael Martinez, designee of Insurance Commissioner Ricardo Lara
Jeffrey Wood, designee of Speaker of the Assembly Anthony Rendon
Craig Fry, designee of Chair of the Senate Rules Committee Toni G. Atkins

Members of the CEA Staff in attendance:
Glenn Pomeroy, Chief Executive Officer
Sheri Aguirre, Strategic Advisor
Tom Hanzel, Chief Financial Officer & Chief Insurance Operations Officer
Laurie Johnson, PhD, Enterprise & Strategic Risk Advisor
Benjamin Kirwan, Controller
Janiele Maffei, Chief Mitigation Officer
Shannon McEuen, Governing Board & Advisory Panel Coordinator
Michael Melavic, Acting Chief Information Officer
Chris Nance, Chief Communications Officer
Kimberley Owen, Chief Information Security Officer
Tom Welsh, General Counsel & Acting Chief Operations Officer

Also present:
No members of the public addressed the Governing Board

Preliminary Matters

1. **Call to order and member roll call.**

   Chair Mark Ghilarducci called the meeting to order at 9:02 a.m. A quorum was achieved.

2. **Consideration and approval of the minutes of the September 25, 2019, CEA Governing Board meeting.**

   MOTION: Mr. Martinez moved approval of the September 25, 2019, California Earthquake Authority Governing Board Meeting Minutes as presented. Mr. Saha seconded. Motion carried unanimously.

3. **Consideration and approval of the 2020 Governing Board meeting calendar.**

   The Board discussed and approved the setting of dates for 2020 Governing Board meetings, subject to adjustment as necessary, for the following dates during 2020: January 30, March 12, June 11, September 10, and December 10. Board members agreed to begin future Board meetings at 9:00 a.m.

CEA Enterprise – Executive and Operations Reports

4. **Executive Report by Chief Executive Officer Glenn Pomeroy, which will include among other things a report on legislative activities of interest to the CEA, and CEA's quantitative business metrics.**

   Glenn Pomeroy, Chief Executive Officer, provided a summary, with a slide presentation, of the key events of 2019. The briefing included information on pending federal legislation (H.R. 2053) that would make monetary grants to homeowners for seismic retrofits tax-free at the federal level. CEA has built a broad coalition to support H.R. 2053, with the coalition seeking to amend the bill to include similar state-based monetary grants to fund wind and wildfire mitigation projects. The briefing also discussed CEA's monitoring of Business Metrics, and the consideration of updating the metrics to make that reporting more meaningful for the Governing Board. He also noted that 2019 was the second-largest growth year in the history of the CEA.

   Mr. Pomeroy welcomed Chief Information Security Officer Kimberley Owen to the CEA and asked her to introduce herself.

5. **Chief Financial Officer & Chief Insurance Operations Officer Tom Hanzel will present to the Board the CEA financial and insurance operations report.**

   Tom Hanzel, Chief Financial Officer & Chief Insurance Operations Officer, provided an overview, with a slide presentation, of the CEA financial information as of October 31, 2019. He stated CEA claim-paying capacity grew by approximately $300 million from January 1st to October 31st of 2019, which was driven largely by growth of available capital. The Direct Written Premium grew by just under 5 percent since the beginning of the year and is closely in line with the growth in policy count. He noted that it will take another year to see how the rate and form filing, which included some significant rate increases for homeowners in seismically vulnerable areas, will impact policy count. He stated the Loss Reserves are just under $5 million, which is attributable to claims from the Ridgecrest earthquakes in July 2019..

   Questions and Discussion

   Mr. Martinez referred to Slide 20, the policies in force for the top ten counties, and noted that the growth in policies appears to be driven not by a single factor, but many factors such as population and proximity of the location to seismic risk.

   Mr. Fry asked if a correlation is seen between CEA's advertising and education programs, and policy growth. Mr. Hanzel stated CEA cannot determine with precision what is driving policy growth, but that the increase in policy growth does appear to be generally connected to advertising, communications, and marketing efforts.

   Mr. Wood asked if the advertisements change after a major earthquake. Mr. Hanzel stated there was an augmentation of the budget after the last event to provide additional advertisement.

   Mr. Martinez asked for an update on the alleged moratorium on the sale of new policies after the Ridgecrest earthquake. Tom Welsh, General Counsel, stated anecdotal complaints or questions about an alleged moratorium stopped after the Department of Insurance issued a notification that there was no moratorium on CEA's sale of new earthquake policies simply because there was an earthquake.

6. **Mr. Pomeroy and Mr. Hanzel will present the proposed 2020 CEA insurance-services budget for Board consideration and approval.**

Mr. Pomeroy reviewed the statutory and non-statutory components of the budget and stated the budget for next year will have a 3 percent increase.

Mr. Hanzel provided an overview, with a slide presentation, of the proposed 2020 CEA insurance-services budget. He stated approximately $5 million less was spent in 2019 than originally expected. Statutory and non-statutory expenses will increase in 2020 due to a projected increase in staff for IT and insurance operations, and due to increases in commissions required to be paid to participating insurer in connection with increased insurance policy sales. In addition, the budget anticipates an increase in the budget to fund grants to mitigate more vulnerable homes. He stated the budget will be continuously reviewed throughout 2020 to better understand the needs of each department.

Questions and Discussion

Mr. Martinez asked about any major variances or augmentations in the proposed 2020 budget from the budget for 2019. Mr. Hanzel stated the main changes in budget for 2020 are due to the anticipated filling of staff vacancies, legal support, and on-boarding of two large carriers onto the Centralized Policy Processing (CPP) platform.

Staff recommendations:

- Approve the proposed 2020 insurance-services budget as presented; and
- Direct staff to operate the CEA business within the total approved budget amounts.

MOTION: Mr. Martinez moved approval of the staff recommendations as presented. Mr. Saha seconded. Motion carried unanimously.

7. Mr. Hanzel will seek approval to contract with a financial auditor firm.

Mr. Hanzel reviewed the selection process for the new independent financial auditor for the CEA. He stated Plante & Moran, PLLC, received the highest scores of the three finalist firms.

Questions and Discussion

Mr. Wood asked about the length of time that Plante & Moran has been the auditor. Benjamin Kirwan, Controller, stated Plante & Moran had an initial five-year contract that was extended for two years. Mr. Hanzel added that seven years is not a long duration for one auditing firm to be with an entity.

Mr. Martinez noted that the Insurance Commissioner has given his approval of the audit firm, as per Insurance Code section 10089.13(d).

Staff recommendations:

- Approve the selection of Plante & Moran, PLLC, to conduct the legally required independent annual audit of CEA's GASB and statutory financial statements for each of the years 2019 through 2023.
- If the Board approves the staff recommendation, the CEA staff will proceed to negotiate a contract with the firm. Assuming the negotiation is successful and a contract is executed, staff will notify the Board that the audit engagement has been successfully finalized by contract.

MOTION: Mr. Martinez moved approval of the staff recommendations as presented. Mr. Saha seconded. Motion carried unanimously.

8. **Mr. Hanzel will present to the Board the CEA staff's proposed 2020 Risk-Transfer Strategy.**

Mr. Hanzel reviewed the 2019 risk-transfer summary and the proposed 12-month CEA risk-transfer strategy for 2020. He stated the goals and objectives of the risk-transfer guidelines will remain the same for 2020 and the CEA will continue to work with all available markets, traditional reinsurers, "transformer" reinsurance and CAT bond products, and brokers to optimize claim-paying capacity.

Staff recommendation:

- Approve the proposed 12-month risk-transfer strategy for 2020.

MOTION: Mr. Saha moved approval of the staff recommendation as presented. Mr. Martinez seconded. Motion carried unanimously.

9. **Enterprise and Strategic Risk Advisor Dr. Laurie Johnson will deliver a quarterly report to the Board on the CEA Enterprise-Risk-**

Management-Program, staffing of ERM functions in 2020, and activities related to post-event planning.

Laurie Johnson, Ph.D., Enterprise & Strategic Risk Advisor, reviewed the 12 priority risks in the CEA Enterprise-Risk-Management (ERM) Program, the ERM Quarterly Report as of December 2, 2019, and the 2020 ERM Program Plan. She provided an overview, with a slide presentation, of the CEA's earthquake after-action response, organization-wide assessment, and lessons learned following the Ridgecrest earthquakes. She stated staff worked closely with the Environmental Systems Research Institute (ESRI) to develop an enhanced in-housing mapping capability.

Questions and Discussion

Mr. Fry asked about the update in the ERM report related to the Legislature, and the identified risk related to potential legislation. Mr. Pomeroy stated meeting dates are being scheduled for January, as the Legislature is currently in recess.

Mr. Wood asked Mr. Pomeroy to include updates on legislative office visits and special events attended in future Executive Reports.

Mr. Wood asked if the work on the California Wildfire Fund is putting a strain on the CEA. Mr. Hanzel stated the additional work has required staff to put in longer hours. Stress was higher during the first 30 to 60 days but staff has worked through it. He stated the need to wait for direction from the California Catastrophe Response Council on the future role of the CEA in the California Wildfire Fund work.

With respect to ERM risks related to cyber security and cyber insurance, Mr. Saha suggested reaching out to the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), which have recently looked into the cyber-security insurance issue. Dr. Johnson stated part of the challenge was understanding the CPP needs and data security issues and understanding the appropriate limits and terms for a policy for this unique insurance market.

Mr. Martinez asked if insurance agents and brokers are involved in CEA's planning for earthquake events and after-action response planning. Dr. Johnson stated mostly insurers and reinsurers have been involved to date. Mr. Martinez suggested that the agent/broker community be involved in the post-event planning group to allay misinformation such as the

miscommunications by agents/brokers that there as a moratorium on the sale of earthquake policies after Ridgecrest.

10. Mr. Pomeroy will propose, for Board Approval, a proposal to revise CEA's contract with its Chief Actuary to expand and upgrade duties and title to that of Chief Risk Officer.

Mr. Pomeroy proposed the staff recommendation.

Staff recommendation:

- Authorize the CEO to negotiate revisions to Chief Actuary's agreement to include duties and title of Chief Risk & Actuarial Officer.

MOTION: Mr. Martinez moved approval of the staff recommendation as presented. Mr. Saha seconded. Motion carried unanimously.

Insure – Matters Related to CEA's Insurance Business

11. Mr. Hanzel and Chief Information Officer Michael Melavic will provide a status report on CEA's Centralized Policy Processing (CPP) program.

Michael Melavic, Acting Chief Information Officer, provided an overview, with a slide presentation, of the 2019 wrap-up and Diamond system Budget and Spending Tracking chart of the CEA's CPP program.

12. Mr. Hanzel will seek Board approval to renew and extend the term of CEA's existing contract with catastrophe-loss modeling firm, AIR-Worldwide.

Mr. Hanzel provided an overview, with a slide presentation, of the background, analysis, and staff recommendation for the AIR-Worldwide earthquake-loss modeling contract.

Questions and Discussion

Chair Ghilarducci asked about the 6 percent increase for the new contract. Mr. Hanzel stated the increase is to cover updates and inflation.

Chair Ghilarducci asked about the parameters of the risk assessment. Mr. Hanzel stated the models have statewide assessment capabilities. The work of the United States Geological Survey (USGS) and the California Geological Survey (CGS) have been brought into the modeling.

Chair Ghilarducci asked about the number of reports provided to the CEA per year. Mr. Hanzel stated the modelers run the CEA's full book twice a year and are available to answer questions throughout the year. Also, AIR has developed a post-earthquake loss estimation (EARLE) system, which can be used in the interim.

Mr. Saha asked if the modelers provided information after the Ridgecrest earthquakes. Mr. Hanzel stated the CEA had enough information in-house. Also, the Ridgecrest earthquakes were not large enough for the modelers to update their information.

Staff recommendation:

- Approve AIR contract renewal for a three-year term.

  MOTION: Mr. Saha moved approval of the staff recommendation as presented. Mr. Martinez seconded. Motion carried unanimously.

13. Mr. Hanzel will present for Board approval the first annual risk-capital surcharge for CEA participating insurer AMICA Mutual Insurance Company.

Mr. Hanzel provided an overview, with a slide presentation, of the background, analysis, and staff recommendations for the first annual risk-capital surcharge for Amica Mutual Insurance Company.

Staff recommendations:

- Approve Amica's first annual risk-capital surcharge in the amount of $112,651.
- Authorize staff to notify Amica that the approved amount is due in 30 days.

  MOTION: Mr. Martinez moved approval of the staff recommendations as presented. Mr. Saha seconded. Motion carried unanimously.

Mitigate – Matters Related to CEA's Mitigation & Research Mission

14. Mr. Hanzel will recommend to the Board transferring money from the CEA Earthquake Loss Mitigation Fund to the California Residential Mitigation Program (CRMP), a joint powers authority

whose members are the California Governor's Office of Emergency Services and CEA.

Mr. Hanzel summarized the proposed CRMP program funding for 2020 and asked the Board to approve the staff recommendation.

Questions and Discussion

Chair Ghilarducci asked for verification that these funds will be reimbursed as the Federal Emergency Management Agency (FEMA) funding comes in.

Mr. Fry also asked for verification that the funds being reimbursed from FEMA will be deposited into the correct account.

Mr. Hanzel assured Chair Ghilarducci and Mr. Fry that staff is diligent about ensuring the reimbursement from FEMA and the process related to that.

Staff recommendation:

- Approve a 2020 fiscal year transfer to CRMP of funds from the CEA Earthquake Loss Mitigation Fund in the amount of $4.0 million to fund CRMP EBB programs and cash flow needs in 2020.

  MOTION: Mr. Saha moved approval of the staff recommendation as presented. Mr. Martinez seconded. Motion carried unanimously.

15. Chief Mitigation Officer Janiele Maffei will update the Board on 2019 developments in the CEA mitigation programs (CRMP Earthquake Brace + Bolt and CEA Brace + Bolt) and the CEA Research Program.

Janiele Maffei, Chief Mitigation Officer, provided an update, with a slide presentation, of the mitigation grant programs and research projects.

16. Mr. Hanzel and Ms. Maffei will present for Board consideration and approval the proposed 2020 CEA mitigation-program budget.

Mr. Hanzel provided an overview, with a slide presentation, of the 2020 CEA mitigation budget.

Ms. Maffei added that the FEMA funding will not be used for administrative costs but will be directly applied to grants.

Staff recommendations:

- Approve the proposed 2020 mitigation budget; and

- Direct staff to operate the CEA's mitigation-related activities within the total approved budget amounts.

  MOTION: Mr. Martinez moved approval of the staff recommendations as presented. Mr. Saha seconded. Motion carried unanimously.

Educate – Matters Related to CEA's Educate Mission

17. Chief Communications Officer Chris Nance will provide 2019 Communications & External Affairs programming results.

Chris Nance, Chief Communications Officer, provided an overview, with a slide presentation, of the 2019 communications programming results.

Mr. Pomeroy announced that Mr. Nance will be leaving the CEA to pursue the lifelong dream of starting his own consultation business. He thanked Mr. Nance for his leadership and important contributions to the CEA and stated he will be missed.

Mr. Martinez presented Mr. Nance with a resolution from the Board in appreciation for his years of service with the CEA.

CONCLUSION

18. The Board will meet in closed session to discuss personnel matters and litigation matters, as permitted by California Government Code section 11126, subdivisions (a) and (e).

The Board entered closed session at 11:20 a.m. and resumed its proceedings in open session at 12:06 p.m. Upon returning to open session, it was announced that no final action was taken during the closed session.

19. Public comment on matters that do not appear on this agenda and requests by the public that those matters be placed on a future agenda.

There was no public comment.

20. Adjournment.

There being no further business, the meeting was adjourned at 12:06 p.m.

Governing Board Memorandum

10 April 2020

Agenda Item 3: Meeting minutes

Recommended Action: Approve meeting minutes

Review/approve minutes of the January 30, 2020 meeting of the CEA Governing Board.

CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES

Thursday, January 30, 2020

Location: California Earthquake Authority
Main Conference Room
801 K Street, Suite 1000
Sacramento, California

Members of the Governing Board in attendance:
Kasey O'Connor, Designee of State Treasurer Fiona Ma
Michael Martinez, Designee of Insurance Commissioner Ricardo Lara
Jeff Wood, Designee of Speaker of the Assembly Anthony Rendon
Craig Fry, Designee of Chair of the Senate Rules Committee Tony Atkins

Members of the CEA staff in attendance:
Glenn Pomeroy, Chief Executive Officer
Tom Hanzel, Chief Financial Officer & Chief Insurance Operations Officer
Susie Hernandez, Legislative Director
Shannon McEuen, Governing Board Liaison
Tracy Palombo, Reinsurance & Risk-Transfer Director
Tom Welsh, General Counsel & Acting Chief Operations Officer

Also present:
Kapil Bhatia, Director of Public Finance, Raymond James & Associates, Inc.
Seren Taylor, Senior Legislative Analyst, Personal Insurance Federation of California

Preliminary Matters

1. Meeting call to order.

Acting Chair Michael Martinez called the meeting to order at 9:06 a.m.

Ms. McEuen announced that a quorum was present.

2. **Consideration and approval of the Minutes of the November 18, 2019 CEA Governing Board meeting.**

   MOTION: Ms. O'Connor moved to adopt the November 18, 2019 meeting minutes. Mr. Martinez seconded. Motion carried unanimously.

CEA Enterprise – Executive and Operations Reports

3. **Executive Report by Chief Executive Officer Glenn Pomeroy, which will include among other things a report on state and federal legislation activities.**

Mr. Pomeroy reminded the Board that it had met in closed session on November 18, 2019 to discuss personnel matters. That meeting resulted in a vacancy on the CEA executive team, due to the resignation of Chief Operations Officer Kellie Schneider. In addition, the unrelated retirement of CEA Communications Director Chris Nance has resulted in an additional vacancy on the executive team that must be filled. The executive team is doing a deep dive analysis in terms of the communications function and structure of that Department, and is determining what the next leader's qualifications and experience should be. A job description and duty statement is being prepared. The process of advertising and conducting a civil service recruitment for Communications Director position will begin soon. CEA is conducting a similar position evaluation and recruitment process for leadership of the administration/operations leadership position at CEA.

Mr. Pomeroy reported that on February 19 they are going to launch the next round of sign-ups for the Earthquake Brace + Bolt (EB+B) program. Since the program was formed in 2014, the CEA has done 9,200 retrofits with another 2,300 in process (i.e., under construction); once in process, the completion rate is 100%.

CEA's mitigation program hopes to complete 4,400 new retrofits this year, with completion of construction of some projects potentially stretching into the next calendar year. The higher number of retrofits (4,400) targeted for 2020 is enabled by award of a federal pre-disaster mitigation grant by FEMA, which is administered and distributed by the Governor's Office of Emergency Services (CalOES). This has brought the opportunity for discussions with Legislators who represent households in the 350 ZIP code areas in which EB+B grants are available, which fall within 48 Assembly districts and 30 Senate districts. During the past week alone, CEA has met with 16 of the 78 Assemblymembers; the objective is to ensure that they know what earthquake mitigation work CEA is facilitating in their legislative districts. Each Assemblymember is receiving a map

of their district showing the retrofits completed or underway. The CEA's request to the Assemblymembers is that they work with CEA and the Insurance Department on publicizing the availability of EB+B grants of $3,000 for mitigation projects.

Mr. Pomeroy recognized CEA's Geographic Information Systems developer team of Stephanie Halpin and Steven Martinez, who have been producing impactful and informative maps showing Legislative leaders what earthquake mitigation activity is transpiring in their districts.

Mr. Pomeroy noted that FEMA views CEA's EB+B program as a "shovel-ready" program that is worthy of funding. CEA is hopeful about receiving additional FEMA funding, and will continue to look for other funding sources as well.

Mr. Wood was pleased to see the availability of data by ZIP code – this will be of interest to members of the State Legislature for seeing residential participation. Mr. Wood asked for details on the February 19 kickoff; perhaps members of the Board could attend the press conference.

Mr. Fry stated that they currently have a City Council member on their Board (referring to Mr. Wood). He noted that a City Council might like to see an EB+B program launched in their city. Mr. Pomeroy stated that he would email a one-page flyer describing the program; it lists the participating cities. He added that ZIP code selection is not discretionary, but is based on a fixed, two factors formula: high concentration of old building stock and high seismic risk.

Mr. Wood commented that regardless of who pays for it, residents should consider retrofitting; they shouldn't wait for an opportunity to get a grant.

Mr. Pomeroy commented that until the CEA launched the EB+B program, there was no voice advocating for residential mitigation. We now have an expert voice to encourage people and the grant does help to move some people along the process.

Mr. Pomeroy explained the current IRS requirement for recipients of the grant to report it as income on their federal income taxes. CEA tried for about a year to convince the IRS that they should put these state-funded mitigation grants on par with the grants funded with federal FEMA funds, which is non-taxable at the federal level. In December, U.S. House Representative Mike Thompson introduced HR 5494 to establish tax exemption for state-funded residential mitigation programs for earthquake, windstorm, and wildfire. It has produced bipartisan co-sponsors from other states and has no opposition. Significantly, the National Association of Insurance Commissioners, as well as a number of

private, nonprofit organizations, have endorsed the legislation; Mr. Pomeroy referred to their letters of support.

Ms. O'Connor stated that she and the Treasurer will be in Washington, DC for the National Association of State Treasurers Legislative Conference; they will be doing some outreach there.

> **MOTION**: Ms. O'Connor moved to support HR 5494 by Congressman Thompson. Mr. Martinez seconded. Motion carried unanimously.

Mr. Welsh then gave a history of California's SB 254, which was introduced in early 2019 by Senator Hertzberg. SB 254 proposed some significant statutory changes to the capital structure of the California Earthquake Authority fund. At the end of last year's session, the bill was held in the Appropriations Committee, and indications were that it would not progress in the Legislature during 2020. Late last year, CEA worked with Senator Hertzberg's staff on amendments to SB 254 that would make smaller but still beneficial statutory changes to CEA's governing statute, so that the bill could come out of Appropriations and move forward during the 2020 legislative session.

The bill as amended proposes several simple cleanup amendments to the CEA statute. The bill clarifies the three different sections of the Insurance Code related to the industry assessment layers to avoid any confusion or ambiguity about the administration of the remaining industry assessment layer

> **MOTION**: Mr. Martinez moved to support SB 254 and to authorize CEA staffers to continue to work on its passage. Ms. O'Connor seconded. Motion carried unanimously.

4. Chief Financial Officer Tom Hanzel will propose to the Governing Board, and seek Board adoption of, a resolution authorizing the issuance of 2020 revenue bonds.

Mr. Hanzel began with a review of the history of CEA's revenue bond program, which has been part of CEA for well over a decade. The use of revenue bonds brings liquidity to our claims-paying capacity, diversification, and stability, among other benefits. When an event happens, one of the sources of payment is going to be the revenue bonds. The ability to have that liquidity invested in secure, highly-rated securities makes for immediate availability for our policyholders.

The revenue bond program started in 2006. There was another issuance in 2014. The CEA has issued $665 million in these bonds, both of which have been fully repaid. The idea of issuing additional revenue bonds has been discussed for a number of years.

The proposed structure of the 2020 Revenue Bond program potentially involves issuance of two different new series of bonds, for a total of $700 million in debt. One series of bonds would be up to $400 million in short-term bonds of up to six months in duration; the other series would be up to $300 million in bonds maturing in 5 or 6 years. The final structure will depend on market conditions near the time of issuance and other factors that impact the pricing of the bonds, so that CEA may obtain the lowest possible interest rates payable on the bonds.

The issuance of short-term bonds will require CEA to transfer up to $400 million of its current available capital into an indenture trust to collateralize full repayment of the bonds on or around September 2020.

Mr. Hanzel explained the benefits of the Revenue Bond program for CEA's policyholders. CEA wants to ensure that we have the funds available to pay earthquake claims post-event, with claim-paying resources that are obtained at the lowest possible cost to policyholders. Specific benefits of the Revenue Bond program include the following:

- The benefit of the 2020A-1 bond to the policyholder is that it maintains the second industry assessment layer (IAL) at $1.656 billion for an additional year. CEA staff has conducted outreach to participating insurers to talk to them about this process and the impact on their obligations to fund the IAL.
- The 2020A-2 series of bonds also enhances the claims-paying capacity of the CEA. Assuming a 3.5% rate-on-line to buy an equivalent amount of reinsurance, the revenue bond program can save CEA up to $10.5 million in potential risk-transfer/reinsurance costs, with increased liquidity and flexibility of claim paying capacity.
- If both Series of Bonds are actually issued, it will reduce by approximately $550 million the potential risk-transfer/reinsurance CEA would need to purchase later this year and into 2021 in order to maintain a 1-in-400 year claim paying capacity, as dictated by the rating agencies. In aggregate, the cost savings could be up to $20 million for CEA's policyholders.
- While CEA incurs expense to issue debt CEA has budgeted a not-to-exceed budget amount of $4.0 million to cover these expenses. CEA believes that it will come in below that budget.
- Overall, net of issuance expenses, CEA estimates that the issuance of revenue bonds will produce savings of up to $14.4 million for policyholders.

Mr. Hanzel also addressed the need for CEA to diversify its sources of claim paying capacity. Ten years ago, claim paying capacity was fairly evenly spread between three sources: Approximately 38% from CEA's available capital; 35% from reinsurance and risk-transfer programs; and 27% from the statutory power to impose assessments on CEA participating insurers. Since that time, the last category – the Industry Assessment Capacity – has decreased significantly by operation of the CEA statute to just 9% of overall claim paying capacity. CEA has been required to replace that capacity with reinsurance and other forms of risk transfer.

Ms. Palombo also addressed the flow of funds related to the issuance of the 2020 Revenue Bonds. With regard to the short-term revenue bonds in particular, given the short duration of those bonds, CEA will deposit $400 million of existing CEA available capital into a indenture trust at the onset of the transaction to collateralize repayment of the bonds.

Ms. Palombo listed the members of the finance team working on this transaction. The Agent for Sale is the Treasurer of the State of California. The co-manager underwriting firms are diverse, representing not only large firms but also minority, disabled veteran, and small firms.

Mr. Pomeroy emphasized the appropriateness of the proposal in terms of the statutory framework, and also said it was a reasonable and important action to take on behalf of the policyholders. He acknowledged that the outreach to CEA's participating insurers resulted in the express of concerns. The Personal Insurance Federation (PIFC) submitted a letter articulating their views and concerns.

Questions and Discussion

Ms. O'Connor asked about the short term bonds and noted that without issuing those bonds, the CEA would incur approximately $9 million in additional risk transfer expenses. Ms. O'Conner asked if that additional expense would eventually be passed through to CEA's policyholders. Mr. Hanzel affirmed that these risk transfer costs that are being avoided by issuance of the short term bonds will have to be reflected in CEA's insurance rates.

Ms. O'Connor also referred to the concerns expressed in the PIFC letter regarding the policy growth, and asked whether some of that was triggered by the July 2019 Ridgecrest earthquakes. Mr. Pomeroy responded that in 2019 CEA grew by about 60,000 net new policies; much of that appeared to have been stimulated

by the Ridgecrest earthquakes. However, he noted that it is impossible to determines what prompts growth, which makes predicting future growth difficult.

Ms. O'Connor commented that PIFC had asked for potential legislation that redefines the term "available capital" to exclude the cost of collateral needed to support the bond issuance. Mr. Hanzel responded that the CEA has talked to participating insurers about this issue, and committed to continue the dialogue to hear and consider their concerns and potential solutions. Mr. Fry also encouraged CEA staff to work with participating insurers about their concerns, and suggested creating a working group. Mr. Hanzel agreed. Mr. Pomeroy committed that CEA will form a working group of stakeholders to look for ways to maintain and diversify CEA's claims-paying capacity.

Public Comment

Seren Taylor of PIFC made comments on CEA's proposed Revenue Bond program. A copy of the comment letter submitted by PIFC is attached to and incorporated into these minutes. In sum, Mr. Taylor stated that while PIFC and its member companies are not opposing the use of revenue bonds, but are asking that the issuance be delayed to allow further discussion about the structure and about a possible legislative solution.

Staff Recommendation

Mr. Welsh pointed out that it is necessary when CEA issues bonds for the Governing Board to adopt a detailed written resolution that documents the authorization by the Governing Board to sign the necessary documents to issue the debt and close the transaction. The form of resolution included in the meeting materials is very similar to the forms used in connection with the 2006 and 2014 revenue bond issuances. Mr. Welsh noted that the final form of resolution contains slight clarifying edits in Sections 2 and 3 requested by the Insurance Commissioner.

Specifically, in Sections 2 and 3 there is an omnibus approval and authorizations that allow the General Counsel and the Chief Financial Officer to do additional acts that are necessary to fulfill the purpose of the resolution. The clarifying insert ensures that this broad authorization is only used to take actions that are consistent with and reasonably necessary to carry out the resolution.

Mr. Welsh stated that the motion would need to be to adopt the resolution as modified.

Ms. O'Connor indicated that she would support the resolution subject to CEA's commitment to create the working group and continue to work with PIFC and other stakeholders on this issue.

Mr. Welsh recommended adopting the resolution as presented with modifications, and to include in the meeting minutes the commitment to both the industry and the Governing Board that CEA will create a working group.

> **MOTION**: Ms. O'Connor made the motion to adopt the written resolution with amendments. Mr. Martinez seconded. Motion carried unanimously.

5. **The Board will meet in Closed Session to discuss personnel matters, as permitted by California Government Code section 11126, subdivision (a).**

The Board convened into closed session at 10:30 a.m.

They reconvened into open session at 10:56 a.m. Mr. Martinez reported that no final actions had been taken, as the closed session was informational only.

Conclusion

6. **Public Comment on matters that do not appear on this agenda and requests by the public that those matters be placed on a future agenda.**

There was no public comment not recorded above.

7. **Adjournment**

> **MOTION**: Ms. O'Connor motioned to adjourn. Mr. Martinez seconded. Motion carried unanimously.

Mr. Martinez adjourned the meeting at 10:57 a.m.

Governing Board Memorandum

10 April 2020

Agenda Item 4: Executive Report by Chief Executive Officer Glenn Pomeroy

Recommended Action: No action required—information only

Chief Executive Officer Glenn Pomeroy will present his Executive Report to the Board, which will include among other things a report on CEA's response to the COVID-19 crisis and legislative activities of interest to the CEA.

Governing Board Memorandum

10 April 2020

Agenda Item 5: Financial report

Recommended Action: No action required—information only

Chief Financial Officer Tom Hanzel will present the CEA financial report to the Board.

FINANCIAL REPORT

December 31, 2019

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Note: See Fact Sheets for Policies In Force, Written Premiums, and Exposures.

Financial Statements

California Earthquake Authority
Balance Sheet
as of December 31, 2019 and 2018

Assets	2019	2018
Cash and investments:		
Cash and cash equivalents	$ 128,649,685	$ 157,085,079
Restricted cash and equivalents	8,675,765	67,186,031
Restricted investments	-	360,913,199
Investments	6,880,260,755	6,024,893,235
Total cash and investments	7,017,586,205	6,610,077,544
Premiums receivable, net of allowance for doubtful accounts of $ 6,156,102 and $ 5,346,462	73,539,876	69,456,437
Capital contributions receivable	-	7,742,000
Due from California Wildfire Fund	736,882	-
Interest receivable	27,711,837	25,314,888
Prepaid reinsurance premium	20,840,283	19,854,113
Prepaid transformer maintenance premium	3,783,920	1,268,123
Equipment, net	152,484	208,044
Other assets	1,088,425	326,008
Total assets	$ 7,145,439,912	$ 6,734,247,157
Unearned premiums	$ 422,378,538	$ 417,448,201
Accounts payable and accrued expenses	15,006,678	10,632,004
Loss and loss adjustment expense reserves	3,815,000	115,114
Securities payable	3,120,551	-
Revenue bond payable	-	105,000,000
Revenue bond interest payable	-	1,472,625
Total liabilities	444,320,767	534,667,944
Net position:		
Restricted, expendable	13,315,861	327,622,508
Unrestricted, participating insurer contributed capital	790,656,796	790,656,796
Unrestricted, State of California contributed capital	293,795,461	274,593,169
Unrestricted, all other	5,603,351,027	4,806,706,740
Total net position	6,701,119,145	6,199,579,213
Total liabilities and net position	$ 7,145,439,912	$ 6,734,247,157

Unaudited

California Earthquake Authority
Statement of Revenues, Expenses and Changes in Net Position
for the Years Ended December 31, 2019 and 2018

	2019	2018
Underwriting income:		
Premiums written	$ 816,640,879	$ 778,340,984
Less premiums ceded - reinsurance	(373,457,574)	(366,630,729)
Net premiums written	443,183,305	411,710,255
Change in unearned premiums	(4,930,337)	(43,992,185)
Net unearned premiums	(4,930,337)	(43,992,185)
Net premiums earned	438,252,968	367,718,070
Expenses:		
Losses and loss adjustment expenses	4,875,685	148,833
Participating Insurer commissions	81,673,616	77,838,382
Participating Insurer operating costs	26,346,131	25,280,833
Reinsurance broker commissions	2,800,000	2,800,000
Pro forma premium taxes equivalent	19,202,293	18,301,952
Other underwriting expenses	63,929,949	53,300,281
Total expenses	198,827,674	177,670,281
Underwriting profit	239,425,294	190,047,789
Net investment income	248,719,233	92,745,187
Other income	478,490	468,364
Grant revenue	746,215	4,050
Financing expenses, net	1,680,322	1,262,290
Earthquake Loss Mitigation Fund expenses	(8,711,915)	(11,293,918)
Participating Insurer Contributed Capital	-	13,272,000
State of California premium tax contribution equivalent	19,202,293	18,301,952
Increase in net position	501,539,932	304,807,714
Net position, beginning of year	6,199,579,213	5,894,771,499
Net position, end of year to date	$ 6,701,119,145	$ 6,199,579,213

Unaudited

CALIFORNIA EARTHQUAKE AUTHORITY
Insurance Services
Budgeted and Actual Expenditures
As of December 31, 2019

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	Approved 2019 Budget 1/1/2019	**Adjustments[A]**	**Augmentations**	**2019 Budget after Augmentations and Adjustments**	**Actual Expenditures**	**Augmented & Adjusted Approved Budget (d) vs. Actual Expenditures (e)**	**Percentage used of Augmented & Adjusted 2019 Budget**
Human Resources:							
Compensation and Benefits	$ 29,283,828	$ (750,002)	$ -	$ 28,533,826	$ 27,313,959	$ 1,219,867	95.72%
Travel	685,314	(250,297)	-	435,017	373,503	61,514	85.86%
Other	469,030	(48,899)	-	420,131	359,757	60,374	85.63%
Board Meeting	24,800	(4,999)	-	19,801	9,676	10,125	48.86%
Administration & Office	1,023,627	(397,508)	-	626,119	408,774	217,345	65.29%
EDP Hardware	1,694,063	(9,493)	-	1,684,570	653,995	1,030,575	38.82%
EDP Software	1,765,873	(29,223)	-	1,736,650	1,483,853	252,797	85.44%
Information Technology	3,072,201	(899,623)	-	2,172,578	2,009,144	163,434	92.48%
Telecommunications	371,980	(92,936)	-	279,044	279,426	(382)	100.14%
Rent/Lease	1,419,718	(20,614)	-	1,399,104	1,369,701	29,403	97.90%
Compliance	30,000	(6,000)	-	24,000	-	24,000	0.00%
Government Affairs	2,256,000	(1,563,122)	-	692,878	537,878	155,000	77.63%
Insurance	268,336	(26,356)	-	241,980	122,536	119,444	50.64%
Internal Audit	30,000	(7,500)	-	22,500	-	22,500	0.00%
Other	75,450	(26,675)	-	48,775	19,225	29,550	39.42%
Regulatory Expenses	354,500	92,182	-	446,682	441,682	5,000	98.88%
Risk Management	69,600	(12,800)	-	56,800	65,394	(8,594)	115.13%
California Wildfire Fund Allocation[3]	-	(862,151)	-	(862,151)	(496,860)	(365,291)	57.63%
Total Statutory Expenditures[1]	**$ 42,894,320**	**$ (4,916,016)**	**$ -**	**$ 37,978,304**	**$ 34,951,641**	**$ 3,026,662**	**92.03%**
Audit Services	139,500	-	-	139,500	119,500	20,000	85.66%
Capital Market	1,924,105	(23,617)	-	1,900,488	1,772,788	127,700	93.28%
Claims	134,000	680,007	-	814,007	109,461	704,546	13.45%
Grants	100,000	502,924	-	602,924	910,793	(307,869)	151.06%
Investment Services	3,426,928	(46,216)	-	3,380,712	3,395,072	(14,360)	100.42%
Legal Services	4,303,600	(3,022,499)	-	1,281,101	622,289	658,812	48.57%
Loss-Modeling	1,085,700	(17,098)	-	1,068,602	1,085,162	(16,560)	101.55%
Marketing Services	16,810,515	(1,976,493)	-	14,834,022	12,961,311	1,872,711	87.38%
Producer Compensation[2]	80,000,000	-	1,500,000	81,500,000	80,631,066	868,934	98.93%
Participating Insurer Operating Costs[2]	35,206,400	-	618,362	35,824,762	33,876,113	1,948,649	94.56%
Seismic Related Research	380,000	(330,000)	-	50,000	50,000	-	100.00%
Engineering Related Research	3,910,000	(1,571,605)	-	2,338,395	3,587,133	(1,248,738)	153.40%
Risk Transfer	353,013,800	10,720,613	-	363,734,413	376,443,374	(12,708,961)	103.49%
Total Non-Statutory Expenditures	**$ 500,434,548**	**$ 4,916,016**	**$ 2,118,362**	**$ 507,468,926**	**$ 515,564,063**	**$ (8,095,137)**	**101.60%**
Total Budget Expenditures	**$ 543,328,868**	**$ -**	**$ 2,118,362**	**$ 545,447,230**	**$ 550,515,705**	**$ (5,068,475)**	**100.93%**

[1] Total 2019 Statutory Expenditures of $35.0 million were 4.28% of written premium. This is in compliance with the maximum permitted ratio of 6.0%.
[2] Augmentation for increased projection of premiums written for 2019.
[3] Reimbursement to CEA from the California Wildfire Fund for incurred expenses.
[A] Adjustments to meet insurance services end of year projections.

CALIFORNIA EARTHQUAKE AUTHORITY
Mitigation
Budgeted Expenditures and Actual Expenditures
As of December 31, 2019

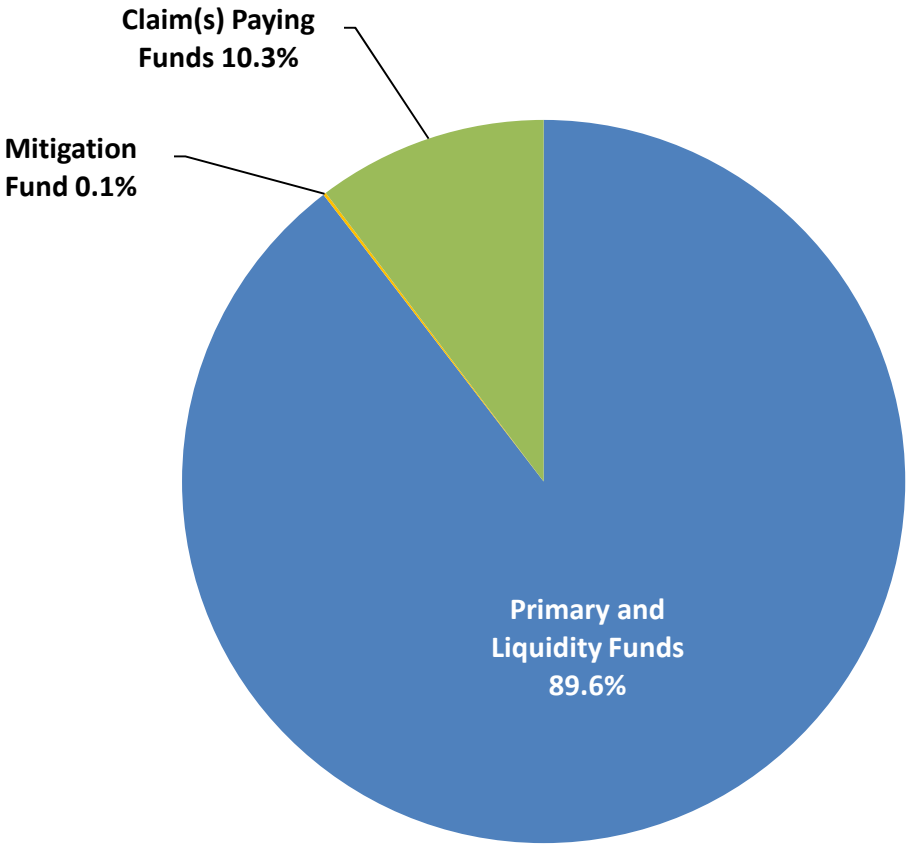
	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	Approved 2019 Budget 1/1/2019	**Adjustments[A]**	**Augmentations**	**2019 Budget after Augmentations and Adjustments**	**Actual Expenditures**	**Augmented & Adjusted Approved Budget (d) vs. Actual Expenditures (e)**	**Percentage used of Augmented & Adjusted 2019 Budget**
Human Resources:							
Compensation and Benefits	$ 1,232,992	$ 118,540	$ -	$ 1,351,532	$ 1,326,425	$ 25,108	98.14%
Travel	50,544	(35,479)	-	15,065	19,069	(4,003)	126.57%
Other	24,565	(1,760)	-	22,805	17,855	4,950	78.29%
Administration & Office	64,649	(55,802)	-	8,847	14,741	(5,894)	166.61%
Telecommunications	32,400	(15,702)	-	16,698	13,730	2,968	82.23%
Rent/Lease	111,900	3,003	-	114,903	109,006	5,897	94.87%
Other	200,000	(200,000)	-	-	-	-	0.00%
Total Operating Expenditures	**$ 1,717,890**	**$ (187,269)**	**$ -**	**$ 1,530,621**	**$ 1,501,665**	**$ 28,956**	**98.11%**
CRMP Contribution	6,300,000	-	-	6,300,000	6,300,000	-	100.00%
Investment Services	12,400	(3,299)	-	9,101	8,396	705	92.25%
Marketing	4,500	2,945	-	7,445	5,445	2,000	73.13%
Engineering Related Research	400,000	(157,612)	-	242,388	156,823	85,565	64.70%
Total Other Expenditures	**$ 6,716,900**	**$ (157,966)**	**$ -**	**$ 6,558,934**	**$ 6,470,664**	**$ 88,270**	**98.65%**
Total Expenditures	**$ 8,434,790**	**$ (345,235)**	**$ -**	**$ 8,089,555**	**$ 7,972,329**	**$ 117,226**	**98.55%**

[A] Adjustments to meet mitigation end of year projections.

Investments

California Earthquake Authority
Investment Distribution at Market Value as of December 31, 2019

Market Value	**$7,008,880,786***
Primary and Liquidity Funds	89.6%
Mitigation Fund	0.1%
Claim(s) Paying Funds	10.3%
Total:	**100.0%**



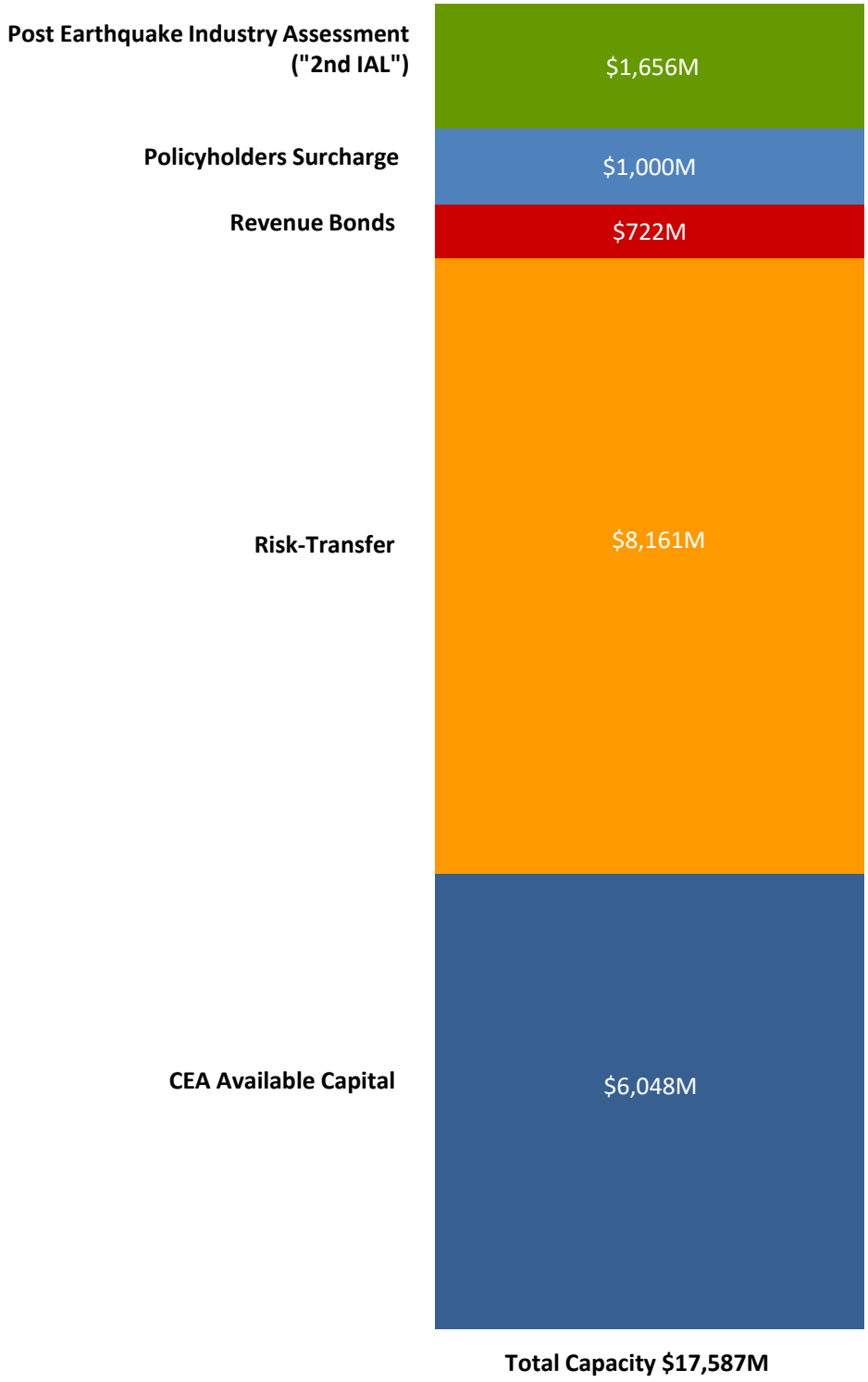
***Market Value does not include uninvested cash value**

Claim-Paying Capacity

California Earthquake Authority
Available Capital Report
as of December 31, 2019

Cash & Investments (includes capital contributions and premiums)	$	7,017,586,205
Earthquake Loss Mitigation Fund cash and investments	$	(9,359,000)
Interest & Securities Receivable	$	27,711,837
Premium Receivable	$	73,539,876
Risk Capital Surcharge & Capital Contributions Receivable	$	-
Other Assets + Due from California Wildfire Fund	$	1,825,307
Revenue Bonds	$	(721,848,686)
Debt Service (Interest, Principal & Debt Service (Min. Bal.))	$	-
Unearned Premium Collected	$	(320,007,820)
Accrued Reinsurance Premium Expense	$	-
Accounts and Securities Payable, and Accrued Expenses	$	(18,127,229)
Loss Reserves	$	(3,815,000)
CEA Available Capital	**$**	**6,047,505,489**

California Earthquake Authority
Claim-Paying Capacity
as of December 31, 2019



Note: Not drawn to scale

Risk-Transfer Programs

California Earthquake Authority
Current Risk-Transfer Program Summary
as of December 31, 2019

Traditional Reinsurance Contracts	Contract Period	Reinsurance Limit
2019 January Program Contract 1	January 1, 2019 - December 31, 2019	1,027,774,800
2019 January Program Contract 2	January 1, 2019 - December 31, 2019	306,100,000
2019 January Program Contract 3	January 1, 2019 - December 31, 2019	75,000,000
2019 January Program Contract 4	January 1, 2019 - December 31, 2019	40,000,000
2019-2020 January Program Contract 1	January 1, 2019 - December 31, 2020	333,800,000
2019-2020 January Program Contract 2	January 1, 2019 - December 31, 2020	92,550,000
2019-2020 January Program Contract 3	January 1, 2019 - December 31, 2020	125,000,000
2019-2020 January Program Contract 4	January 1, 2019 - December 31, 2020	300,000,000
2018-2019 January Program Contract 1	January 1, 2018 - December 31, 2019	165,337,440
2018-2019 January Program Contract 2	January 1, 2018 - December 31, 2019	74,623,680
2018-2019 January Program Contract 3	January 1, 2018 - December 31, 2019	120,004,990
2018-2019 January Program Contract 4	January 1, 2018 - December 31, 2019	50,000,000
2019-2020 April Program Contract 1	April 1, 2019 - March 31, 2020	802,823,400
2017-2020 August Program Contract 2	August 1, 2017 - July 31, 2020	200,000,000
2019-2022 August Program Contract 2	August 1, 2019 - July 31, 2022	267,000,000
2015-2020 August Program Contract 1	August 1, 2015 - July 31, 2020	139,000,000
2019-2020 October Program Contract 1	October 1, 2019 - September 30, 2020	368,819,280
2019-2020 October Program Contract 2	October 1, 2019 - September 30, 2020	240,100,000
2019-2021 October Program Contract 1	October 1, 2019 - September 30, 2021	12,999,960
2019-2021 October Program Contract 2	October 1, 2019 - September 30, 2021	5,000,000
2019-2020 December Program Contract 1	December 1, 2019 - November 30, 2020	60,000,000
2019-2020 December Program Contract 2	December 1, 2019 - November 30, 2020	80,000,000
2019 January Program Contract 5	January 1, 2019 - December 31, 2019	140,000,000
2018-2019 January Program Contract 5	January 1, 2018 - December 31, 2019	164,999,800
2018-2019 January Program Contract 6	January 1, 2018 - December 31, 2019	279,999,840
2018-2020 June Program Contract 1	June 1, 2018 - May 31, 2020	69,999,990
2017-2020 August Program Contract 1	August 1, 2017 - July 31, 2020	93,750,000
2019-2021 December Program Contract 1	December 1, 2019 - November 30, 2021	125,000,000
2019-2021 December Program Contract 2	December 1, 2019 - November 30, 2021	50,000,000
2018-2021 August Program Contract 1	August 1, 2018 - July 31, 2021	93,750,000
2019-2020 August Program contract 1	August 1, 2019 - July 31, 2020	118,750,000
2019-2022 August Program Contract 1	August 1, 2019 - July 31, 2022	93,750,000
2019-2021 July Program Contract 1	July 1, 2019 - June 30, 2021	70,000,000
Total Traditional Reinsurance		**6,185,933,180**

Transformer Reinsurance Contracts	Contract Period	Reinsurance Limit
2017-2020 Transformer Reinsurance Contract 1 - Class E	May 16, 2017- May 15, 2020	500,000,000
2017-2020 Transformer Reinsurance Contract 2 - Class B	May 16, 2017- May 15, 2020	425,000,000
2017-2020 Transformer Reinsurance Contract 3 - Class D	December 1, 2017 - November 30, 2020	200,000,000
2017-2020 Transformer Reinsurance Contract 4 - Class C	December 1, 2017 - November 30, 2020	200,000,000
2018-2021 Transformer Reinsurance Contract 1 - Class D	September 14, 2018 - September 13, 2021	250,000,000
2019-2022 Transformer Reinsurance Contract 1 - Class C	December 1, 2019 - November 30, 2022	400,000,000
Total Transformer Reinsurance		**1,975,000,000**

Total Risk-Transfer Program	**$ 8,160,933,180**

Governing Board Memorandum

10 April 2020

Agenda Item 6:	CEA Participating Insurers – Maximum Earthquake-Loss-Funding-Assessment Levels
Recommended Action:	Approve April 30, 2020, CEA Participating Insurer Maximum Earthquake-Loss-Funding-Assessment Levels

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Background:

California Insurance Code section 10089.25 provides as follows:

> "Beginning December 31, 1997, and annually thereafter on the 30th of April, the board shall notify each participating insurer of the maximum earthquake loss funding assessment level that it may be required to meet."

This language refers to the maximum amount of each CEA Industry Assessment Layer ("IAL") of the CEA's financial structure, only one of which, the so-called "Second Industry Assessment Layer" (the "Second IAL") still remains in effect. Insurance Code section 10089.30 sets forth the calculation for determining the maximum aggregate assessments for the Second IAL.

Analysis:

The Second IAL can only be drawn on to pay policyholder claims once the CEA's available capital, proceeds from debt financing available and under contract, and other funds available and under contract for risk transfer products have been exhausted by the payment of claims. Once that happens, CEA's participating insurers can be assessed under the Second IAL in order to return the CEA's available capital to the statutory minimum capital level of $350 million. The maximum Second IAL assessment amount is $2 billion multiplied by the aggregate residential property insurance market shares of all CEA participating insurers who have joined CEA.

The maximum aggregate industry assessment amount under the Second IAL is adjusted whenever a new company begins participation in CEA and transfers its earthquake

exposure to CEA. The adjustment takes into consideration the new participating insurer's residential property insurance market share at the time it started transferring exposure to CEA and adds that percentage to the aggregate residential property insurance market share percentages of the existing participating insurers when each started transferring exposure to CEA. *Attachment A* is the calculation of the new Second IAL maximum aggregate assessment amount effective April 30, 2020. The calculation includes the addition of Amica Mutual Insurance Company ("Amica"), which joined CEA and started transferring earthquake exposure to CEA in August 2018, and has thus now completed the transfer of its residential earthquake insurance exposure to CEA.

Once the aggregate maximum assessment amount of the Second IAL is established, then pursuant to Insurance Code section 10089.25 mentioned above, CEA annually determines each participating insurer's respective maximum share of that maximum aggregate Second IAL assessment amount. California Insurance Code section 10089.23 provides that each participating insurer's share of the maximum Second IAL assessment "shall be determined by multiplying the percentage share of the authority's total gross written premium that is attributable to that participating insurer's sales of authority insurance policies."

Staff has calculated each CEA participating insurer's respective CEA earthquake market-share percentage, based on the insurer's written CEA premiums. From this calculation, CEA determines each insurer's maximum earthquake loss funding assessment level for 2020. *Attachment B* shows, for each participating insurer, the maximum earthquake loss funding assessment level it may be required to meet, upon appropriate assessment by CEA.

Recommendation:

CEA staff recommends that:

- The Board adopt the new Second IAL maximum aggregate assessment amount shown in *Attachment A*, effective April 30, 2020.
- The Board adopt the CEA market-share percentages shown in *Attachment B*, which are to be used to determine the maximum earthquake loss funding assessment levels for CEA participating insurers, effective April 30, 2020.

The Board authorize CEA staff to notify each participating insurer of its respective April 30, 2020, maximum earthquake-loss-funding-assessment level responsibility.

California Earthquake Authority
Calculation of 2nd Industry Assessment Layer Worksheet

Maximum Industry Assessment Amount				$2,000,000,000
Aggregate Residential Homeowners Market Share calculated at the time each participating insurer joined the CEA		82.7793%		
Amica CA Homeowners Market-Share % at December 31, 2017	+	0.3886%		
New PI Homeowners Market-Share %	=	83.1679%	x	83.1679%
2nd Industry Assessment Layer as of April 30, 2020*			=	$1,663,357,614

* The 2nd Industry Assessment level becomes effective on April 30, 2020, after approval by the CEA Governing Board.

CEA Participating Insurers
2020 Maximum Earthquake-Loss-Funding-Assessment Levels
(Based on CEA Written-Premium Market Share as of December 31, 2019)

Company Name	CEA Market Share	Written Premium	Max Assessment 2nd Layer	CA Residential Market Share*
State Farm Group	33.197679%	$ 271,105,855	$ 552,196,124	15.663911%
Farmers	13.299056%	$ 108,605,541	$ 221,210,858	13.607460%
USAA	13.131548%	$ 107,237,607	$ 218,424,611	4.947787%
Allstate	8.859838%	$ 72,353,065	$ 147,370,782	4.702052%
Inter-Ins. Exchange	7.020208%	$ 57,329,894	$ 116,771,160	5.592750%
Safeco	5.930163%	$ 48,428,142	$ 98,639,818	1.906558%
CSAA[1]	5.587202%	$ 45,627,380	$ 92,935,146	6.348780%
Mercury	4.688560%	$ 38,288,704	$ 77,987,522	4.793143%
Nationwide	2.455090%	$ 20,049,270	$ 40,836,924	5.155531%
Liberty Mutual	2.181840%	$ 17,817,803	$ 36,291,808	4.636066%
AMICA	1.276409%	$ 10,423,677	$ 21,231,242	0.397449%
Foremost	0.718849%	$ 5,870,418	$ 11,957,034	1.669974%
FAIR Plan	0.482261%	$ 3,938,343	$ 8,021,729	0.869661%
Encompass	0.470804%	$ 3,844,775	$ 7,831,147	0.431113%
Homesite	0.429001%	$ 3,503,397	$ 7,135,819	1.126698%
ASI	0.190136%	$ 1,552,731	$ 3,162,647	0.221148%
Armed Forces	0.064121%	$ 523,642	$ 1,066,569	0.042386%
MAPFRE	0.017222%	$ 140,640	$ 286,460	0.066394%
Hyundai	0.000013%	$ 105	$ 214	0.003536%
Total	100.000000%	$ 816,640,989	$ 1,663,357,614	72.182397%

* Based on California Department of Insurance 2018 California Market-Share Report. The Department's 2019 California Market-Share Report will not be publicly available until May 2020.

Governing Board Memorandum

10 April 2020

Agenda Item 7:	Proposed revisions of CEA policy forms and Claim Manual
Recommended Action:	Approve revisions to all CEA policy forms and CEA Claim Manual, instruct staff to submit the revised forms and Claim Manual to the Insurance Commissioner for review and approval

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Introduction

CEA staff seeks the Governing Board's approval to make minor revisions to CEA's four insurance policy forms (the Homeowners, Homeowners Choice, Common Interest Development (Condominium), and Renters policies), along with corresponding modifications to the CEA Claim Manual, and to submit the revised policy forms and Claim Manual to the Insurance Commissioner for review and approval by the California Department of Insurance ("CDI").

Analysis

CEA reviews and makes revisions to its insurance policy forms as needed to make wording improvements, provide additional clarity or explanation for policy provisions, respond to market conditions or trends, make any desired or necessary coverage enhancements or modifications, or respond to any changes in law, statutes, or regulations that might modify or affect the terms of insurance policies in California. Following the Governing Board's approval of any changes to the CEA's policy forms, and prior to implementation of the new forms, the proposed policy forms must be submitted to the Insurance Commissioner for review and approval by CDI.

Since CEA's most recent revisions to its policy forms (made and approved by the CDI in conjunction with the CEA's most recent approved rate filing, which went into effect July 1, 2019), the California Legislature has passed, and the Governor has signed, legislation that changed a number of statutes generally affecting the terms of residential property insurance policies in California. Accordingly, CEA staff is proposing a modest number of revisions to the CEA policy forms to make the policy forms more accurately reflect the

spirit and intent of these statutory changes. The proposed revisions to the policy forms make no other substantive changes, and do not change the scope or extent of coverage under the CEA policies.

The proposed revisions to the policy forms make only the following changes, all of which are the result of recent amendments to the California Insurance Code:

- *In accordance with recent amendments to Insurance Code section 2051.5*, the language of the Building Code Upgrade coverage has been changed to clarify language applicable to policyholders who, rather than rebuilding their damaged or destroyed home at its current location instead choose to rebuild their home at a different location or choose to replace their damaged home by purchasing a new or existing home at a different location. The revised policy language clarifies that, in such circumstances, the policyholder would then be able to recover an amount for Building Code Upgrade coverage equal to the amount of such expense that policyholder would have incurred had they rebuilt their original home at the insured location, up to the applicable Building Code Upgrade coverage limit of insurance. (*Applies to: Homeowners, Homeowners Choice, and Common Interest Development (Condominium) policies*)

- *In accordance with recent amendments to Insurance Code section 678*, the language of the Conditions has been modified to extend the required minimum notice period for sending a notice of nonrenewal of the policy from 45 days to 75 days. (*Applies to: All policies*)

- *In accordance with recent amendments to Insurance Code section 2071*, the language of the Conditions has been modified to increases the time limit for a policyholder filing any legal action under the policy from one year to two years after the inception of the loss, for claims that arise out of a state of emergency and that are made by any policyholders whose insured property is located an area for which the Governor has proclaimed such a state of emergency. (*Applies to: All policies*)

Staff has made corresponding changes to the CEA Rate Manual, to provide guidance to the CEA participating insurers (and their adjusters who handle CEA earthquake claims) as to implementation of these revised policy provisions.

Because, by law and regulation, CEA insurance policy forms must be reviewed and approved by the Insurance Commissioner before implementation, staff also seeks the

Board's authorization to submit the revised policy forms and Claim Manual to the CDI for regulatory review and approval.

In the past, changes to CEA policy forms have typically been reviewed and approved by the CDI through a combined process under which CEA sought approval for both changes to CEA's premium rates and changes to policy forms (referred to as a "rate and form filing"), as was the case with the most recent filing approved by CDI that became effective on July 1, 2019. In this instance, CEA's Chief Risk & Actuarial Officer has reviewed these proposed policy form changes and has determined that adoption of the revised policy forms will have no effect on the rates charged for CEA policies. Accordingly, there is no need for CEA to submit a *rate filing* at this time—CEA will solely seek approval of revised policy forms.

Because a number of the statutory changes that have necessitated these policy changes become effective July 1, 2020, staff anticipates that these changes can be approved by CDI and implemented by CEA on or before that statutory deadline. Even if the regulatory and administrative process cannot be finalized prior to July 1, 2020, the existing policy forms will be interpreted and applied by CEA in a manner that conforms with the newly adopted statutory provisions.

Attachments:

The following documents are attached to this memorandum:

Attachment A-1	Proposed revised Homeowners (BEQ-3B) policy form (with changes indicated)
Attachment A-2	Proposed revised Homeowners (BEQ-3B) policy form (clean copy)
Attachment B-1	Proposed revised Homeowners Choice (BEQ-3C) policy form (with changes indicated)
Attachment B-2	Proposed revised Homeowners Choice (BEQ-3C) policy form (clean copy)
Attachment C-1	Proposed revised Common Interest Development (BEQ-6B) policy form (with changes indicated)
Attachment C-2	Proposed revised Common Interest Development (BEQ-6B) (clean copy)
Attachment D-1	Proposed revised Renters (BEQ-4B) policy form (with changes indicated)
Attachment D-2	Proposed revised Renters (BEQ-4b) policy form (clean copy)
Attachment E-1	Proposed revised Claim Manual (with changes indicated)

Attachment E-2 Proposed revised Claim Manual (clean copy)

Recommended Action:

CEA staff recommends that the Governing Board take the following actions:

1. Approve the proposed revisions to the CEA policy forms, and instruct staff to submit those proposed revised policy forms to the Insurance Commissioner for regulatory review and approval; and

2. Approve the proposed revisions to the CEA Claim Manual, and instruct staff to submit the proposed revised Claim Manual to the Insurance Commissioner for regulatory review and approval.

CALIFORNIA EARTHQUAKE AUTHORITY
BASIC EARTHQUAKE POLICY—HOMEOWNERS

PLEASE READ YOUR POLICY

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IMPORTANT NOTICES

Many of the terms of this **California Earthquake Authority** policy are substantially different from the terms of **your companion policy** and many other policies that cover **dwellings**. The following items, among others, are unique to this policy. But these are not the only terms that are different from the terms of **your companion policy** and other **dwelling** policies—there are many others. Therefore **we** urge **you** to read **your** entire **CEA** policy.

The terms that appear in bold type appear frequently in this policy and are defined below under DEFINITIONS.

1. Deductible. No payment will be made for any property loss, including loss to personal property, until loss to property that is covered under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" exceeds the deductible shown on the **DECLARATIONS**. Regardless of the amount of loss to **your** personal property, there will be no payment for any loss unless the loss to **dwelling** and extensions to **dwelling** exceeds the amount of the deductible. Because of the way the deductible is determined, **you** could have substantial uninsured loss. There are other requirements and restrictions that relate to the deductible and there are coverages to which the deductible may not apply. Only the following coverages are not subject to any deductible:
   a. "COVERAGE D: LOSS OF USE," and
   b. The first $1,500 of coverage provided under "OTHER COVERAGES," Item 1, "Emergency Repairs."

   The deductible amount shown on the **DECLARATIONS** will not reduce the dollar amount of any **limit of insurance** stated on the **DECLARATIONS**; in other words, the amount **we** will pay will be the full amount by which **your** covered loss exceeds the deductible, up to the applicable **limit of insurance** stated on the **DECLARATIONS**.

   Please read the DEDUCTIBLE CLAUSE on page __.

2. **Companion Policy** Requirement. This policy and California law require that, during the entire policy period of this **CEA** policy, **you** must keep a **companion policy** in force. That **companion policy** must provide fire insurance for the property that is the subject of this **California Earthquake Authority** policy. That **companion policy** must be issued by the same **participating insurer** that issued this **earthquake** policy—if no **companion policy** is in effect at the time of loss, this **CEA** policy is void and no payment will be made under this **CEA** policy.

3. Not a "Guaranteed Replacement Cost" or "Extended Replacement Cost" Policy. This policy does not have a "guaranteed replacement cost" or "extended replacement cost" feature. For that reason, this policy does not provide for full repair or full replacement of covered property if, and to the extent, the loss exceeds (a) the applicable **limit of insurance** stated in the **DECLARATIONS** or, (b) if a **sublimit** applies to the loss, the applicable **sublimit** stated in the policy. The combined single **limit of insurance** for COVERAGE A: DWELLING and COVERAGE B: EXTENSIONS TO DWELLING stated on the **DECLARATIONS** of this **CEA** policy is not modified by any guaranteed-replacement-cost or extended-replacement-cost feature(s) that may increase the **limits of insurance** of **your** homeowners insurance policy or other **companion policy**.

4. Pro-rata or Installment Claims Payments**.** In accordance with California Insurance Code section 10089.35, if at any time the **California Earthquake Authority** Governing Board determines that the **CEA's** available capital may be exhausted and that no additional funds (from specified sources) will be available to the **CEA** to pay policyholder claims, the **CEA** may pay claims on a pro-rata basis or in installment payments, based on a plan presented to the California Insurance Commissioner. If this occurs, **you** might not be paid the full amount of **your** claim or **your** claim might be paid in installments, or both. Under no circumstances will the State of California be responsible for the payment of **your** claim. Please read the Pro-rata or Installment Claims Payments Clause on page ___.

5. Premium Surcharge if CEA Claim-Paying Capacity Is Exhausted**.** If an **earthquake,** or a series of **earthquakes,** exhausts the **California Earthquake Authority's** claim-paying capacity (as provided from specified sources), California Insurance Code section 10089.29, subdivision (b), paragraph (1), gives **us** the power to impose an annual surcharge of up to 20% of **your** annual policy premium. Please read the Surcharge Clause on page ____.

THE LANGUAGE OF THIS POLICY HAS BEEN
APPROVED BY THE CALIFORNIA INSURANCE COMMISSIONER

BASIC EARTHQUAKE POLICY--HOMEOWNERS

Please note that terms that appear frequently in this policy are defined below under DEFINITIONS and appear in bold type.

AGREEMENT

This policy is issued by the **California Earthquake Authority (CEA)**, a public instrumentality of the State of California established and authorized by law to transact insurance in California as necessary to sell policies of basic residential **earthquake** insurance.

1. Covered Losses. This policy insures for 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 to property described under COVERAGES A, B, and C, subject to all of the terms, **limits of insurance**, and conditions of this policy. In addition, as provided in COVERAGE D, **we** insure for Loss of Use of the **dwelling** resulting from a covered loss to covered property, subject to all of the terms, **limits of insurance**, and conditions of the policy.

2. Deductible. Except as otherwise explicitly stated in this policy, **we** will pay only when a covered loss to property exceeds the deductible amount shown on the **DECLARATIONS** page, as calculated in accordance with the terms of the DEDUCTIBLE CLAUSE. When a covered loss exceeds the deductible amount shown on the **DECLARATIONS** page, **we** will pay, up to the applicable **limit of insurance** stated on the **DECLARATIONS** page, the amount by which the covered loss exceeds the deductible amount.

3. Premium Payment. **We** will provide the insurance described in this policy in return for **your** payment of the premium and **your** compliance with all applicable provisions of this policy.

4. Policy Period. The policy period as shown on the **DECLARATIONS** page will begin and end at 12:01 a.m. Pacific Standard Time or Pacific Daylight Savings Time, whichever is in effect on the inception or termination date.

5. **Companion Policy. You** agree to keep in effect a **companion policy** written by the **participating insurer** that services this policy. If at the time of loss no **companion policy** is in effect, this **earthquake** policy is void and no payment will be made under this **earthquake** policy.

6. Policy Services. Policy services and claims adjusting will be provided by the **participating insurer.** All inquiries and correspondence regarding this policy should be directed to the **participating insurer.**

DEDUCTIBLE CLAUSE

Except for losses covered under "COVERAGE D: LOSS OF USE" and the first $1,500 of losses covered under "OTHER COVERAGES," Item 1, "Emergency Repairs," **we** will pay no amount for loss to any property, including loss to personal property covered under "COVERAGE C: PERSONAL PROPERTY," until the amount of the policy deductible shown on the **DECLARATIONS** page has been exceeded by the amount of covered loss to property that is covered under "COVERAGE A: DWELLING," "COVERAGE B: EXTENSIONS TO DWELLING," or "OTHER COVERAGES," Item 3, Land. "COVERAGE D: LOSS OF USE" is not subject to a deductible.

1. The deductible percentage and deductible amount in dollars that apply to this policy are shown on the **DECLARATIONS** page. The deductible amount is a percentage of the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING."

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

   a. The reasonable and necessary cost, not to exceed **replacement cost**, of any of the following:

i. Replacement or repair of the covered damage to property covered under "COVERAGE A: DWELLING," but with respect to property for which there is a **sublimit** under "COVERAGE A: DWELLING," only the amount up to the applicable **sublimit** for that property, and

ii. Replacement or repair of the covered damage to property covered under "COVERAGE B: EXTENSIONS TO DWELLING," but with respect to property for which there is a **sublimit** under "COVERAGE A: DWELLING," only the amount up to the applicable **sublimit** for that property, and

iii. Emergency measures in excess of $1,500 covered under "OTHER COVERAGES," Item 1, "Emergency Repairs" that **you** actually take to protect property that is covered under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" against further damage or to 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

iv. The cost to replace, rebuild, stabilize or otherwise restore the land that is covered under "OTHER COVERAGES," Item 3, "Land" but only up to the **sublimit** of $10,000, and

b. An amount equal to the reasonable and necessary costs of construction covered under "OTHER COVERAGES" Item 2, "Building Code Upgrades," but only up to the **limit of insurance** for "OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the **DECLARATIONS** page. Although the full amount of loss that would be covered under that coverage, up to the **limit of insurance** for OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the **DECLARATIONS** page, will be applied to meet the deductible, no payment will be made to **you** under OTHER COVERAGES" Item 2 "Building Code Upgrades" unless **you** actually do undertake repair or replacement of that covered property.

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

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

DEFINITIONS

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

1. **"Actual cash value"** means **replacement cost** less depreciation.

2. **"Association of owners"** means, if the location described in the **DECLARATIONS** is part of a **common interest development**, a nonprofit corporation or unincorporated association created for the purpose of governing and managing the **common interest development** in which the **dwelling** is located.

3. **"Business property"** means property pertaining to or intended for use in any (a) full-time or part-time trade, profession, or occupation, or (b) other activity intended for economic gain.

4. **"California Earthquake Authority"** or **"CEA"** means the entity that issued this policy. The **CEA** is a public instrumentality of the State of California created and authorized by law to transact insurance in California as necessary to sell policies of basic residential **earthquake** insurance. The authorization appears in the California Insurance Code, beginning at section 10089.5.

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

6. "**Collectible**" or "**collectibles**" means an item or group of items of personal property, regardless of whether an individual item or part of a collection, the monetary worth of which is not primarily based on its utility or function, but rather, is primarily based on its value to a collector, including property that is kept for investment, has a real or perceived past or expected future increase in value because it would be desirable to collectors as part of a collection, or that has a monetary worth significantly greater than its intrinsic value because of its rarity or its demand among collectors.

7. **"Common interest development"** means any of the following:
   • A community apartment project, as defined in California Civil Code section 4105;
   • A condominium project, as defined in California Civil Code section 4125;
   • A planned development, as defined in California Civil Code section 4175; or
   • A stock cooperative, as defined in California Civil Code section 4190.

8. **"Companion policy"** means the fire insurance policy, homeowners policy, or other insurance policy that provides fire coverage for the property that is the subject of this **CEA** policy, and that is issued by the same **participating insurer** that services this **CEA** policy.

9. "**DECLARATIONS**" or "**DECLARATIONS** page" means the single-page document that accompanies, and forms a part of, this **CEA** policy, and which lists certain basic information specific to this policy, including, but not limited to, the policy number, policy period, name and mailing address of the named insured, **dwelling** address, and the **limits of insurance**, deductible, and premium applicable to this policy. The following title appears at the top of the **DECLARATIONS** page:

   CALIFORNIA EARTHQUAKE AUTHORITY
   BASIC EARTHQUAKE POLICY—HOMEOWNERS
   DECLARATIONS

10. **"Domestic partner"** means a party to a two-person domestic relationship registered by the California Secretary of State through the filing of a Declaration of Domestic Partnership, pursuant to California Family Code section 298.5.

11. **"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.

12. **"Earthquake"** means a vibration-generating rupture event caused by displacement within the earth's crust through release of strain associated with **tectonic processes** and includes effects such as ground shaking, liquefaction, and damaging amplification of ground motion. While land sliding, including seismically-induced land sliding, is not itself an **earthquake**, **we** cover, subject to "LOSSES EXCLUDED" Item 5 and subject to all other terms and conditions of this policy, loss to covered property arising out of a seismically-induced landslide if that landslide 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. **Earthquake** does not mean or include tsunami or volcanic eruption.

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

14. **"Insured"** means **you** and the following **persons** if they are permanent residents of **your** household:

    a. **your** relatives, whether related by blood, marriage or adoption; and

b. anyone under the age of 21 who is in the care or custody of **you** or of any of **your** relatives who are permanent residents of **your** household.

15. **"Limit of insurance"** means the most **we** will pay for covered loss arising from any **seismic event**.

16. "**Loss assessment**" means an assessment charged by an **association of owners** against all property owners in a **common interest development** that is properly and legally made as a result of a loss to structures or other real property contained within that **common interest development**, and those structures or other real property are 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**.

17. **"Nuclear hazard"** means any nuclear reaction, radiation, or radioactive contamination, or any consequence of any of these.

18. **"Participating insurer"** means the insurance company that issued the **companion policy**, meets the legal requirements to offer residential earthquake coverage by participating in the **CEA**, and provides claims and policyholder services for this policy on behalf of the **CEA**.

19. **"Person"** means any human, association, organization, governmental entity, partnership, business trust, limited liability company, or corporation.

20. **"Replacement cost"** means:

    a. With respect to structures, the lesser of the reasonable cost at the time of loss to repair or replace covered damaged or destroyed property, without deduction for depreciation, (i) at the location of the **residence premises,** (ii) for the same use, and (iii) with materials of like kind and quality.

    b. With respect to personal property and wall-to-wall carpeting, the cost, without deduction for depreciation, of (i) new property identical to the damaged property or, (ii) if identical property is not obtainable, of new property of like quality and of comparable usefulness as the damaged property.

21. **"Residence premises"** means the one, two, three, or four unit **dwelling**, extensions to **dwelling**, and grounds at the address shown in the **DECLARATIONS** owned by **you**. **Residence premises** does not include land or extensions to **dwelling** not owned by **you**. Residence premises does not include property owned by a corporation, **association of owners** or other entity, including but not limited to property for the common use of members or shareholders even if **you** are a member or shareholder, except for any extensions to **dwelling** subject to a **loss assessment** covered under Item 4 of "Property Covered – Coverage B" on page ___of this policy.

22. **"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**.

23. **"Sublimit"** means a dollar limit on a coverage for a specific type of property within a category of property that is subject to a higher total **limit of insurance**. Payment under a **sublimit** will reduce the amount available under the total **limit of insurance**. For example, a **chimney** is covered under "COVERAGE A: DWELLING" which has a **limit of insurance** shown on the **DECLARATIONS** page, but no more than the $10,000 **sublimit** will be paid for loss to any and all **chimney**(s). In that example, the overall amount available under the "COVERAGE A: DWELLING" and COVERAGE B: EXTENSIONS TO DWELLING combined single **limit of insurance** would be reduced by the amount that is paid for loss to any **chimney**.

24. **"Tectonic processes"** means natural adjustments of the earth's crust that are wholly in response to regional stress conditions caused by natural dynamic forces within the earth's interior, and not initiated, in whole or in any part, by any human activity.

SINGLE LIMIT OF INSURANCE FOR DWELLING AND EXTENSIONS TO DWELLING; OTHER LIMITS AND SUBLIMITS

This policy has a combined single **limit of insurance** which is the most **we** will pay for all covered loss by **earthquake** under "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING." This combined **limit of insurance** is shown on **your DECLARATIONS** as the amount of **your dwelling limit of insurance**. The amount of insurance available to **you** under "COVERAGE A: DWELLING" will be reduced to the extent that **we** make any payment for "COVERAGE B: EXTENSIONS TO DWELLING," and the amount of coverage available to **you** under "COVERAGE B: EXTENSIONS TO DWELLING" will be reduced to the extent that **we** make any payment for "COVERAGE A: DWELLING." All other limits shown on the **DECLARATIONS** page are separate **limits of insurance**. There are **sublimits** within the **limits of insurance** that may reduce **your** recovery under this policy.

COVERAGES

COVERAGE A: DWELLING

Property Covered—Coverage A

Subject to the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" shown on the **DECLARATIONS** page, **we** cover:

1. The **dwelling** on the **residence premises**, except those parts of the **dwelling** that are described in "Property Not Covered—Coverages A and B" section of this policy.

2. Wall-to-wall carpeting attached to the **dwelling**.

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

Special Limits of Insurance—Coverage A

The **limits of insurance** shown below are **sublimits** of the policy's **limit of insurance** provided for "COVERAGE A: DWELLING" and do not increase the **limit of insurance** for "COVERAGE A: DWELLING" shown in the **DECLARATIONS**. The **sublimit** for each numbered category, immediately below, is the total **limit of insurance** for all loss in that category. For property that falls into more than one category, the lowest applicable **sublimit** will apply.

1. $10,000 for loss or damage to any and all **chimney(s)** attached to or part of the **dwelling**, regardless of the number of **chimneys** covered. This **sublimit** of $10,000 in coverage for loss or damage to **chimneys** will be reduced by any amount that **we** pay under "OTHER COVERAGES," Item 1, "Emergency Repairs," for

emergency repairs to **chimneys**, and by any amount that **we** pay under "Property Covered—Coverage A," Item 3, for the removal of the debris of **chimneys**.

2. $5,000 for all loss or damage to the **dwelling** or to wall-to-wall carpeting attached to the **dwelling** caused by **fungi** the presence of which directly results from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, including, but not limited to, the cost to repair damage from **fungi** or to test for, monitor, abate, mitigate, remove, dispose of or remediate **fungi**. This **sublimit** of $5,000 in coverage for loss or damage caused by **fungi** will be reduced by any amount that **we** pay under "OTHER COVERAGES," Item 1, "Emergency Repairs," for Emergency Repairs resulting from **fungi**. Except for the coverage specifically provided for in this **sublimit**, this policy does not provide coverage for any loss that is caused directly or indirectly by, or that in any way results from, is contributed to by, or is aggravated by **fungi**.

COVERAGE B: EXTENSIONS TO DWELLING

Property Covered—Coverage B

Subject to the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" shown on the **DECLARATIONS** page, **we** cover:

1. Equipment and utility service structures for electric, telephone, natural or bottled gas, heating, oil, water, septic, and sanitary sewage systems that (1) are owned by **you** and (2) are located outside of the foundation or walls of the **dwelling** but on the **residence premises** and (3) affect the habitability of the **dwelling**.

2. Walkways, driveways, decks, or patios on the **residence premises** that are necessary for and regularly used for either (1) pedestrian ingress to or egress from the **dwelling** by any **insured** or (2) ingress to and egress from the **dwelling** by any non-ambulatory **insured**, but **we** cover only that portion of each covered walkway, driveway, deck, or patio that is reasonably necessary for ingress to and egress from **dwellings** by pedestrian or non-ambulatory **insured**. Any portion of an otherwise-covered walkway, driveway, deck, or patio that is not reasonably necessary for and regularly used for pedestrian ingress to or egress from the **dwelling** by any **insured** or ingress to and egress from the **dwelling** by any non-ambulatory **insured**, and any walkway, driveway, deck, or patio not regularly used for any such purposes, is not covered.

3. Those bulkheads, piers, retaining walls, and masonry fences on the **residence premises** that are integral to the stability of the **dwelling**. Except as provided for in "OTHER COVERAGES," Item 3, the cost of repairing, replacing or stabilizing the land under or around these devices is not covered.

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

5. The reasonable expense **you** incur in removing from the **residence premises** the debris of that damaged property covered under "COVERAGE B: EXTENSIONS TO DWELLING," including but not limited to the reasonable expense **you** incur for the transportation of such debris to landfills or disposal facilities and

disposal of the debris at those facilities, or the transportation of such debris to suitable recycling facilities rather than landfills and disposal of the debris at those facilities. The combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" will be reduced by any amount **we** pay under this coverage, but in the event that **your** covered losses under COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" exceed the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" shown on the **DECLARATIONS** page of this policy, **we** will provide, as additional insurance, up to 5% of that combined single **limit of insurance** for the aggregate of the expenses **you** incur in removing from the **residence premises** the debris of (a) property covered under "COVERAGE A: DWELLING," as provided for under Item 3 of "COVERAGE A: DWELLING, Property Covered—Coverage A," and (b) property covered under "COVERAGE B: EXTENSIONS TO DWELLING," as provided for in this paragraph.

COVERAGE A: DWELLING AND COVERAGE B: EXTENSIONS TO DWELLING

Property Not Covered—Coverage A and Coverage B

We do not cover:

1. Land, including land underlying the **dwelling**, except as provided for in "OTHER COVERAGES," Item 3, "Land".

2. Except as provided for in "OTHER COVERAGES," Item 3, "Land" the cost of (a) land stabilization; (b) structures, apparatuses, or devices to stabilize the land; and (c) engineering associated with land stabilization.

3. Awnings and patio coverings, and their support structures. For purposes of this exclusion, carport covers are not awnings or patio coverings.

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

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

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

7. Plaster, to the extent the cost to repair or replace it exceeds the value of its replacement with sheetrock or drywall.
8. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," any structure on the **residence premises** other than the **dwelling**, including detached garages, outbuildings, and other structures.

9. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," Item 1, exterior water supply systems including, but not limited to, irrigation systems, sprinkler systems, and water reclamation systems.

10. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," Item 1, 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.

11. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," Item 2, walkways, driveways, decks, and patios.

12. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," Item 3, fences, bulkheads, piers, and outside walls including retaining walls.

13. Except as provided under "OTHER COVERAGES," Item 2, "Building Code Upgrades," any added costs of repair or replacement of covered property resulting from enforcement of any ordinance, law, or residential building code that regulates the use, construction, repair, or demolition of a building or other structure.

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

15. Swimming pools, spas, and hot tubs and all of their components, including the tile or other material linking or attaching the pool, spa, or hot tub to a deck or to the **dwelling**.

COVERAGE C: PERSONAL PROPERTY

Property Covered—Coverage C

Subject to the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY," **we** cover (1) personal property owned or used by an **insured** and located at the **residence premises**, and (2) at **your** request and subject to the **sublimit** of $2,500, personal property owned by others while that property is on any part of the **dwelling** occupied by an **insured**, and (3) the reasonable expense **you** incur in removing from the **residence premises** the debris of damaged covered personal property. The cost to repair or replace personal property or to remove the debris of personal property will not be applied to meet the deductible.

Special Limits of Insurance—Coverage C

The **limits of insurance** shown below are **sublimits** of the policy's **limit of insurance** provided for "COVERAGE C: PERSONAL PROPERTY" and do not increase the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" shown in the **DECLARATIONS**. The **sublimit** for each numbered category, immediately below, is the total **limit of insurance** for all loss in that category. For property that falls into more than one category, the lowest applicable **sublimit** will apply. If any item of property falls both into one of the following **sublimits** and one of the categories of property listed under "Property Not Covered – Coverage C," then **we** do not cover that item of property.

1. $250 in the aggregate on all money, bank notes, coins and medals, including any of these that are part of a collection.

2. $250 in the aggregate on all securities, checks, cashier's checks, traveler's checks, money orders, and other negotiable instruments; accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, passports, and tickets.
3. $3,000 in the aggregate on all computers and other electronic data processing equipment, including storage media and software used with that equipment, whether or not it is **business property**. Storage media or software that cannot be replaced with other property of like kind and quality on the current consumer retail market is not covered.

4. $1,000 in the aggregate on all **business property** other than computers and other electronic data processing equipment, storage media, and software.

5. $3,000 in the aggregate on all jewelry, watches, furs, and precious and semi-precious stones, but not more than $1,000 for any one article.

6. $3,000 in the aggregate on all **collectibles**, including but not limited to sports cards; **collectible** dolls, model trains, or toys; **collectible** postage stamps; **collectible** autographed items; memorabilia; and commemorative or otherwise **collectible** plates, spoons, or cups; regardless of whether any such item is a single item or part of a collection.

7. $3,000 in the aggregate on all beverages contained in bottles or in other glass, ceramic, or pottery containers, including but not limited to wine, port, liquor, beer, and all other alcoholic or non-alcoholic beverages.

Property Not Covered—Coverage C

We do not cover:

1. Pets, birds, fish, livestock, or other animals.

2. Motor vehicles, riding lawn mowers, or any motorized land conveyance, including their parts or accessories while in or on the motor vehicle, lawn mower, or conveyance. This exclusion does not apply to motorized land conveyances not licensed for use on public roads that are designed to assist and are used by the handicapped, or to the parts and accessories of those conveyances.

3. Any electronic equipment that is designed for operation by the electrical system of a motor vehicle, motorized land conveyance, or a camp or home trailer while any of this equipment is in, on, or installed in a motor vehicle, motorized land conveyance, or a camp or home trailer, including but not limited to: computers; citizens band and other two-way mobile radios; satellite and cellular telephones; radio receivers, transceivers, and transmitters; scanners and scanning monitor receivers; radar detectors; tape or disc players and recorders, MP3 players; televisions; video players, recorders, and monitors; global positioning satellite (GPS) devices, personal digital assistants and other handheld devices; and any accessories, antennas, speakers, tapes, discs, cartridges, media, carrying cases, charging devices, batteries, or other devices and accessories used with that equipment.

4. Aircraft, including their parts and equipment.

5. Property that is not owned or used by an **insured,** including but not limited to the property of roomers, boarders, and other tenants, except (a) the property owned by others that **we** cover at **your** request under Item 2 of "Property Covered—Coverage C," subject to the applicable **sublimit** of $2,500, and (b) the property of roomers and boarders related to any **insured**.

6. Valuable papers, records or data, including:

   a. books of account, drawings, card index systems and other records; and

   b. data stored on electronic data storage devices, including processing tapes, wires, records, discs, computer drives, portable storage devices or media, or other magnetic or optical media.

   We do, however, cover the cost of blank recording or storage media and of prerecorded computer programs that are available on the retail market, subject to the **sublimit** set forth in "Special Limits of Insurance—Coverage C," Item 3.

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

8. Breakable items, consisting of the following:

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

9. Watercraft, including their furnishings, equipment, and inboard, outboard, or inboard-outboard motors.

10. Trailers.

11. Trees, shrubs, or plants, or their containers.

12. Swimming pools, spas, and hot tubs, including all of their components.

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

COVERAGE D: LOSS OF USE

If a **limit of insurance** for "COVERAGE D: LOSS OF USE" is shown on the **DECLARATIONS** page, then subject to that **limit of insurance** and all the terms and conditions of this policy, **we** provide the following coverage, not subject to any deductible.

1. Additional Living Expense. If the part of the **dwelling** that **you** occupy becomes unfit to live in and **you** are forced to vacate the **dwelling** as a result of either (1) damage to the **dwelling** or covered extensions to **dwelling** 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 **dwelling** or covered extensions to **dwelling** 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 **dwelling you** occupy that are unfit to live in, or (b) for **you** to permanently relocate elsewhere if **you** do not elect to repair or replace **your dwelling**.

2. Loss of Rent. If the part of the **dwelling** that **you** rent to others or that **you** actually hold for rental becomes unfit to live in as a result of either (1) damage to the **dwelling** or covered extensions to **dwelling** 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 **dwelling** or covered extensions to **dwelling** caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** cover the fair rental value of that part of the **dwelling** that is rented to others or that **you** actually held for rental prior to the loss, less any expenses that do not continue while the rental portion of the **dwelling** is unfit to live in. Fair rental value means the average rental amount immediately before the **earthquake** in **your** rental market for a residential unit similar to that covered under this policy.

   We will pay for the shortest time reasonably needed to repair or replace the parts of the **dwelling** rented or held for rental that are unfit to live in. **Your** loss of rents due to cancellation of a lease or rental agreement is not covered.

3. 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** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** cover the resulting Additional Living Expense or Loss of Rent, subject to the "COVERAGE D: LOSS OF USE" **limits of insurance**.

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.

   b. **Your** taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve **you** of **your** responsibilities outlined in "**Your** Duties After Loss" (CONDITIONS, Item 3).

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

3. Land. **We** will pay up to $10,000 for the cost, including engineering costs, to replace, rebuild, stabilize or otherwise restore land that is owned by **you** and necessary to support the **dwelling** or covered extensions to **dwelling**, or to add devices or apparatuses to stabilize land that is owned by **you** and necessary to support the **dwelling** or covered extensions to **dwelling**, if the need for stabilization is caused directly by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period and the stabilization is necessary for the habitability of the **dwelling**. This coverage is provided as a $10,000 **sublimit** of the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING." The combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" will be reduced by any amount **we** pay under this coverage.

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

   a. Energy Efficiency Upgrades: **We** will pay the reasonable added costs you incur to replace damaged covered property with the following energy-efficient property:

      i. Electronic Equipment – Energy Star Replacement. If there is covered loss to electronic equipment, including but not limited to equipment for heating, ventilation, and air conditioning (HVAC) systems, that is part of the **dwelling** and that is covered under "COVERAGE A: DWELLING," and that electronic equipment must be replaced rather than repaired, then we will pay the reasonable expenses **you** incur to replace damaged or destroyed electronic equipment with equipment of otherwise equivalent quality and function that has been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.

      ii. Window, Door, Roofing, and Insulation Energy Upgrades. If there a loss to the **dwelling** that requires the repair or replacement of roofing or insulation material, air sealing, windows, doors, or skylights, then **we** will pay the reasonable expenses **you** incur to replace those damaged or destroyed materials with materials of otherwise equivalent quality and function that have been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.

      iii. Plumbing Fixture Upgrades. If there is a loss to the **dwelling** that requires the repair or replacement of plumbing fixtures, then **we** will pay the reasonable expenses **you** incur to replace those fixtures with energy and water efficient fixtures, including automatic faucet sensors, faucet and shower head flow restrictors, dual flush toilets, and localized water heaters, using plumbing fixtures of otherwise equivalent quality and function provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of the U.S. Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines.

   b. Environmental Safety Upgrades. **We** will pay reasonable added costs **you** incur to repair or replace the damaged or destroyed property covered under "COVERAGE A: DWELLING" with the following environmentally-upgraded property, provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of the U.S. Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines:

      i. Interior Finish Materials Upgrades. If there is a covered loss to the **dwelling** that requires the repair or replacement of interior finish materials, then **we** will pay the reasonable expenses **you** incur to replace those materials with materials of otherwise equivalent quality and function that are

low in volatile organic compounds (VOC), sustainably developed, rapidly renewable, or comprised of recycled materials. This coverage applies to interior paints, architectural coatings, primers under coatings, adhesives and sealants, low emissions carpet and floor coverings, including adhesive to affix them to the floor, and permanently installed composite wood fixtures including counters, cabinets and partitions, where available, Forest Stewardship Council certified wood for millwork, ceilings, siding, and framing, and bamboo flooring.

ii. Elimination of Ozone-Depleting Substances Upgrades. If there is a covered loss to the **dwelling** that requires the repair or replacement of systems containing such items, then **we** will pay the reasonable expenses **you** incur to replace chlorofluorocarbon refrigerants (CFC) or hydro-chlorofluorocarbon (HCFC) or Halon refrigerants or fire extinguishing agents with environmentally-upgraded replacements.

iii. Flush Out of Reconstructed Space. If necessitated by the repair or replacement of covered loss to the **dwelling**, **we** will pay the reasonable and necessary costs to flush out the reconstructed space with 100% outside air and new filtration media following completion of the repair or reconstruction process.

LOSSES EXCLUDED

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:

1. Fire or explosion.

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

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

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

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

   (ii) The displacement of water from an aquarium, drinking water container or dispenser, 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**, or

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

3. Controlled or uncontrolled **nuclear hazard** or any act or condition incident to any **nuclear hazard**.

4. Pollution of groundwater, land, and personal property, including all loss, damage, costs, and expenses that arise out of or are caused by pollution or pollutants, and any cost or expense to test for, monitor, clean up, remove, contain, treat, detoxify, or neutralize pollutants. The terms "pollutants" and "pollution" mean any solid, liquid, gaseous, or thermal irritant or contaminant, including, but not limited to, smoke, vapor, soot, fumes, acids, alkalis, chemicals, asbestos, and waste. The term "waste" includes but is not limited to material to be recycled, reconditioned, or reclaimed.

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.

6. **Fungi**, including but not limited to the cost to repair or replace property damaged by **fungi** or to test for, monitor, abate, mitigate, remove, dispose of or remediate **fungi**, except for loss or damage to the **dwelling** or to wall-to-wall carpeting attached to the **dwelling** caused by **fungi** the presence of which directly results from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, and subject to the $5,000 **sublimit** set forth in "Special Limits of Insurance—Coverage A," Item 2.

7. Theft, vandalism or other human conduct causing loss following an **earthquake**.

8. Required compliance with any ordinance, law, or residential building code that regulates the use, construction, repair, or demolition of a building or other structure, except as specifically provided under this policy, in "OTHER COVERAGES," Item 2, "Building Code Upgrades."

9. Power failure, meaning the failure of delivery of electrical power to the **dwelling** or to the **residence premises**.

10. **Your** neglect to take all reasonable action to save and preserve covered property at the time of and after a covered loss.

11. Declared or undeclared war, acts of terrorism, insurrection, rebellion, revolution, warlike act by a military force or military personnel or any person, destruction or seizure or use for a military purpose, and any consequence of any of these. Discharge of a nuclear weapon will be deemed a warlike act even if accidental.

12. Intentional acts, meaning any loss arising out of any act committed:

    a. by **you** or at **your** direction, or at the direction of any **insured** or of any **person** named as an additional **insured**; and
    b. with the intent to cause, aggravate or increase a loss.

YOUR RIGHTS CONCERNING CLAIMS INVESTIGATION

The law provides certain rights and protections to policyholders who are involved in the presentation of a claim. Included among these are the following:

1. Specific rights to privacy under California and Federal law which may protect **you** during the claims process;

2. The right to have **your** claim handled in accordance with the California Insurance Code and Subchapter 7.5 of Chapter 5 of Title 10 of the California Code of Regulations, which impose fair claims handling procedures and requirements on insurers; and

3. The right to be represented by an attorney at **your** expense.

CONDITIONS

1. Insurable Interest and **Limit of Insurance**. Even if more than one **person** has an insurable interest in the property covered, **we** will not be liable:

   a. to **you** for an amount greater than **your** interest; nor

   b. for more than the applicable **limit of insurance**.

2. Concealment or Fraud. The entire policy will be void if, before or after a loss, any **insured** does any of the following:

   a. Intentionally conceals or misrepresents any material fact or circumstance;

   b. Engages in fraudulent conduct relating to this insurance; or

   c. Intentionally makes false statements relating to this insurance.

3. **Your** Duties After Loss. If a loss occurs to covered property, **you** must perform the following duties:

   a. Give written notice to the **participating insurer** without delay.

   b. Protect the property from further damage. Make any emergency repairs that are necessary and reasonable to protect the property from further damage. Keep records of all costs **you** incur to repair or replace covered property or to protect covered property from further damage.

   c. Make and keep a list of all damaged or destroyed personal property, showing in detail the quantity, description, and amount of covered loss. Keep all bills, receipts, and related records that support **your** figures.

   d. As often as reasonably required:

      (i) Exhibit damaged property to the **participating insurer**;

      (ii) Provide the **participating insurer** with the records and documents that are necessary to support **your** claim under the policy and which the **participating insurer** may request, including bills, receipts, cancelled checks, and related records that support **your** figures, and permit the **participating insurer** to make copies; and

      (iii) While not in the presence of any other **insured**, submit to examination under oath and sign a transcript of the examination.

   e. Send the **participating insurer**, within 60 days of **our** or the **participating insurer's** request, **your** signed, sworn proof of loss that sets forth, to the best of **your** knowledge and belief:

      (i) The time, date, and cause of loss;

      (ii) Y**our** interest and the interest of all others in the property that sustained a loss, and evidence of all liens or encumbrances on the property;

      (iii) A detailed description of all legal claims against the property that sustained a loss;

      (iv) Evidence of other insurance that may cover the loss;

(v) A description of changes in title to or occupancy of the property during the term of the policy;

(vi) Descriptions and detailed repair estimates of any damaged building or other covered structure;

(vii) The list of damaged or destroyed personal property covered under this policy; and

(viii) All receipts and records that support any claim for additional living expense or fair rental value.

4. Loss Settlement: Coverages A, B and C.

In case of loss to a pair or set **we** can elect to do either of the following:

a. Repair or replace any part to restore the pair or set to its value before the loss; or

b. Pay the difference between **replacement cost** of the pair or set before and after the loss.

5. Loss Settlement: Coverages A and B.

a. **Our** liability for any loss to property insured under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" will not exceed the smallest of the following:

(i) The **replacement cost** at the time of loss;

(ii) If the damaged property has been actually repaired or replaced, the amount actually and necessarily spent to repair or replace the damaged property; or

(iii) The applicable **limit of insurance** or any applicable **sublimit(s)**.

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

c. **We** will not pay for increased costs resulting from enforcement of 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 in "OTHER COVERAGES," Item 2, "Building Code Upgrades."

d. **We** will pay for the cost to repair or replace only that portion of any regularly used walkway, driveway, deck, or patio covered under this policy that is necessary to restore (i) pedestrian ingress to and egress from the **dwelling** or (ii) ingress to and egress from the **dwelling** by any non-ambulatory **insured**.

e. To repair or replace plaster, **we** will not pay more than the cost to repair or replace the plaster with sheetrock or drywall.

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

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

(i) The **sublimit** of $10,000 that applies to **chimneys**;

(ii) The cost of replacement of a masonry **chimney** or **chimneys** with a non-masonry, earthquake-resistant **chimney** or **chimneys**; or

(iii) The necessary amount actually spent to repair the damaged **chimney** or **chimneys**.

6. Loss Settlement: Coverage C.

   a. **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.

   b. **Our** liability for loss to any property insured under "COVERAGE C: PERSONAL PROPERTY" will not exceed the smallest of the following:

      (i) The **replacement cost** at the time of loss;

      (ii) 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)**.

7. Appraisal. If **you** and **we** fail to agree on the amount of loss, either of us may demand an appraisal of the loss. In this event, each party will choose a competent and disinterested appraiser within 20 days after receiving the written demand from the other. The two appraisers will choose a neutral and independent umpire. If they cannot agree on an umpire within 15 days, **you** or **we** may request that a judge of a California court of competent jurisdiction in the county where the insured **dwelling** is located appoint an umpire. The two appraisers will separately appraise the amount of loss under this policy. If the appraisers submit an agreed written report to **us**, the amount they agree on will be the amount of loss under this policy. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two of the three appraisers will set the amount of loss under this policy. Each party will (a) pay its own appraiser, and (b) bear the other expenses of the appraisal and of the umpire equally.

8. Other Insurance.

   a. If there is other insurance that covers earthquake loss to the **dwelling** or other property covered under this policy, **we** will pay **our** share of the covered loss or damage. **Our** share is the proportion that the applicable **limit of insurance** under this policy bears to the combined **limits of insurance** of all policies that cover the same property.

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

9. Subrogation. **You** may waive in writing before a loss under this policy all **your** rights of recovery against any **person**. If **you** do not waive those rights, **we** may require an assignment of **your** rights of recovery for a loss to the extent that **we** make payment for that loss. If **we** seek an assignment, the **insured** must sign and deliver all related papers to **us** and cooperate with **us**.

10. Legal Action. No action can be brought under this policy by any **person** unless the policy provisions have been fully complied with and the action is started within one year after the date of inception of the loss. If, however,

your loss is related to a state of emergency, as defined in subdivision (b) of section 8558 of the California Government Code, and the **residence premises** is located in an area for which such a state of emergency has been proclaimed by the Governor of the State of California in accordance with section 8625 of the California Government Code, then the time limit to bring an action under this policy is extended to two years after the date of inception of the loss.

11. **Our** Option to Repair or Replace Property. If **we** give **you** written notice within 30 days after **we** receive **your** proof of loss, **we** may repair or replace any part of the damaged property with like property.

12. Loss Adjustment: **We**, through the **participating insurer**, will adjust all losses with **you**. 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.

13. Loss Payment. As to all claims **we** determine to be covered under this policy, **we** will pay **you** unless some other **person** is named in the policy or is legally entitled to receive payment. That portion of a claim that is not in dispute will be payable within 30 days after **we** receive **your** proof of loss. All other losses will be payable within 30 days after **we** receive **your** proof of loss and:

    a. **we** reach an agreement with **you**;

    b. there is an entry of a final judgment; or

    c. there is a filing of a final appraisal award with **us**.

14. Mortgagee Clause.

    a. The word "mortgagee" as used in this policy includes trustee or beneficiary under a trust deed.

    b. If a mortgagee is named as a loss payee in this policy and, as a condition for making a loan to **you** secured by the **dwelling**, that mortgagee either (1) required **you** to purchase **earthquake** insurance that covers the **dwelling** or (2) required that the mortgagee be named as a loss payee under any coverage on the **dwelling**, any loss payable under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" will be paid to the mortgagee, to the extent of its interest, and to **you**. If more than one mortgagee is so named and otherwise qualifies, the order of payment will be the same as the order of preference of the mortgages.

    c. If **we** deny **your** claim, that denial will not apply to a valid claim of the mortgagee, if the mortgagee does all of the following:

        (i) Notifies the **participating insurer** of any change in ownership or occupancy of the **dwelling**, or of any substantial change in risk of which the mortgagee is aware;

        (ii) Pays any premium due under this policy on demand if **you** have neglected to pay the premium; and

        (iii) Submits a signed, sworn statement of loss within 60 days after it receives notice from **us** of **your** failure to do so.

d. If **we** decide to cancel or not to renew this policy, **we** will take reasonable steps to notify any mortgagee named as a loss payee under this policy at least 10 days before the date cancellation or nonrenewal takes effect.

e. If **we** pay the mortgagee for any loss and deny payment to **you**:

(i) **We** are subrogated to all the rights of the mortgagee granted under the mortgage on the property, which will not impair the right of the mortgagee to recover the full amount of the mortgagee's claim, or

(ii) At **our** option, **we** may pay to the mortgagee the whole principal on the mortgage plus any accrued interest, in which event, **we** will receive a full assignment and transfer of the mortgage and all security held as collateral for the mortgage debt.

f. Policy conditions relating to loss settlement and payment, including, but not limited to, the Appraisal, Legal Action, Loss Adjustment, and Loss Payment conditions, apply to the mortgagee.

15. No Benefit to Bailee. **We** will not recognize any assignment or grant any coverage that benefits a **person** that holds, stores, or moves property for a fee, regardless of any other provision of this policy, unless that **person** is named as an **insured** under this policy.

16. Payment. If **you** pay the initial premium for **your** first policy period by check, draft, or any remittance other than cash, **we** will credit **you** with that payment only if the check, draft, or remittance is honored on presentation. If **your** check, draft, or remittance is not honored on presentation, this policy is void from its inception. "Void from its inception" means that **we** will not be liable under this policy for any claims or damages that would otherwise have been covered had the check, draft, or remittance been honored on presentation and had the policy remained in effect.

17. Automatic Termination**.** If, before the end of the then current policy period of this policy, **we** or the **participating insurer** provide **you** with a renewal notice for **your** policy, that notice will be deemed **our** offer to renew **your** policy for an additional policy period. If **we** do not receive **your** required premium payment on or before the end of the then current policy period, **your** policy will terminate automatically at the expiration of the then current policy period. This means that **you** will have elected not to accept **our** offer to renew the policy, and no notice will be sent to **you**. **Your** failure to accept **our** offer to renew the policy is not a cancellation or non-renewal by **us**.

18. Cancellation.

a. When the **companion policy** is cancelled for any reason, this policy is cancelled effective on the same date the **companion policy** cancellation takes effect, and any unearned premiums will be returned to **you** on a pro rata basis. This policy will not provide coverage if there is no **companion policy** in effect at the time of loss.

b. **You** may cancel this policy at any time by returning it to the **participating insurer** or by notifying the **participating insurer** in writing of the date cancellation is to take effect. **You** may return the policy and submit the cancellation date to the agent of the **participating insurer**.

c. **We** may cancel this policy for the reasons stated in this condition or for any other grounds permitted by law, by notifying **you** in writing of the date cancellation takes or took effect. The cancellation notice may be delivered to **you**, or mailed to **you** at **your** mailing address shown in the **DECLARATIONS**. Proof of mailing will be sufficient proof of notice.

(i) When **you** have not paid the premium when due and payable, **we** may cancel at any time by notifying **you** at least 10 days before the cancellation takes effect.

(ii) When this policy has been in effect for less than 60 days and is not a renewal with **us**, **we** may cancel the policy if the property does not meet the eligibility standards of the **CEA**, by notifying **you** at least 20 days before the date cancellation takes effect.

(iii) When this policy has been in effect 60 or more days, or is a renewal with **us**, **we** may cancel at any time by notifying **you** at least 30 days before the date cancellation takes effect, based on the occurrence of one or more of the following:

(A) **Your** conviction of a crime having as one of its necessary elements an act increasing any hazard insured against; or

(B) **Our** discovery of fraud or material misrepresentation by either the **insured** or the **insured's** representative in obtaining the insurance, or by **you** or **your** representative in pursuing a claim under the policy; or

(C) **Our** discovery of grossly negligent acts or omissions by the **insured** or his or her representative that have substantially increased any of the hazards insured against; or

(D) Physical changes to the **residence premises** that result in the property failing to meet the eligibility standards of the **CEA**; however, **we** may not cancel this policy because of physical changes that occur solely as a result of an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period; or

(E) **Your** failure to pay an **earthquake** policy surcharge imposed and authorized by the **California Earthquake Authority**, in accordance with California Insurance Code section 10089.29, subdivision (d).

d. When this policy is cancelled, any premium paid for the period from the effective date of the cancellation to the expiration date will be refunded. When the policy is cancelled, the return premium will be pro rata.

e. If, when **we** cancel this policy, the return premium is not refunded with the notice of cancellation, **we** will refund it within 25 business days after the notice of cancellation is sent. If, when **you** cancel this policy, the return premium is not refunded when **you** return the policy to **us**, **we** will refund it within 25 business days after the date **we** receive **your** notice of cancellation.

19. Conditional Reinstatement. If **we** mail a cancellation notice because **you** did not pay required premium when due and **you** then tender payment of the premium by check, draft, or other remittance that is not honored on presentation, **your** policy will terminate on the date and time shown on the cancellation notice and any notice **we** issue that states that it waives the cancellation or reinstates the coverage is void. This means **we** will not be liable under this policy for claims or damages after the date and time stated on the cancellation notice.

20. Non-Renewal. **We** may elect not to renew this policy by delivering to **you** or mailing to **you** at **your** mailing address shown in the **DECLARATIONS**, written notice of non-renewal at least ~~45~~ 75 days before the expiration date of this policy. Proof of mailing will be sufficient proof of notice.

21. Waiver or Change of Policy Provisions. No waiver or change of a policy provision is valid unless it is in writing and signed by **us**. **Our** request for an appraisal or examination does not waive any of **our** rights.

22. Assignment. **Your** assignment of this policy will not be valid unless **we** give written consent.

23. Death. If **you** die during the policy term, each of the following persons will be deemed an **insured** with respect to the property insured under this policy:

a. The legal representatives or **person** who by law succeeds to the ownership of the insured property, but only with respect to the property of the deceased covered under this policy at the time of death until the termination date of this policy; and

b. With respect to the property covered under this policy at the time of death, the **person** that has proper temporary custody of the property until appointment and qualification of a legal representative.

24. Recovered Property. If **you** or **we** recover any property for which **we** have made payment under this policy, **you** or **we** will notify the other of the recovery. At **your** option, the property will be returned to or retained by **you** or it will become **our** property. If the recovered property is returned to or retained by **you**, the loss payment will be adjusted based on the amount of the payment **we** made for the recovered property.

25. Abandonment of Property. **We** need not accept any property abandoned by an **insured**.

26. Surcharge Clause. In the event of an **earthquake** or series of **earthquakes**, **we** can impose a surcharge, as permitted by law, up to 20% of **your** annual policy premium within any one year, in accordance with California Insurance Code section 10089.29, subdivision (b), paragraph (1).

27. Pro-rata or Installment Claims Payments. In accordance with California Insurance Code Section 10089.35, if, at any time, the available capital of the **California Earthquake Authority** is insufficient to meet anticipated losses and there are no additional funds from assessments, reinsurance, or private capital markets available to pay claims, the **California Earthquake Authority** may pay claims on a pro-rata basis from the remaining funds available, or claims may be paid on an installment basis, based on a plan approved by the California Insurance Commissioner. If this occurs, **you** may not be paid the full amount of **your** claim. If **we** submit a pro rata or installment plan to the Insurance Commissioner, deadlines in this policy that apply to **our** payment of **your** claim may, at **our** sole option, be extended by the length of time the Insurance Commissioner has the plan under consideration; the deadlines will be reinstated and recomputed no later than the date an approved plan is in place. Also, with respect to **California Earthquake Authority** claims payments, California Insurance Code section 10089.25, subdivision (d), reads as follows: "The State of California shall have no liability for payment of claims in excess of funds available pursuant to this chapter. The State of California, and any of the funds of the State of California, shall have no obligations whatsoever for payment of claims or costs arising from this act, except as specifically provided in this act."

28. Changes to Policy Terms in the Event of an **Earthquake**. If an **earthquake** occurs during the policy period, and the **dwelling** identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the rights, at **our** option, to do either or both of the following:

    a. To refuse any request **you** make from the time of that **earthquake** until thirty days after the **earthquake** to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy; and

    b. To inspect the **residence premises** prior to granting any request **you** make from the time of that **earthquake** until the expiration of the term of this policy to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy, and to deny **your** request to alter the terms of this policy if **our** inspection reveals the existence of any **earthquake**-related damage to the **residence premises**.

29. Renewal of Policy in the Event of an **Earthquake**. In the event an **earthquake** occurs during the policy period and the **dwelling** identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the following rights with respect to the renewal of this policy:

    a. If the expiration date of this policy is between the date of the **earthquake** and 30 days after the **earthquake**, **we** have the right, at **our** option, to refuse to renew this policy on terms different from those contained in this policy. This means that **we** have the right to refuse any request **you** make from the time of

the **earthquake** until thirty days thereafter to change the limits of any of the coverages of this policy on renewal, purchase additional coverages from **us** on renewal, or lower the deductible of this policy on renewal.

b. **We** have the right, at **our** option, to inspect the **residence premises** prior to granting any request **you** make to renew this policy on terms different from those contained in this policy, including any request that **you** make on renewal to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy. **We** have the right to deny **your** request to alter the terms of this policy on renewal if **our** inspection reveals the existence of any **earthquake**-related damage to the **residence premises**.

30. Liberalization Clause. If **we** make a change that broadens coverage under this edition of **our** policy without additional premium charge to **you**, that change will automatically apply to **your** insurance as of the date **we** implement the change.

    This Liberalization Clause does not apply to changes implemented through **our** introduction of a subsequent edition of **our** policy.

CALIFORNIA EARTHQUAKE AUTHORITY
BASIC EARTHQUAKE POLICY—HOMEOWNERS

PLEASE READ YOUR POLICY

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IMPORTANT NOTICES

Many of the terms of this **California Earthquake Authority** policy are substantially different from the terms of **your companion policy** and many other policies that cover **dwellings**. The following items, among others, are unique to this policy. But these are not the only terms that are different from the terms of **your companion policy** and other **dwelling** policies—there are many others. Therefore **we** urge **you** to read **your** entire **CEA** policy.

The terms that appear in bold type appear frequently in this policy and are defined below under DEFINITIONS.

1. Deductible. No payment will be made for any property loss, including loss to personal property, until loss to property that is covered under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" exceeds the deductible shown on the **DECLARATIONS**. Regardless of the amount of loss to **your** personal property, there will be no payment for any loss unless the loss to **dwelling** and extensions to **dwelling** exceeds the amount of the deductible. Because of the way the deductible is determined, **you** could have substantial uninsured loss. There are other requirements and restrictions that relate to the deductible and there are coverages to which the deductible may not apply. Only the following coverages are not subject to any deductible:

    a. "COVERAGE D: LOSS OF USE," and
    b. The first $1,500 of coverage provided under "OTHER COVERAGES," Item 1, "Emergency Repairs."

    The deductible amount shown on the **DECLARATIONS** will not reduce the dollar amount of any **limit of insurance** stated on the **DECLARATIONS**; in other words, the amount **we** will pay will be the full amount by which **your** covered loss exceeds the deductible, up to the applicable **limit of insurance** stated on the **DECLARATIONS**.

    Please read the DEDUCTIBLE CLAUSE on page __.

2. **Companion Policy** Requirement. This policy and California law require that, during the entire policy period of this **CEA** policy, **you** must keep a **companion policy** in force. That **companion policy** must provide fire insurance for the property that is the subject of this **California Earthquake Authority** policy. That **companion policy** must be issued by the same **participating insurer** that issued this **earthquake** policy—if no **companion policy** is in effect at the time of loss, this **CEA** policy is void and no payment will be made under this **CEA** policy.

3. Not a "Guaranteed Replacement Cost" or "Extended Replacement Cost" Policy. This policy does not have a "guaranteed replacement cost" or "extended replacement cost" feature. For that reason, this policy does not provide for full repair or full replacement of covered property if, and to the extent, the loss exceeds (a) the applicable **limit of insurance** stated in the **DECLARATIONS** or, (b) if a **sublimit** applies to the loss, the applicable **sublimit** stated in the policy. The combined single **limit of insurance** for COVERAGE A: DWELLING and COVERAGE B: EXTENSIONS TO DWELLING stated on the **DECLARATIONS** of this **CEA** policy is not modified by any guaranteed-replacement-cost or extended-replacement-cost feature(s) that may increase the **limits of insurance** of **your** homeowners insurance policy or other **companion policy**.

4. Pro-rata or Installment Claims Payments**.** In accordance with California Insurance Code section 10089.35, if at any time the **California Earthquake Authority** Governing Board determines that the **CEA's** available capital may be exhausted and that no additional funds (from specified sources) will be available to the **CEA** to pay policyholder claims, the **CEA** may pay claims on a pro-rata basis or in installment payments, based on a plan presented to the California Insurance Commissioner. If this occurs, **you** might not be paid the full amount of **your** claim or **your** claim might be paid in installments, or both. Under no circumstances will the State of California be responsible for the payment of **your** claim. Please read the Pro-rata or Installment Claims Payments Clause on page ___.

5. Premium Surcharge if CEA Claim-Paying Capacity Is Exhausted**.** If an **earthquake,** or a series of **earthquakes,** exhausts the **California Earthquake Authority's** claim-paying capacity (as provided from specified sources), California Insurance Code section 10089.29, subdivision (b), paragraph (1), gives **us** the

power to impose an annual surcharge of up to 20% of **your** annual policy premium. Please read the Surcharge Clause on page ____.

THE LANGUAGE OF THIS POLICY HAS BEEN APPROVED BY THE CALIFORNIA INSURANCE COMMISSIONER

BASIC EARTHQUAKE POLICY--HOMEOWNERS

Please note that terms that appear frequently in this policy are defined below under DEFINITIONS and appear in bold type.

AGREEMENT

This policy is issued by the **California Earthquake Authority (CEA)**, a public instrumentality of the State of California established and authorized by law to transact insurance in California as necessary to sell policies of basic residential **earthquake** insurance.

1. Covered Losses. This policy insures for 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 to property described under COVERAGES A, B, and C, subject to all of the terms, **limits of insurance**, and conditions of this policy. In addition, as provided in COVERAGE D, **we** insure for Loss of Use of the **dwelling** resulting from a covered loss to covered property, subject to all of the terms, **limits of insurance**, and conditions of the policy.

2. Deductible. Except as otherwise explicitly stated in this policy, **we** will pay only when a covered loss to property exceeds the deductible amount shown on the **DECLARATIONS** page, as calculated in accordance with the terms of the DEDUCTIBLE CLAUSE. When a covered loss exceeds the deductible amount shown on the **DECLARATIONS** page, **we** will pay, up to the applicable **limit of insurance** stated on the **DECLARATIONS** page, the amount by which the covered loss exceeds the deductible amount.

3. Premium Payment. **We** will provide the insurance described in this policy in return for **your** payment of the premium and **your** compliance with all applicable provisions of this policy.

4. Policy Period. The policy period as shown on the **DECLARATIONS** page will begin and end at 12:01 a.m. Pacific Standard Time or Pacific Daylight Savings Time, whichever is in effect on the inception or termination date.

5. **Companion Policy. You** agree to keep in effect a **companion policy** written by the **participating insurer** that services this policy. If at the time of loss no **companion policy** is in effect, this **earthquake** policy is void and no payment will be made under this **earthquake** policy.

6. Policy Services. Policy services and claims adjusting will be provided by the **participating insurer.** All inquiries and correspondence regarding this policy should be directed to the **participating insurer.**

DEDUCTIBLE CLAUSE

Except for losses covered under "COVERAGE D: LOSS OF USE" and the first $1,500 of losses covered under "OTHER COVERAGES," Item 1, "Emergency Repairs," **we** will pay no amount for loss to any property, including loss to personal property covered under "COVERAGE C: PERSONAL PROPERTY," until the amount of the policy deductible shown on the **DECLARATIONS** page has been exceeded by the amount of covered loss to property that is covered under "COVERAGE A: DWELLING," "COVERAGE B: EXTENSIONS TO DWELLING," or "OTHER COVERAGES," Item 3, Land. "COVERAGE D: LOSS OF USE" is not subject to a deductible.

1. The deductible percentage and deductible amount in dollars that apply to this policy are shown on the **DECLARATIONS** page. The deductible amount is a percentage of the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING."

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

   a. The reasonable and necessary cost, not to exceed **replacement cost**, of any of the following:

i. Replacement or repair of the covered damage to property covered under "COVERAGE A: DWELLING," but with respect to property for which there is a **sublimit** under "COVERAGE A: DWELLING," only the amount up to the applicable **sublimit** for that property, and

ii. Replacement or repair of the covered damage to property covered under "COVERAGE B: EXTENSIONS TO DWELLING," but with respect to property for which there is a **sublimit** under "COVERAGE A: DWELLING," only the amount up to the applicable **sublimit** for that property, and

iii. Emergency measures in excess of $1,500 covered under "OTHER COVERAGES," Item 1, "Emergency Repairs" that **you** actually take to protect property that is covered under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" against further damage or to 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

iv. The cost to replace, rebuild, stabilize or otherwise restore the land that is covered under "OTHER COVERAGES," Item 3, "Land" but only up to the **sublimit** of $10,000, and

b. An amount equal to the reasonable and necessary costs of construction covered under "OTHER COVERAGES" Item 2, "Building Code Upgrades," but only up to the **limit of insurance** for "OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the **DECLARATIONS** page. Although the full amount of loss that would be covered under that coverage, up to the **limit of insurance** for OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the **DECLARATIONS** page, will be applied to meet the deductible, no payment will be made to **you** under OTHER COVERAGES" Item 2 "Building Code Upgrades" unless **you** actually do undertake repair or replacement of that covered property.

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

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

DEFINITIONS

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

1. **"Actual cash value"** means **replacement cost** less depreciation.

2. **"Association of owners"** means, if the location described in the **DECLARATIONS** is part of a **common interest development**, a nonprofit corporation or unincorporated association created for the purpose of governing and managing the **common interest development** in which the **dwelling** is located.

3. **"Business property"** means property pertaining to or intended for use in any (a) full-time or part-time trade, profession, or occupation, or (b) other activity intended for economic gain.

4. **"California Earthquake Authority"** or **"CEA"** means the entity that issued this policy. The **CEA** is a public instrumentality of the State of California created and authorized by law to transact insurance in California as necessary to sell policies of basic residential **earthquake** insurance. The authorization appears in the California Insurance Code, beginning at section 10089.5.

5. **"Chimney"** means the flue or vent and the building code-required structure that surrounds the flue or vent, including exterior chimney facings, from the firebox to the outside of that structure. **Chimney** does not

include a hearth, a mantel, the firebox where combustion takes place, or the foundation that supports the **chimney**.

6. "**Collectible**" or "**collectibles**" means an item or group of items of personal property, regardless of whether an individual item or part of a collection, the monetary worth of which is not primarily based on its utility or function, but rather, is primarily based on its value to a collector, including property that is kept for investment, has a real or perceived past or expected future increase in value because it would be desirable to collectors as part of a collection, or that has a monetary worth significantly greater than its intrinsic value because of its rarity or its demand among collectors.

7. **"Common interest development"** means any of the following:
   • A community apartment project, as defined in California Civil Code section 4105;
   • A condominium project, as defined in California Civil Code section 4125;
   • A planned development, as defined in California Civil Code section 4175; or
   • A stock cooperative, as defined in California Civil Code section 4190.

8. **"Companion policy"** means the fire insurance policy, homeowners policy, or other insurance policy that provides fire coverage for the property that is the subject of this **CEA** policy, and that is issued by the same **participating insurer** that services this **CEA** policy.

9. "**DECLARATIONS**" or "**DECLARATIONS** page" means the single-page document that accompanies, and forms a part of, this **CEA** policy, and which lists certain basic information specific to this policy, including, but not limited to, the policy number, policy period, name and mailing address of the named insured, **dwelling** address, and the **limits of insurance**, deductible, and premium applicable to this policy. The following title appears at the top of the **DECLARATIONS** page:

   CALIFORNIA EARTHQUAKE AUTHORITY
   BASIC EARTHQUAKE POLICY—HOMEOWNERS
   DECLARATIONS

10. **"Domestic partner"** means a party to a two-person domestic relationship registered by the California Secretary of State through the filing of a Declaration of Domestic Partnership, pursuant to California Family Code section 298.5.

11. **"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.

12. **"Earthquake"** means a vibration-generating rupture event caused by displacement within the earth's crust through release of strain associated with **tectonic processes** and includes effects such as ground shaking, liquefaction, and damaging amplification of ground motion. While land sliding, including seismically-induced land sliding, is not itself an **earthquake**, **we** cover, subject to "LOSSES EXCLUDED" Item 5 and subject to all other terms and conditions of this policy, loss to covered property arising out of a seismically-induced landslide if that landslide 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. **Earthquake** does not mean or include tsunami or volcanic eruption.

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

14. **"Insured"** means **you** and the following **persons** if they are permanent residents of **your** household:

a. **your** relatives, whether related by blood, marriage or adoption; and

b. anyone under the age of 21 who is in the care or custody of **you** or of any of **your** relatives who are permanent residents of **your** household.

15. **"Limit of insurance"** means the most **we** will pay for covered loss arising from any **seismic event**.

16. "**Loss assessment**" means an assessment charged by an **association of owners** against all property owners in a **common interest development** that is properly and legally made as a result of a loss to structures or other real property contained within that **common interest development**, and those structures or other real property are 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**.

17. **"Nuclear hazard"** means any nuclear reaction, radiation, or radioactive contamination, or any consequence of any of these.

18. **"Participating insurer"** means the insurance company that issued the **companion policy**, meets the legal requirements to offer residential earthquake coverage by participating in the **CEA**, and provides claims and policyholder services for this policy on behalf of the **CEA**.

19. **"Person"** means any human, association, organization, governmental entity, partnership, business trust, limited liability company, or corporation.

20. **"Replacement cost"** means:

    a. With respect to structures, the lesser of the reasonable cost at the time of loss to repair or replace covered damaged or destroyed property, without deduction for depreciation, (i) at the location of the **residence premises,** (ii) for the same use, and (iii) with materials of like kind and quality.

    b. With respect to personal property and wall-to-wall carpeting, the cost, without deduction for depreciation, of (i) new property identical to the damaged property or, (ii) if identical property is not obtainable, of new property of like quality and of comparable usefulness as the damaged property.

21. **"Residence premises"** means the one, two, three, or four unit **dwelling**, extensions to **dwelling**, and grounds at the address shown in the **DECLARATIONS** owned by **you**. **Residence premises** does not include land or extensions to **dwelling** not owned by **you**. Residence premises does not include property owned by a corporation, **association of owners** or other entity, including but not limited to property for the common use of members or shareholders even if **you** are a member or shareholder, except for any extensions to **dwelling** subject to a **loss assessment** covered under Item 4 of "Property Covered – Coverage B" on page ___of this policy.

22. **"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**.

23. **"Sublimit"** means a dollar limit on a coverage for a specific type of property within a category of property that is subject to a higher total **limit of insurance**. Payment under a **sublimit** will reduce the amount available under the total **limit of insurance**. For example, a **chimney** is covered under "COVERAGE A: DWELLING" which has a **limit of insurance** shown on the **DECLARATIONS** page, but no more than the $10,000 **sublimit** will be paid for loss to any and all **chimney**(s). In that example, the overall amount available under the "COVERAGE A: DWELLING" and COVERAGE B: EXTENSIONS TO DWELLING combined single **limit of insurance** would be reduced by the amount that is paid for loss to any **chimney**.

24. **"Tectonic processes"** means natural adjustments of the earth's crust that are wholly in response to regional stress conditions caused by natural dynamic forces within the earth's interior, and not initiated, in whole or in any part, by any human activity.

SINGLE LIMIT OF INSURANCE FOR DWELLING AND EXTENSIONS TO DWELLING; OTHER LIMITS AND SUBLIMITS

This policy has a combined single **limit of insurance** which is the most **we** will pay for all covered loss by **earthquake** under "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING." This combined **limit of insurance** is shown on **your DECLARATIONS** as the amount of **your dwelling limit of insurance**. The amount of insurance available to **you** under "COVERAGE A: DWELLING" will be reduced to the extent that **we** make any payment for "COVERAGE B: EXTENSIONS TO DWELLING," and the amount of coverage available to **you** under "COVERAGE B: EXTENSIONS TO DWELLING" will be reduced to the extent that **we** make any payment for "COVERAGE A: DWELLING." All other limits shown on the **DECLARATIONS** page are separate **limits of insurance**. There are **sublimits** within the **limits of insurance** that may reduce **your** recovery under this policy.

COVERAGES

COVERAGE A: DWELLING

Property Covered—Coverage A

Subject to the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" shown on the **DECLARATIONS** page, **we** cover:

1. The **dwelling** on the **residence premises**, except those parts of the **dwelling** that are described in "Property Not Covered—Coverages A and B" section of this policy.

2. Wall-to-wall carpeting attached to the **dwelling**.

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

Special Limits of Insurance—Coverage A

The **limits of insurance** shown below are **sublimits** of the policy's **limit of insurance** provided for "COVERAGE A: DWELLING" and do not increase the **limit of insurance** for "COVERAGE A: DWELLING" shown in the **DECLARATIONS**. The **sublimit** for each numbered category, immediately below, is the total **limit of insurance**

for all loss in that category. For property that falls into more than one category, the lowest applicable **sublimit** will apply.

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

2. $5,000 for all loss or damage to the **dwelling** or to wall-to-wall carpeting attached to the **dwelling** caused by **fungi** the presence of which directly results from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, including, but not limited to, the cost to repair damage from **fungi** or to test for, monitor, abate, mitigate, remove, dispose of or remediate **fungi**. This **sublimit** of $5,000 in coverage for loss or damage caused by **fungi** will be reduced by any amount that **we** pay under "OTHER COVERAGES," Item 1, "Emergency Repairs," for Emergency Repairs resulting from **fungi**. Except for the coverage specifically provided for in this **sublimit**, this policy does not provide coverage for any loss that is caused directly or indirectly by, or that in any way results from, is contributed to by, or is aggravated by **fungi**.

COVERAGE B: EXTENSIONS TO DWELLING

Property Covered—Coverage B

Subject to the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" shown on the **DECLARATIONS** page, **we** cover:

1. Equipment and utility service structures for electric, telephone, natural or bottled gas, heating, oil, water, septic, and sanitary sewage systems that (1) are owned by **you** and (2) are located outside of the foundation or walls of the **dwelling** but on the **residence premises** and (3) affect the habitability of the **dwelling**.

2. Walkways, driveways, decks, or patios on the **residence premises** that are necessary for and regularly used for either (1) pedestrian ingress to or egress from the **dwelling** by any **insured** or (2) ingress to and egress from the **dwelling** by any non-ambulatory **insured**, but **we** cover only that portion of each covered walkway, driveway, deck, or patio that is reasonably necessary for ingress to and egress from **dwellings** by pedestrian or non-ambulatory **insured**. Any portion of an otherwise-covered walkway, driveway, deck, or patio that is not reasonably necessary for and regularly used for pedestrian ingress to or egress from the **dwelling** by any **insured** or ingress to and egress from the **dwelling** by any non-ambulatory **insured**, and any walkway, driveway, deck, or patio not regularly used for any such purposes, is not covered.

3. Those bulkheads, piers, retaining walls, and masonry fences on the **residence premises** that are integral to the stability of the **dwelling**. Except as provided for in "OTHER COVERAGES," Item 3, the cost of repairing, replacing or stabilizing the land under or around these devices is not covered.

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

assessment that is made to affect the repair or replacement of property covered under Items 2 and 3 of this "Property Covered—Coverage B" section, subject to the $10,000 **sublimit**.

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

COVERAGE A: DWELLING AND COVERAGE B: EXTENSIONS TO DWELLING

Property Not Covered—Coverage A and Coverage B

We do not cover:

1. Land, including land underlying the **dwelling**, except as provided for in "OTHER COVERAGES," Item 3, "Land".

2. Except as provided for in "OTHER COVERAGES," Item 3, "Land" the cost of (a) land stabilization; (b) structures, apparatuses, or devices to stabilize the land; and (c) engineering associated with land stabilization.

3. Awnings and patio coverings, and their support structures. For purposes of this exclusion, carport covers are not awnings or patio coverings.

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

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

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

7. Plaster, to the extent the cost to repair or replace it exceeds the value of its replacement with sheetrock or drywall.
8. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," any structure on the **residence premises** other than the **dwelling**, including detached garages, outbuildings, and other structures.

9. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," Item 1, exterior water supply systems including, but not limited to, irrigation systems, sprinkler systems, and water reclamation systems.

10. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," Item 1, 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.

11. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," Item 2, walkways, driveways, decks, and patios.

12. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," Item 3, fences, bulkheads, piers, and outside walls including retaining walls.

13. Except as provided under "OTHER COVERAGES," Item 2, "Building Code Upgrades," any added costs of repair or replacement of covered property resulting from enforcement of any ordinance, law, or residential building code that regulates the use, construction, repair, or demolition of a building or other structure.

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

15. Swimming pools, spas, and hot tubs and all of their components, including the tile or other material linking or attaching the pool, spa, or hot tub to a deck or to the **dwelling**.

COVERAGE C: PERSONAL PROPERTY

Property Covered—Coverage C

Subject to the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY," **we** cover (1) personal property owned or used by an **insured** and located at the **residence premises**, and (2) at **your** request and subject to the **sublimit** of $2,500, personal property owned by others while that property is on any part of the **dwelling** occupied by an **insured**, and (3) the reasonable expense **you** incur in removing from the **residence premises** the debris of damaged covered personal property. The cost to repair or replace personal property or to remove the debris of personal property will not be applied to meet the deductible.

Special Limits of Insurance—Coverage C

The **limits of insurance** shown below are **sublimits** of the policy's **limit of insurance** provided for "COVERAGE C: PERSONAL PROPERTY" and do not increase the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" shown in the **DECLARATIONS**. The **sublimit** for each numbered category, immediately below, is the total **limit of insurance** for all loss in that category. For property that falls into more than one category, the lowest applicable **sublimit** will apply. If any item of property falls both into one of the following **sublimits** and one of the categories of property listed under "Property Not Covered – Coverage C," then **we** do not cover that item of property.

1. $250 in the aggregate on all money, bank notes, coins and medals, including any of these that are part of a collection.

2. $250 in the aggregate on all securities, checks, cashier's checks, traveler's checks, money orders, and other negotiable instruments; accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, passports, and tickets.
3. $3,000 in the aggregate on all computers and other electronic data processing equipment, including storage media and software used with that equipment, whether or not it is **business property**. Storage media or software that cannot be replaced with other property of like kind and quality on the current consumer retail market is not covered.

4. $1,000 in the aggregate on all **business property** other than computers and other electronic data processing equipment, storage media, and software.

5. $3,000 in the aggregate on all jewelry, watches, furs, and precious and semi-precious stones, but not more than $1,000 for any one article.

6. $3,000 in the aggregate on all **collectibles**, including but not limited to sports cards; **collectible** dolls, model trains, or toys; **collectible** postage stamps; **collectible** autographed items; memorabilia; and commemorative or otherwise **collectible** plates, spoons, or cups; regardless of whether any such item is a single item or part of a collection.

7. $3,000 in the aggregate on all beverages contained in bottles or in other glass, ceramic, or pottery containers, including but not limited to wine, port, liquor, beer, and all other alcoholic or non-alcoholic beverages.

Property Not Covered—Coverage C

We do not cover:

1. Pets, birds, fish, livestock, or other animals.

2. Motor vehicles, riding lawn mowers, or any motorized land conveyance, including their parts or accessories while in or on the motor vehicle, lawn mower, or conveyance. This exclusion does not apply to motorized land conveyances not licensed for use on public roads that are designed to assist and are used by the handicapped, or to the parts and accessories of those conveyances.

3. Any electronic equipment that is designed for operation by the electrical system of a motor vehicle, motorized land conveyance, or a camp or home trailer while any of this equipment is in, on, or installed in a motor vehicle, motorized land conveyance, or a camp or home trailer, including but not limited to: computers; citizens band and other two-way mobile radios; satellite and cellular telephones; radio receivers, transceivers, and transmitters; scanners and scanning monitor receivers; radar detectors; tape or disc players and recorders, MP3 players; televisions; video players, recorders, and monitors; global positioning satellite (GPS) devices, personal digital assistants and other handheld devices; and any accessories, antennas, speakers, tapes, discs, cartridges, media, carrying cases, charging devices, batteries, or other devices and accessories used with that equipment.

4. Aircraft, including their parts and equipment.

5. Property that is not owned or used by an **insured,** including but not limited to the property of roomers, boarders, and other tenants, except (a) the property owned by others that **we** cover at **your** request under Item 2 of "Property Covered—Coverage C," subject to the applicable **sublimit** of $2,500, and (b) the property of roomers and boarders related to any **insured**.

6. Valuable papers, records or data, including:

   a. books of account, drawings, card index systems and other records; and

   b. data stored on electronic data storage devices, including processing tapes, wires, records, discs, computer drives, portable storage devices or media, or other magnetic or optical media.

   We do, however, cover the cost of blank recording or storage media and of prerecorded computer programs that are available on the retail market, subject to the **sublimit** set forth in "Special Limits of Insurance—Coverage C," Item 3.

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

8. Breakable items, consisting of the following:

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

9. Watercraft, including their furnishings, equipment, and inboard, outboard, or inboard-outboard motors.

10. Trailers.

11. Trees, shrubs, or plants, or their containers.

12. Swimming pools, spas, and hot tubs, including all of their components.

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

COVERAGE D: LOSS OF USE

If a **limit of insurance** for "COVERAGE D: LOSS OF USE" is shown on the **DECLARATIONS** page, then subject to that **limit of insurance** and all the terms and conditions of this policy, **we** provide the following coverage, not subject to any deductible.

1. Additional Living Expense. If the part of the **dwelling** that **you** occupy becomes unfit to live in and **you** are forced to vacate the **dwelling** as a result of either (1) damage to the **dwelling** or covered extensions to **dwelling** 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 **dwelling** or covered extensions to **dwelling** 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 **dwelling you** occupy that are unfit to live in, or (b) for **you** to permanently relocate elsewhere if **you** do not elect to repair or replace **your dwelling**.

2. Loss of Rent. If the part of the **dwelling** that **you** rent to others or that **you** actually hold for rental becomes unfit to live in as a result of either (1) damage to the **dwelling** or covered extensions to **dwelling** 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 **dwelling** or covered extensions to **dwelling** caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** cover the fair rental value of that part of the **dwelling** that is rented to others or that **you** actually held for rental prior to the loss, less any expenses that do not continue while the rental portion of the **dwelling** is unfit to live in. Fair rental value means the average rental amount immediately before the **earthquake** in **your** rental market for a residential unit similar to that covered under this policy.

   We will pay for the shortest time reasonably needed to repair or replace the parts of the **dwelling** rented or held for rental that are unfit to live in. **Your** loss of rents due to cancellation of a lease or rental agreement is not covered.

3. 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** that commences during the policy period as part of a

seismic event that commences during the policy period, **we** cover the resulting Additional Living Expense or Loss of Rent, subject to the "COVERAGE D: LOSS OF USE" **limits of insurance**.

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.

   b. **Your** taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve **you** of **your** responsibilities outlined in "**Your** Duties After Loss" (CONDITIONS, Item 3).

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

3. Land. **We** will pay up to $10,000 for the cost, including engineering costs, to replace, rebuild, stabilize or otherwise restore land that is owned by **you** and necessary to support the **dwelling** or covered extensions to **dwelling**, or to add devices or apparatuses to stabilize land that is owned by **you** and necessary to support the **dwelling** or covered extensions to **dwelling**, if the need for stabilization is caused directly by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period and the stabilization is necessary for the habitability of the **dwelling**. This coverage is

provided as a $10,000 **sublimit** of the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING." The combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" will be reduced by any amount **we** pay under this coverage.

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

   a. Energy Efficiency Upgrades: **We** will pay the reasonable added costs you incur to replace damaged covered property with the following energy-efficient property:

      i. Electronic Equipment – Energy Star Replacement. If there is covered loss to electronic equipment, including but not limited to equipment for heating, ventilation, and air conditioning (HVAC) systems, that is part of the **dwelling** and that is covered under "COVERAGE A: DWELLING," and that electronic equipment must be replaced rather than repaired, then we will pay the reasonable expenses **you** incur to replace damaged or destroyed electronic equipment with equipment of otherwise equivalent quality and function that has been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.

      ii. Window, Door, Roofing, and Insulation Energy Upgrades. If there a loss to the **dwelling** that requires the repair or replacement of roofing or insulation material, air sealing, windows, doors, or skylights, then **we** will pay the reasonable expenses **you** incur to replace those damaged or destroyed materials with materials of otherwise equivalent quality and function that have been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.

      iii. Plumbing Fixture Upgrades. If there is a loss to the **dwelling** that requires the repair or replacement of plumbing fixtures, then **we** will pay the reasonable expenses **you** incur to replace those fixtures with energy and water efficient fixtures, including automatic faucet sensors, faucet and shower head flow restrictors, dual flush toilets, and localized water heaters, using plumbing fixtures of otherwise equivalent quality and function provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of the U.S. Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines.

   b. Environmental Safety Upgrades. **We** will pay reasonable added costs **you** incur to repair or replace the damaged or destroyed property covered under "COVERAGE A: DWELLING" with the following environmentally-upgraded property, provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of

the U.S. Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines:

i. Interior Finish Materials Upgrades. If there is a covered loss to the **dwelling** that requires the repair or replacement of interior finish materials, then **we** will pay the reasonable expenses **you** incur to replace those materials with materials of otherwise equivalent quality and function that are low in volatile organic compounds (VOC), sustainably developed, rapidly renewable, or comprised of recycled materials. This coverage applies to interior paints, architectural coatings, primers under coatings, adhesives and sealants, low emissions carpet and floor coverings, including adhesive to affix them to the floor, and permanently installed composite wood fixtures including counters, cabinets and partitions, where available, Forest Stewardship Council certified wood for millwork, ceilings, siding, and framing, and bamboo flooring.

ii. Elimination of Ozone-Depleting Substances Upgrades. If there is a covered loss to the **dwelling** that requires the repair or replacement of systems containing such items, then **we** will pay the reasonable expenses **you** incur to replace chlorofluorocarbon refrigerants (CFC) or hydro-chlorofluorocarbon (HCFC) or Halon refrigerants or fire extinguishing agents with environmentally-upgraded replacements.

iii. Flush Out of Reconstructed Space. If necessitated by the repair or replacement of covered loss to the **dwelling**, **we** will pay the reasonable and necessary costs to flush out the reconstructed space with 100% outside air and new filtration media following completion of the repair or reconstruction process.

LOSSES EXCLUDED

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:

1. Fire or explosion.

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

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

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

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

   (ii) The displacement of water from an aquarium, drinking water container or dispenser, 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**, or

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

3. Controlled or uncontrolled **nuclear hazard** or any act or condition incident to any **nuclear hazard**.

4. Pollution of groundwater, land, and personal property, including all loss, damage, costs, and expenses that arise out of or are caused by pollution or pollutants, and any cost or expense to test for, monitor, clean up, remove, contain, treat, detoxify, or neutralize pollutants. The terms "pollutants" and "pollution" mean any solid, liquid, gaseous, or thermal irritant or contaminant, including, but not limited to, smoke, vapor, soot, fumes, acids, alkalis, chemicals, asbestos, and waste. The term "waste" includes but is not limited to material to be recycled, reconditioned, or reclaimed.

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.

6. **Fungi**, including but not limited to the cost to repair or replace property damaged by **fungi** or to test for, monitor, abate, mitigate, remove, dispose of or remediate **fungi**, except for loss or damage to the **dwelling** or to wall-to-wall carpeting attached to the **dwelling** caused by **fungi** the presence of which directly results from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, and subject to the $5,000 **sublimit** set forth in "Special Limits of Insurance—Coverage A," Item 2.

7. Theft, vandalism or other human conduct causing loss following an **earthquake**.

8. Required compliance with any ordinance, law, or residential building code that regulates the use, construction, repair, or demolition of a building or other structure, except as specifically provided under this policy, in "OTHER COVERAGES," Item 2, "Building Code Upgrades."

9. Power failure, meaning the failure of delivery of electrical power to the **dwelling** or to the **residence premises**.

10. **Your** neglect to take all reasonable action to save and preserve covered property at the time of and after a covered loss.

11. Declared or undeclared war, acts of terrorism, insurrection, rebellion, revolution, warlike act by a military force or military personnel or any person, destruction or seizure or use for a military purpose, and any consequence of any of these. Discharge of a nuclear weapon will be deemed a warlike act even if accidental.

12. Intentional acts, meaning any loss arising out of any act committed:

    a. by **you** or at **your** direction, or at the direction of any **insured** or of any **person** named as an additional **insured**; and
    b. with the intent to cause, aggravate or increase a loss.

YOUR RIGHTS CONCERNING CLAIMS INVESTIGATION

The law provides certain rights and protections to policyholders who are involved in the presentation of a claim. Included among these are the following:

1. Specific rights to privacy under California and Federal law which may protect **you** during the claims process;

2. The right to have **your** claim handled in accordance with the California Insurance Code and Subchapter 7.5 of Chapter 5 of Title 10 of the California Code of Regulations, which impose fair claims handling procedures and requirements on insurers; and

3. The right to be represented by an attorney at **your** expense.

CONDITIONS

1. Insurable Interest and **Limit of Insurance**. Even if more than one **person** has an insurable interest in the property covered, **we** will not be liable:

   a. to **you** for an amount greater than **your** interest; nor

   b. for more than the applicable **limit of insurance**.

2. Concealment or Fraud. The entire policy will be void if, before or after a loss, any **insured** does any of the following:

   a. Intentionally conceals or misrepresents any material fact or circumstance;

   b. Engages in fraudulent conduct relating to this insurance; or

   c. Intentionally makes false statements relating to this insurance.

3. **Your** Duties After Loss. If a loss occurs to covered property, **you** must perform the following duties:

   a. Give written notice to the **participating insurer** without delay.

   b. Protect the property from further damage. Make any emergency repairs that are necessary and reasonable to protect the property from further damage. Keep records of all costs **you** incur to repair or replace covered property or to protect covered property from further damage.

   c. Make and keep a list of all damaged or destroyed personal property, showing in detail the quantity, description, and amount of covered loss. Keep all bills, receipts, and related records that support **your** figures.

   d. As often as reasonably required:

      (i) Exhibit damaged property to the **participating insurer**;

      (ii) Provide the **participating insurer** with the records and documents that are necessary to support **your** claim under the policy and which the **participating insurer** may request, including bills, receipts, cancelled checks, and related records that support **your** figures, and permit the **participating insurer** to make copies; and

      (iii) While not in the presence of any other **insured**, submit to examination under oath and sign a transcript of the examination.

e. Send the **participating insurer**, within 60 days of **our** or the **participating insurer's** request, **your** signed, sworn proof of loss that sets forth, to the best of **your** knowledge and belief:

(i) The time, date, and cause of loss;

(ii) Y**our** interest and the interest of all others in the property that sustained a loss, and evidence of all liens or encumbrances on the property;

(iii) A detailed description of all legal claims against the property that sustained a loss;

(iv) Evidence of other insurance that may cover the loss;

(v) A description of changes in title to or occupancy of the property during the term of the policy;

(vi) Descriptions and detailed repair estimates of any damaged building or other covered structure;

(vii) The list of damaged or destroyed personal property covered under this policy; and

(viii) All receipts and records that support any claim for additional living expense or fair rental value.

4. Loss Settlement: Coverages A, B and C.

In case of loss to a pair or set **we** can elect to do either of the following:

a. Repair or replace any part to restore the pair or set to its value before the loss; or

b. Pay the difference between **replacement cost** of the pair or set before and after the loss.

5. Loss Settlement: Coverages A and B.

a. **Our** liability for any loss to property insured under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" will not exceed the smallest of the following:

(i) The **replacement cost** at the time of loss;

(ii) If the damaged property has been actually repaired or replaced, the amount actually and necessarily spent to repair or replace the damaged property; or

(iii) The applicable **limit of insurance** or any applicable **sublimit(s)**.

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

c. **We** will not pay for increased costs resulting from enforcement of 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 in "OTHER COVERAGES," Item 2, "Building Code Upgrades."

d. **We** will pay for the cost to repair or replace only that portion of any regularly used walkway, driveway, deck, or patio covered under this policy that is necessary to restore (i) pedestrian ingress to and egress from the **dwelling** or (ii) ingress to and egress from the **dwelling** by any non-ambulatory **insured**.

e. To repair or replace plaster, **we** will not pay more than the cost to repair or replace the plaster with sheetrock or drywall.

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

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

(i) The **sublimit** of $10,000 that applies to **chimneys**;

(ii) The cost of replacement of a masonry **chimney** or **chimneys** with a non-masonry, earthquake-resistant **chimney** or **chimneys**; or

(iii) The necessary amount actually spent to repair the damaged **chimney** or **chimneys**.

6. Loss Settlement: Coverage C.

a. **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.

b. **Our** liability for loss to any property insured under "COVERAGE C: PERSONAL PROPERTY" will not exceed the smallest of the following:

(i) The **replacement cost** at the time of loss;

(ii) 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)**.

7. Appraisal. If **you** and **we** fail to agree on the amount of loss, either of us may demand an appraisal of the loss. In this event, each party will choose a competent and disinterested appraiser within 20 days after receiving the written demand from the other. The two appraisers will choose a neutral and independent umpire. If they cannot agree on an umpire within 15 days, **you** or **we** may request that a judge of a California court of competent jurisdiction in the county where the insured **dwelling** is located appoint an umpire. The two appraisers will separately appraise the amount of loss under this policy. If the appraisers submit an agreed written report to **us**, the amount they agree on will be the amount of loss under this policy. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two of the three appraisers will set the amount of loss under this policy. Each party will (a) pay its own appraiser, and (b) bear the other expenses of the appraisal and of the umpire equally.

8. Other Insurance.

a. If there is other insurance that covers earthquake loss to the **dwelling** or other property covered under this policy, **we** will pay **our** share of the covered loss or damage. **Our** share is the proportion that the applicable **limit of insurance** under this policy bears to the combined **limits of insurance** of all policies that cover the same property.

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

9. Subrogation. **You** may waive in writing before a loss under this policy all **your** rights of recovery against any **person**. If **you** do not waive those rights, **we** may require an assignment of **your** rights of recovery for a loss to the extent that **we** make payment for that loss. If **we** seek an assignment, the **insured** must sign and deliver all related papers to **us** and cooperate with **us**.

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

11. **Our** Option to Repair or Replace Property. If **we** give **you** written notice within 30 days after **we** receive **your** proof of loss, **we** may repair or replace any part of the damaged property with like property.

12. Loss Adjustment: **We**, through the **participating insurer**, will adjust all losses with **you**. 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.

13. Loss Payment. As to all claims **we** determine to be covered under this policy, **we** will pay **you** unless some other **person** is named in the policy or is legally entitled to receive payment. That portion of a claim that is not in dispute will be payable within 30 days after **we** receive **your** proof of loss. All other losses will be payable within 30 days after **we** receive **your** proof of loss and:

    a. **we** reach an agreement with **you**;

    b. there is an entry of a final judgment; or

    c. there is a filing of a final appraisal award with **us**.

14. Mortgagee Clause.

    a. The word "mortgagee" as used in this policy includes trustee or beneficiary under a trust deed.

    b. If a mortgagee is named as a loss payee in this policy and, as a condition for making a loan to **you** secured by the **dwelling**, that mortgagee either (1) required **you** to purchase **earthquake** insurance that covers the **dwelling** or (2) required that the mortgagee be named as a loss payee under any coverage on the **dwelling**, any loss payable under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" will be paid to the mortgagee, to the extent of its interest, and to **you**. If more than one

mortgagee is so named and otherwise qualifies, the order of payment will be the same as the order of preference of the mortgages.

c. If **we** deny **your** claim, that denial will not apply to a valid claim of the mortgagee, if the mortgagee does all of the following:

(i) Notifies the **participating insurer** of any change in ownership or occupancy of the **dwelling**, or of any substantial change in risk of which the mortgagee is aware;

(ii) Pays any premium due under this policy on demand if **you** have neglected to pay the premium; and

(iii) Submits a signed, sworn statement of loss within 60 days after it receives notice from **us** of **your** failure to do so.

d. If **we** decide to cancel or not to renew this policy, **we** will take reasonable steps to notify any mortgagee named as a loss payee under this policy at least 10 days before the date cancellation or nonrenewal takes effect.

e. If **we** pay the mortgagee for any loss and deny payment to **you**:

(i) **We** are subrogated to all the rights of the mortgagee granted under the mortgage on the property, which will not impair the right of the mortgagee to recover the full amount of the mortgagee's claim, or

(ii) At **our** option, **we** may pay to the mortgagee the whole principal on the mortgage plus any accrued interest, in which event, **we** will receive a full assignment and transfer of the mortgage and all security held as collateral for the mortgage debt.

f. Policy conditions relating to loss settlement and payment, including, but not limited to, the Appraisal, Legal Action, Loss Adjustment, and Loss Payment conditions, apply to the mortgagee.

15. No Benefit to Bailee. **We** will not recognize any assignment or grant any coverage that benefits a **person** that holds, stores, or moves property for a fee, regardless of any other provision of this policy, unless that **person** is named as an **insured** under this policy.

16. Payment. If **you** pay the initial premium for **your** first policy period by check, draft, or any remittance other than cash, **we** will credit **you** with that payment only if the check, draft, or remittance is honored on presentation. If **your** check, draft, or remittance is not honored on presentation, this policy is void from its inception. "Void from its inception" means that **we** will not be liable under this policy for any claims or damages that would otherwise have been covered had the check, draft, or remittance been honored on presentation and had the policy remained in effect.

17. Automatic Termination**.** If, before the end of the then current policy period of this policy, **we** or the **participating insurer** provide **you** with a renewal notice for **your** policy, that notice will be deemed **our** offer to renew **your** policy for an additional policy period. If **we** do not receive **your** required premium payment on or before the end of the then current policy period, **your** policy will terminate automatically at the expiration of the then current policy period. This means that **you** will have elected not to accept **our** offer to renew the policy, and no notice will be sent to **you**. **Your** failure to accept **our** offer to renew the policy is not a cancellation or non-renewal by **us**.

18. Cancellation.

a. When the **companion policy** is cancelled for any reason, this policy is cancelled effective on the same date the **companion policy** cancellation takes effect, and any unearned premiums will be returned to **you** on a pro rata basis. This policy will not provide coverage if there is no **companion policy** in effect at the time of loss.

b. **You** may cancel this policy at any time by returning it to the **participating insurer** or by notifying the **participating insurer** in writing of the date cancellation is to take effect. **You** may return the policy and submit the cancellation date to the agent of the **participating insurer**.

c. **We** may cancel this policy for the reasons stated in this condition or for any other grounds permitted by law, by notifying **you** in writing of the date cancellation takes or took effect. The cancellation notice may be delivered to **you**, or mailed to **you** at **your** mailing address shown in the **DECLARATIONS**. Proof of mailing will be sufficient proof of notice.

(i) When **you** have not paid the premium when due and payable, **we** may cancel at any time by notifying **you** at least 10 days before the cancellation takes effect.

(ii) When this policy has been in effect for less than 60 days and is not a renewal with **us**, **we** may cancel the policy if the property does not meet the eligibility standards of the **CEA**, by notifying **you** at least 20 days before the date cancellation takes effect.

(iii) When this policy has been in effect 60 or more days, or is a renewal with **us**, **we** may cancel at any time by notifying **you** at least 30 days before the date cancellation takes effect, based on the occurrence of one or more of the following:

(A) **Your** conviction of a crime having as one of its necessary elements an act increasing any hazard insured against; or

(B) **Our** discovery of fraud or material misrepresentation by either the **insured** or the **insured's** representative in obtaining the insurance, or by **you** or **your** representative in pursuing a claim under the policy; or

(C) **Our** discovery of grossly negligent acts or omissions by the **insured** or his or her representative that have substantially increased any of the hazards insured against; or

(D) Physical changes to the **residence premises** that result in the property failing to meet the eligibility standards of the **CEA**; however, **we** may not cancel this policy because of physical changes that occur solely as a result of an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period; or

(E) **Your** failure to pay an **earthquake** policy surcharge imposed and authorized by the **California Earthquake Authority**, in accordance with California Insurance Code section 10089.29, subdivision (d).

d. When this policy is cancelled, any premium paid for the period from the effective date of the cancellation to the expiration date will be refunded. When the policy is cancelled, the return premium will be pro rata.

e. If, when **we** cancel this policy, the return premium is not refunded with the notice of cancellation, **we** will refund it within 25 business days after the notice of cancellation is sent. If, when **you** cancel this policy, the return premium is not refunded when **you** return the policy to **us**, **we** will refund it within 25 business days after the date **we** receive **your** notice of cancellation.

19. Conditional Reinstatement. If **we** mail a cancellation notice because **you** did not pay required premium when due and **you** then tender payment of the premium by check, draft, or other remittance that is not honored on presentation, **your** policy will terminate on the date and time shown on the cancellation notice and any notice **we** issue that states that it waives the cancellation or reinstates the coverage is void. This means **we** will not be liable under this policy for claims or damages after the date and time stated on the cancellation notice.

20. Non-Renewal. **We** may elect not to renew this policy by delivering to **you** or mailing to **you** at **your** mailing address shown in the **DECLARATIONS**, written notice of non-renewal at least 75 days before the expiration date of this policy. Proof of mailing will be sufficient proof of notice.

21. Waiver or Change of Policy Provisions. No waiver or change of a policy provision is valid unless it is in writing and signed by **us**. **Our** request for an appraisal or examination does not waive any of **our** rights.

22. Assignment. **Your** assignment of this policy will not be valid unless **we** give written consent.

23. Death. If **you** die during the policy term, each of the following persons will be deemed an **insured** with respect to the property insured under this policy:

    a. The legal representatives or **person** who by law succeeds to the ownership of the insured property, but only with respect to the property of the deceased covered under this policy at the time of death until the termination date of this policy; and
    b. With respect to the property covered under this policy at the time of death, the **person** that has proper temporary custody of the property until appointment and qualification of a legal representative.

24. Recovered Property. If **you** or **we** recover any property for which **we** have made payment under this policy, **you** or **we** will notify the other of the recovery. At **your** option, the property will be returned to or retained by **you** or it will become **our** property. If the recovered property is returned to or retained by **you**, the loss payment will be adjusted based on the amount of the payment **we** made for the recovered property.

25. Abandonment of Property. **We** need not accept any property abandoned by an **insured**.

26. Surcharge Clause. In the event of an **earthquake** or series of **earthquakes**, **we** can impose a surcharge, as permitted by law, up to 20% of **your** annual policy premium within any one year, in accordance with California Insurance Code section 10089.29, subdivision (b), paragraph (1).

27. Pro-rata or Installment Claims Payments. In accordance with California Insurance Code Section 10089.35, if, at any time, the available capital of the **California Earthquake Authority** is insufficient to meet anticipated losses and there are no additional funds from assessments, reinsurance, or private capital markets available to pay claims, the **California Earthquake Authority** may pay claims on a pro-rata basis from the remaining funds available, or claims may be paid on an installment basis, based on a plan approved by the California Insurance Commissioner. If this occurs, **you** may not be paid the full amount of **your** claim. If **we** submit a pro rata or installment plan to the Insurance Commissioner, deadlines in this policy that apply to **our** payment of **your** claim may, at **our** sole option, be extended by the length of time the Insurance Commissioner has the plan under consideration; the deadlines will be reinstated and recomputed no later than the date an approved plan is in place. Also, with respect to **California Earthquake Authority** claims payments, California Insurance Code section 10089.25, subdivision (d), reads as follows: "The State of California shall have no liability for payment of claims in excess of funds available pursuant to this chapter. The State of California, and any of the funds of the State of California, shall have no obligations whatsoever for payment of claims or costs arising from this act, except as specifically provided in this act."

28. Changes to Policy Terms in the Event of an **Earthquake**. If an **earthquake** occurs during the policy period, and the **dwelling** identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the rights, at **our** option, to do either or both of the following:

    a. To refuse any request **you** make from the time of that **earthquake** until thirty days after the **earthquake** to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy; and

    b. To inspect the **residence premises** prior to granting any request **you** make from the time of that

earthquake until the expiration of the term of this policy to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy, and to deny **your** request to alter the terms of this policy if **our** inspection reveals the existence of any **earthquake**-related damage to the **residence premises**.

29. Renewal of Policy in the Event of an **Earthquake**. In the event an **earthquake** occurs during the policy period and the **dwelling** identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the following rights with respect to the renewal of this policy:

    a. If the expiration date of this policy is between the date of the **earthquake** and 30 days after the **earthquake**, **we** have the right, at **our** option, to refuse to renew this policy on terms different from those contained in this policy. This means that **we** have the right to refuse any request **you** make from the time of the **earthquake** until thirty days thereafter to change the limits of any of the coverages of this policy on renewal, purchase additional coverages from **us** on renewal, or lower the deductible of this policy on renewal.
    b. **We** have the right, at **our** option, to inspect the **residence premises** prior to granting any request **you** make to renew this policy on terms different from those contained in this policy, including any request that **you** make on renewal to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy. **We** have the right to deny **your** request to alter the terms of this policy on renewal if **our** inspection reveals the existence of any **earthquake**-related damage to the **residence premises**.

30. Liberalization Clause. If **we** make a change that broadens coverage under this edition of **our** policy without additional premium charge to **you**, that change will automatically apply to **your** insurance as of the date **we** implement the change.

    This Liberalization Clause does not apply to changes implemented through **our** introduction of a subsequent edition of **our** policy.

CALIFORNIA EARTHQUAKE AUTHORITY
BASIC EARTHQUAKE POLICY—HOMEOWNERS CHOICE

PLEASE READ YOUR POLICY

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IMPORTANT NOTICES

Many of the terms of this **California Earthquake Authority** policy are substantially different from the terms of **your companion policy** and many other policies that cover **dwellings**. The following items, among others, are unique to this policy. But these are not the only terms that are different from the terms of **your companion policy** and other **dwelling** policies—there are many others. Therefore **we** urge **you** to read **your** entire **CEA** policy.

The terms that appear in bold type appear frequently in this policy and are defined below under DEFINITIONS.

1. Deductible. No payment will be made for any property loss until the amount of covered loss to the type of property for which **you** make a claim under this policy exceeds the deductible stated on the **DECLARATIONS**. Because of the way the deductible is determined, **you** could have substantial uninsured loss. There are other requirements and restrictions that relate to the deductible and there are coverages to which the deductible may not apply. Only the following coverages are not subject to any deductible:

    a. "COVERAGE D: LOSS OF USE," and
    b. The first $1,500 of coverage provided under "OTHER COVERAGES," Item 1, "Emergency Repairs."

    The deductible amounts shown on the **DECLARATIONS** will not reduce the dollar amount of any **limit of insurance** stated on the **DECLARATIONS**; in other words, the amount **we** will pay will be the full amount by which **your** covered loss exceeds the applicable deductible, up to the applicable **limit of insurance** stated on the **DECLARATIONS**.

    Please read the deductible clause relating to each type of covered property.

2. **Companion Policy** Requirement. This policy and California law require that, during the entire policy period of this **CEA** policy, **you** must keep a **companion policy** in force. That **companion policy** must provide fire insurance for the property that is the subject of this **California Earthquake Authority** policy. That **companion policy** must be issued by the same **participating insurer** that issued this **earthquake** policy—if no **companion policy** is in effect at the time of loss, this **CEA** policy is void and no payment will be made under this **CEA** policy.

3. Not a "Guaranteed Replacement Cost" or "Extended Replacement Cost" Policy. This policy does not have a "guaranteed replacement cost" or "extended replacement cost" feature. For that reason, this policy does not provide for full repair or full replacement of covered property if, and to the extent, the loss exceeds (a) the applicable **limit of insurance** stated in the **DECLARATIONS** or, (b) if a **sublimit** applies to the loss, the applicable **sublimit** stated in the policy. The combined single **limit of insurance** for COVERAGE A: DWELLING and COVERAGE B: EXTENSIONS TO DWELLING stated on the **DECLARATIONS** of this **CEA** policy is not modified by any guaranteed-replacement-cost or extended-replacement-cost feature(s) that may increase the **limits of insurance** of **your** homeowners insurance policy or other **companion policy**.

4. Pro-rata or Installment Claims Payments**.** In accordance with California Insurance Code section 10089.35, if at any time the **California Earthquake Authority** Governing Board determines that the **CEA's** available capital may be exhausted and that no additional funds (from specified sources) will be available to the **CEA** to pay policyholder claims, the **CEA** may pay claims on a pro-rata basis or in installment payments, based on a plan presented to the California Insurance Commissioner. If this occurs, **you** might not be paid the full amount of **your** claim or **your** claim might be paid in installments, or both. Under no circumstances will the State of California be responsible for the payment of **your** claim. Please read the Pro-rata or Installment Claims Payments Clause on page ___.

5. Premium Surcharge if CEA Claim-Paying Capacity Is Exhausted**.** If an **earthquake,** or a series of **earthquakes,** exhausts the **California Earthquake Authority's** claim-paying capacity (as provided from specified sources), California Insurance Code section 10089.29, subdivision (b), paragraph (1), gives **us** the power to impose an annual surcharge of up to 20% of **your** annual policy premium. Please read the Surcharge Clause on page ____.

THE LANGUAGE OF THIS POLICY HAS BEEN
APPROVED BY THE CALIFORNIA INSURANCE COMMISSIONER.

BASIC EARTHQUAKE POLICY—HOMEOWNERS CHOICE

Please note that terms that appear frequently in this policy are defined below under DEFINITIONS and appear in bold type.

AGREEMENT

This policy is issued by the **California Earthquake Authority (CEA)**, a public instrumentality of the State of California established and authorized by law to transact insurance in California as necessary to sell policies of basic residential **earthquake** insurance.

1. Covered Losses. This policy insures for 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 to property described under COVERAGES A, B, and C, subject to all of the terms, **limits of insurance**, and conditions of this policy. In addition, as provided in COVERAGE D, **we** insure for Loss of Use of the **dwelling** resulting from a covered loss to covered property, subject to all of the terms, **limits of insurance**, and conditions of the policy.

2. Deductible. Except as otherwise explicitly stated in this policy, **we** will pay only when a covered loss to property exceeds the deductible amount shown on the **DECLARATIONS** page applicable to that category of property. When a covered loss exceeds the applicable deductible amount shown on the **DECLARATIONS** page, **we** will pay, up to the applicable **limit of insurance** stated on the **DECLARATIONS** page, the amount by which the covered loss exceeds the deductible amount. The deductible will be applied one time for each **seismic event**. There is one combined deductible that applies to COVERAGE A: DWELLING and COVERAGE B: EXTENSIONS TO DWELLING, and a separate deductible that applies to COVERAGE C: PERSONAL PROPERTY. **We** will pay no amount for any loss under COVERAGE A: DWELLING or COVERAGE B: EXTENSIONS TO DWELLING until the amount of the loss exceeds the amount of the combined deductible for COVERAGE A: DWELLING and COVERAGE B: EXTENSIONS TO DWELLING shown on the **DECLARATIONS** page; and **we** will pay no amount for any loss under COVERAGE C: PERSONAL PROPERTY until the amount of the loss exceeds the amount of the deductible for COVERAGE C: PERSONAL PROPERTY shown on the **DECLARATIONS** page. For further information and what will be applied to meet each deductible, see "Computation of Deductible—Coverage A and Coverage B" on page _____ and "Deductible—Coverage C" on page _____.

3. Premium Payment. **We** will provide the insurance described in this policy in return for **your** payment of the premium and **your** compliance with all applicable provisions of this policy.

4. Policy Period. The policy period as shown on the **DECLARATIONS** page will begin and end at 12:01 a.m. Pacific Standard Time or Pacific Daylight Savings Time, whichever is in effect on the inception or termination date.

5. **Companion Policy. You** agree to keep in effect a **companion policy** written by the **participating insurer** that services this policy. If at the time of loss no **companion policy** is in effect, this **earthquake** policy is void and no payment will be made under this **earthquake** policy.

6. Policy Services. Policy services and claims adjusting will be provided by the **participating insurer.** All inquiries and correspondence regarding this policy should be directed to the **participating insurer.**

DEFINITIONS

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

1. **"Actual cash value"** means **replacement cost** less depreciation.

2. **"Association of owners"** means, if the location described in the **DECLARATIONS** is part of a **common interest development**, a nonprofit corporation or unincorporated association created for the purpose of governing and managing the **common interest development** in which the **dwelling** is located.

3. **"Business property"** means property pertaining to or intended for use in any (a) full-time or part-time trade, profession, or occupation, or (b) other activity intended for economic gain.

4. **"California Earthquake Authority"** or **"CEA"** means the entity that issued this policy. The **CEA** is a public instrumentality of the State of California created and authorized by law to transact insurance in California as necessary to sell policies of basic residential **earthquake** insurance. The authorization appears in the California Insurance Code, beginning at section 10089.5.

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

6. "**Collectible**" or "**collectibles**" means an item or group of items of personal property, regardless of whether an individual item or part of a collection, the monetary worth of which is not primarily based on its utility or function, but rather, is primarily based on its value to a collector, including property that is kept for investment, has a real or perceived past or expected future increase in value because it would be desirable to collectors as part of a collection, or that has a monetary worth significantly greater than its intrinsic value because of its rarity or its demand among collectors.

7. **"Common interest development"** means any of the following:
   - A community apartment project, as defined in California Civil Code section 4105;
   - A condominium project, as defined in California Civil Code section 4125;
   - A planned development, as defined in California Civil Code section 4175; or
   - A stock cooperative, as defined in California Civil Code section 4190.

8. **"Companion policy"** means the fire insurance policy, homeowners policy, or other insurance policy that provides fire coverage for the property that is the subject of this **CEA** policy, and that is issued by the same **participating insurer** that services this **CEA** policy.

9. "**DECLARATIONS**" or "**DECLARATIONS** page" means the single-page document that accompanies, and forms a part of, this **CEA** policy, and which lists certain basic information specific to this policy, including, but not limited to, the policy number, policy period, name and mailing address of the named insured, **dwelling** address, and the **limits of insurance**, deductibles, and premium applicable to this policy. The following title appears at the top of the **DECLARATIONS** page:

   CALIFORNIA EARTHQUAKE AUTHORITY
   BASIC EARTHQUAKE POLICY—HOMEOWNERS CHOICE
   DECLARATIONS

10. **"Domestic partner"** means a party to a two-person domestic relationship registered by the California Secretary of State through the filing of a Declaration of Domestic Partnership, pursuant to California Family Code section 298.5.

11. **"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.

12. **"Earthquake"** means a vibration-generating rupture event caused by displacement within the earth's crust through release of strain associated with **tectonic processes** and includes effects such as ground shaking, liquefaction, and damaging amplification of ground motion. While land sliding, including seismically-induced land sliding, is not itself an **earthquake**, **we** cover, subject to "LOSSES EXCLUDED" Item 5 and subject to all other terms and conditions of this policy, loss to covered property arising out of a seismically-induced landslide if that landslide 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. **Earthquake** does not mean or include tsunami or volcanic eruption.

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

14. **"Insured"** means **you** and the following **persons** if they are permanent residents of **your** household:

    a. **your** relatives, whether related by blood, marriage or adoption; and

    b. anyone under the age of 21 who is in the care or custody of **you** or of any of **your** relatives who are permanent residents of **your** household.

15. **"Limit of insurance"** means the most **we** will pay for covered loss arising from any **seismic event**.

16. **"Loss assessment"** means an assessment charged by an **association of owners** against all property owners in a **common interest development** that is properly and legally made as a result of a loss to structures or other real property contained within that **common interest development**, and those structures or other real property are 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**.

17. **"Nuclear hazard"** means any nuclear reaction, radiation, or radioactive contamination, or any consequence of any of these.

18. **"Participating insurer"** means the insurance company that issued the **companion policy**, meets the legal requirements to offer residential **earthquake** coverage by participating in the **CEA**, and provides claims and policyholder services for this policy on behalf of the **CEA**.

19. **"Person"** means any human, association, organization, governmental entity, partnership, business trust, limited liability company, or corporation.

20. **"Replacement cost"** means:

    a. With respect to structures, the lesser of the reasonable cost at the time of loss to repair or replace covered damaged or destroyed property, without deduction for depreciation, (i) at the location of the **residence premises,** (ii) for the same use, and (iii) with materials of like kind and quality;
    b. With respect to personal property and wall-to-wall carpeting, the cost, without deduction for depreciation, of (i) new property identical to the damaged property or, (ii) if identical property is not obtainable, of new property of like quality and of comparable usefulness as the damaged property.

21. **"Residence premises"** means the one, two, three, or four unit **dwelling**, extensions to **dwelling**, and grounds at the address shown in the **DECLARATIONS** owned by **you**. **Residence premises** does not include land or extensions to **dwelling** not owned by **you**. **Residence premises** does not include property owned by a corporation, **association of owners**, or other entity, including but not limited to property for the common use of members or shareholders even if **you** are a member or shareholder, except for any extensions to **dwelling** subject to a **loss assessment** covered under Item 4 of "Property Covered—Coverage B" on page __ of this policy.

22. **"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**.

23. **"Sublimit"** means a dollar limit on a coverage for a specific type of property within a category of property that is subject to a higher total **limit of insurance**. Payment under a **sublimit** will reduce the amount available under the total **limit of insurance**. For example, a **chimney** is covered under "COVERAGE A: DWELLING" which has a **limit of insurance** shown on the **DECLARATIONS** page, but no more than the $10,000 **sublimit** will be paid for loss to any and all **chimney**(s). In that example, the overall amount available under the "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" combined single **limit of insurance** would be reduced by the amount that is paid for loss to any **chimney**.

24. **"Tectonic processes"** means natural adjustments of the earth's crust that are wholly in response to regional stress conditions caused by natural dynamic forces within the earth's interior, and not initiated, in whole or in any part, by any human activity.

SINGLE LIMIT OF INSURANCE FOR DWELLING AND EXTENSIONS TO DWELLING; OTHER LIMITS AND SUBLIMITS

If **you** purchase coverage for COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING," and if therefore a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS**, then that combined single **limit of insurance** is the most **we** will pay for all covered loss by **earthquake** under "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING." This combined limit is shown on **your DECLARATIONS** as the amount of **your dwelling limit of insurance**. The amount of insurance available to **you** under "COVERAGE A: DWELLING" will be reduced to the extent that **we** make any payment for "COVERAGE B: EXTENSIONS TO DWELLING," and the amount of coverage available to **you** under "COVERAGE B: EXTENSIONS TO DWELLING" will be reduced to the extent that **we** make any payment for "COVERAGE A: DWELLING." All other limits shown on the **DECLARATIONS** page are separate **limits of insurance**. There are **sublimits** within the **limits of insurance** that may reduce **your** recovery under this policy.

COVERAGES

COVERAGE A: DWELLING

If a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy, we provide the following coverage, subject to that combined single **limit of insurance**, the application of the "Computation of Deductible—Coverage A and Coverage B" clause, and all the terms and conditions of this policy.

If no combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE A: DWELLING".

Property Covered—Coverage A

We cover:

1. The **dwelling** on the **residence premises**, except those parts of the **dwelling** that are described in "Property Not Covered—Coverages A and B" on pages ___ and ___ of this policy;

2. Wall-to-wall carpeting attached to the **dwelling**.

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

Special Limits of Insurance—Coverage A

The **limits of insurance** shown below are **sublimits** of the policy's **limit of insurance** provided for "COVERAGE A: DWELLING" and do not increase the **limit of insurance** for "COVERAGE A: DWELLING" shown in the **DECLARATIONS**. The **sublimit** for each numbered category, immediately below, is the total **limit of insurance** for all loss in that category. For property that falls into more than one category, the lowest applicable **sublimit** will apply.

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

2. $5,000 for all loss or damage to the **dwelling** or to wall-to-wall carpeting attached to the **dwelling** caused by **fungi** the presence of which directly results from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, including, but not limited to, the cost to repair damage from **fungi** or to test for, monitor, abate, mitigate, remove, dispose of, or remediate **fungi**. This **sublimit** of $5,000 in coverage for loss or damage caused by **fungi** will be reduced by any amount that **we** pay under "OTHER COVERAGES," Item 1, "Emergency Repairs," for emergency repairs resulting from **fungi**. Except for the coverage specifically provided for in this **sublimit**, this policy does not provide coverage for any loss that is caused directly or indirectly by, or that in any way results from, is contributed to by, or is aggravated by **fungi**.

COVERAGE B: EXTENSIONS TO DWELLING

If a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy, we provide the following coverage, subject to that combined single **limit of insurance**, the application of the "Computation of Deductible—Coverage A and Coverage B" clause, and all the terms and conditions of this policy.

If no combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE B: EXTENSIONS TO DWELLING."

Property Covered—Coverage B

We cover:

1. Equipment and utility service structures for electric, telephone, natural or bottled gas, heating, oil, water, septic, and sanitary sewage systems that (1) are owned by **you** and (2) are located outside of the foundation or walls of the **dwelling** but on the **residence premises** and (3) affect the habitability of the **dwelling**.

2. Walkways, driveways, decks, or patios on the **residence premises** that are necessary for and regularly used for either (1) pedestrian ingress to or egress from the **dwelling** by any **insured** or (2) ingress to and egress from the **dwelling** by any non-ambulatory **insured**, but **we** cover only that portion of each covered walkway, driveway, deck, or patio that is reasonably necessary for ingress to and egress from dwellings by a pedestrian or non-ambulatory **insured**. Any portion of an otherwise-covered walkway, driveway, deck, or patio that is not reasonably necessary for and regularly used for pedestrian ingress to or egress from the **dwelling** by any **insured** or ingress to and egress from the **dwelling** by any non-ambulatory **insured**, and any walkway, driveway, deck, or patio not regularly used for any such purposes, is not covered.

3. Those bulkheads, piers, retaining walls, and masonry fences on the **residence premises** that are integral to the stability of the **dwelling**. Except as provided for in "OTHER COVERAGES," Item 3, the cost of repairing, replacing or stabilizing the land under or around these devices is not covered.

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

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

COVERAGE A: DWELLING AND COVERAGE B: EXTENSIONS TO DWELLING

Computation of Deductible—Coverage A and Coverage B

We will pay no amount for any loss under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" until the amount of the loss exceeds the amount of the combined deductible for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" shown on the **DECLARATIONS** page. The deductible will be applied one time for each **seismic event**. Only the following will be applied to meet the "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" combined deductible:

1. The reasonable and necessary cost, not to exceed **replacement cost**, of any of the following:

    a. Replacement or repair of the covered damage to property covered under "COVERAGE A: DWELLING," but with respect to property for which there is a **sublimit** under "COVERAGE A: DWELLING," only the amount up to the applicable **sublimit** for that property, and

    b. Replacement or repair of the covered damage to property covered under "COVERAGE B: EXTENSIONS TO DWELLING," but with respect to property for which there is a **sublimit** under "COVERAGE B: EXTENSIONS TO DWELLING," only the amount up to the applicable **sublimit** for that property, and

    c. Emergency measures in excess of $1,500 covered under "OTHER COVERAGES," Item 1, "Emergency Repairs," that **you** actually take to protect the property that is covered under "COVERAGE A: DWELLING" or COVERAGE B: EXTENSIONS TO DWELLING" against further damage or to 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 cost to replace, rebuild, stabilize or otherwise restore the land that is covered under "OTHER COVERAGES" Item 3, "Land," but only up to the **sublimit** of $10,000, and

2. An amount equal to the reasonable and necessary costs of construction covered under "OTHER COVERAGES" Item 2, "Building Code Upgrades," but only up to the **limit of insurance** for "OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the **DECLARATIONS** page. Although the full amount of loss that would be covered under that coverage, up to the **limit of insurance** for "OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the **DECLARATIONS** page, will be applied to meet the deductible, no payment will be made to **you** under OTHER COVERAGES" Item 2, "Building Code Upgrades" unless **you** actually do undertake repair or replacement of that covered property.

The cost to repair or replace personal property, or any other cost not set forth in Items 1(a) through 1(d) or Item 2, above, will not be applied to meet this deductible.

Property Not Covered—Coverage A and Coverage B

We do not cover:

1. Land, including land underlying the **dwelling**, except as provided for in "OTHER COVERAGES," Item 3, "Land."

2. Except as provided for in "OTHER COVERAGES," Item 3, "Land," the cost of (a) land stabilization; (b) structures, apparatuses, or devices to stabilize the land; and (c) engineering associated with land stabilization.

3. Awnings and patio coverings, and their support structures. For purposes of this exclusion, carport covers are not awnings or patio coverings.

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

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

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

7. Plaster, to the extent the cost to repair or replace it exceeds the value of its replacement with sheetrock or drywall.

8. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," any structure on the **residence premises** other than the **dwelling**, including detached garages, outbuildings, and other structures.

9. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," Item 1, exterior water supply systems including, but not limited to, irrigation systems, sprinkler systems, and water reclamation systems.

10. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING", Property Covered, Item 1, 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.

11. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," Item 2, walkways, driveways, decks, and patios.

12. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," Item 3, fences, bulkheads, piers, and outside walls including retaining walls.

13. Except as provided under "OTHER COVERAGES," Item 2, "Building Code Upgrades," any added costs of repair or replacement of covered property resulting from enforcement of any ordinance, law, or residential building code that regulates the use, construction, repair, or demolition of a building or other structure.

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

15. Swimming pools, spas, and hot tubs and all of their components, including the tile or other material linking or attaching the pool, spa, or hot tub to a deck or to the **dwelling**.

COVERAGE C: PERSONAL PROPERTY

If a **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" is shown on the **DECLARATIONS** page of this policy, **we** provide the following coverage, subject to that **limit of insurance**, the application of the "Deductible—Coverage C" clause, and all the terms and conditions of this policy. If no **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE C: PERSONAL PROPERTY."

Property Covered—Coverage C

We cover (1) personal property owned or used by an **insured** and located at the **residence premises**, (2) at **your** request and subject to the **sublimit** of $2,500, personal property owned by others while that property is on any part of the

dwelling occupied by an **insured**, and (3) the reasonable expense **you** incur in removing from the **residence premises** the debris of damaged covered personal property.

Special Limits of Insurance—Coverage C

The **limits of insurance** shown below are **sublimits** of the policy's **limit of insurance** provided for "COVERAGE C: PERSONAL PROPERTY" and do not increase the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" shown in the **DECLARATIONS**. The **sublimit** for each numbered category, immediately below, is the total **limit of insurance** for all loss in that category. For property that falls into more than one category, the lowest applicable **sublimit** will apply. If any item of property falls both into one of the following **sublimits** and one of the categories of property listed under "Property Not Covered—Coverage C," then **we** do not cover that item of property.

1. $250 in the aggregate on all money, bank notes, coins and medals, including any of these that are part of a collection.

2. $250 in the aggregate on all securities, checks, cashier's checks, traveler's checks, money orders, and other negotiable instruments; accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, passports, and tickets.

3. $3,000 in the aggregate on all computers and other electronic data processing equipment, including storage media and software used with that equipment, whether or not it is **business property**. Storage media or software that cannot be replaced with other property of like kind and quality on the current consumer retail market is not covered.

4. $1,000 in the aggregate on all **business property** other than computers and other electronic data processing equipment, storage media, and software.

5. $3,000 in the aggregate on all jewelry, watches, furs, and precious and semi-precious stones, but not more than $1,000 for any one article.

6. $3,000 in the aggregate on all **collectibles**, including but not limited to sports cards; **collectible** dolls, model trains, or toys; **collectible** postage stamps; **collectible** autographed items; memorabilia; and commemorative or otherwise **collectible** plates, spoons, or cups; regardless of whether any such item is a single item or part of a collection.

7. $3,000 in the aggregate on all beverages contained in bottles or in other glass, ceramic, or pottery containers, including but not limited to wine, port, liquor, beer, and all other alcoholic or non-alcoholic beverages.

Deductible—Coverage C

We will pay no amount for any loss under "COVERAGE C: PERSONAL PROPERTY" until the amount of the loss exceeds the amount of the deductible for "COVERAGE C: PERSONAL PROPERTY" shown on the **DECLARATIONS** page. The deductible will be applied one time for each **seismic event**. Only losses that are covered under "COVERAGE C: PERSONAL PROPERTY," as limited by the application of any **sublimits** that apply to those losses, can be applied to meet this deductible requirement.

If a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy, and the applicable deductible for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" has been met or exceeded pursuant to the "Computation of Deductible—Coverage A and Coverage B" clause, the deductible for "COVERAGE C: PERSONAL PROPERTY" will be waived and no deductible will apply to losses to property covered under "COVERAGE C: PERSONAL PROPERTY."

Property Not Covered—Coverage C

We do not cover:

1. Pets, birds, fish, livestock, or other animals.

2. Motor vehicles, riding lawn mowers, or any motorized land conveyance, including their parts or accessories while in or on the motor vehicle, lawn mower, or conveyance. This exclusion does not apply to motorized land conveyances not licensed for use on public roads that are designed to assist and are used by the handicapped, or to the parts and accessories of those conveyances.

3. Any electronic equipment that is designed for operation by the electrical system of a motor vehicle, motorized land conveyance, or a camp or home trailer while any of this equipment is in, on, or installed in a motor vehicle, motorized land conveyance, or a camp or home trailer, including but not limited to: computers; citizens band and other two-way mobile radios; satellite and cellular telephones; radio receivers, transceivers, and transmitters; scanners and scanning monitor receivers; radar detectors; tape or disc players and recorders, MP3 players; televisions; video players, recorders, and monitors; global positioning satellite (GPS) devices, personal digital assistants and other handheld devices; and any accessories, antennas, speakers, tapes, discs, cartridges, media, carrying cases, charging devices, batteries, or other devices and accessories used with that equipment.

4. Aircraft, including their parts and equipment.

5. Property that is not owned or used by an **insured,** including but not limited to the property of roomers, boarders and other tenants, except (a) the property owned by others that **we** cover at **your** request under Item 2 of "Property Covered—Coverage C," subject to the applicable **sublimit** of $2,500, and (b) the property of roomers and boarders related to any **insured**.

6. Valuable papers, records or data, including:

   a. books of account, drawings, card index systems and other records; and

   b. data stored on electronic data storage devices, including processing tapes, wires, records, discs, computer drives, portable storage devices or media, or other magnetic or optical media.

   We do, however, cover the cost of blank recording or storage media and of prerecorded computer programs that are available on the retail market, subject to the **sublimit** set forth in "Special Limits of Insurance—Coverage C," Item 3.

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

8. Breakable items, consisting of the following:

   a. Glassware, crystal, china, ceramic, pottery, and porcelain items created as table settings, serving ware, or otherwise intended for use in serving or consuming food or beverage, whether currently being used for that purpose or not; and,

   b. Figurines, vessels, vases, and other ornamental items made of crystal, china, pottery, ceramics, porcelain, glass, or marble.

9. Watercraft, including their furnishings, equipment, and inboard, outboard, or inboard-outboard motors.

10. Trailers.

11. Trees, shrubs, or plants, or their containers.

12. Swimming pools, spas, and hot tubs, including all of their components.

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

COVERAGE D: LOSS OF USE

If a **limit of insurance** for "COVERAGE D: LOSS OF USE" is shown on the **DECLARATIONS** page, then subject to that **limit of insurance** and all the terms and conditions of this policy, **we** provide the following coverage, not subject to any deductible. If no **limit of insurance** for "COVERAGE D: LOSS OF USE" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE D: LOSS OF USE."

1. Additional Living Expense. If the part of the **dwelling** that **you** occupy becomes unfit to live in and **you** are forced to vacate the **dwelling** as a result of either (1) damage to the **dwelling** or covered extensions to **dwelling** 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 **dwelling** or covered extensions to **dwelling** 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 **dwelling you** occupy that are unfit to live in, or (b) for **you** to permanently relocate elsewhere if **you** do not elect to repair or replace **your dwelling**.

2. Loss of Rent. If the part of the **dwelling** that **you** rent to others or that **you** actually hold for rental becomes unfit to live in as a result of either (1) damage to the **dwelling** or covered extensions to **dwelling** 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 **dwelling** or covered extensions to **dwelling** caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** cover the fair rental value of that part of the **dwelling** that is rented to others or that **you** actually held for rental prior to the loss, less any expenses that do not continue while the rental portion of the **dwelling** is unfit to live in. Fair rental value means the average rental amount immediately before the **earthquake** in **your** rental market for a residential unit similar to that covered under this policy.

   We will pay for the shortest time reasonably needed to repair or replace the parts of the **dwelling** rented or held for rental that are unfit to live in. **Your** loss of rents due to cancellation of a lease or rental agreement is not covered.

3. 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** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** cover the resulting Additional Living Expense or Loss of Rent, subject to the "COVERAGE D: LOSS OF USE" **limits of insurance**.

OTHER COVERAGES

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

1. Emergency Repairs. If covered damage occurs to covered property and such emergency measures are made necessary as the result of an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** will pay the following portion of the cost **you** incur for reasonable and necessary emergency measures **you** take (1) to protect against further damage to covered property, or (2) if a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy and the **dwelling** is otherwise habitable, to remove from covered property in the **dwelling** the residue of broken glass or to repair or replace covered broken windows in the **dwelling** or other covered structural glass that is part of the **dwelling**. This Emergency Repairs coverage provides coverage up to a **sublimit** of 5% of the policy **limit of insurance** for the type of property being protected. The applicable total **limit of insurance** for the type of property being protected will be reduced by any amount **we** pay for this coverage, but **we** will never pay more for emergency repairs than 5% of the policy **limit of insurance** for the type of property being protected.

a. The first $1,500 of covered costs **you** incur for such reasonable and necessary emergency measures is not subject to the application of any deductible. Costs **you** incur for such emergency measures in excess of $1,500 are subject to the application of the deductible that applies to the type of covered property being protected, which means that until **you** satisfy the applicable deductible amount, **you** will not be paid for any such costs **you** incur above $1,500.

b. **Your** taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve **you** of **your** responsibilities outlined in "**Your** Duties After Loss" (CONDITIONS, Item 3).

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

3. Land. If a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy and there is a covered loss to property covered under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" in excess of the applicable deductible**, we** will pay up to $10,000 for the cost, including engineering costs, to replace, rebuild, stabilize or otherwise restore land that is owned by **you** and necessary to support the **dwelling** or covered extensions to **dwelling**, or to add devices or apparatuses to stabilize land that is owned by **you** and necessary to support the **dwelling** or covered extensions to **dwelling**, if the need for stabilization is caused directly by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period and the stabilization is necessary for the habitability of the **dwelling**. This coverage is provided as a $10,000 **sublimit** of the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING." The combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" will be reduced by any amount **we** pay under this coverage.

4. Energy Efficiency and Environmental Safety Replacement Upgrades. If a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy and there is a covered loss to property covered under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" in excess of the applicable deductible, and if **you** actually undertake repair or replacement of that covered loss, **we** will pay **your** cost to repair or replace that property with material that meets the following standards regarding environmental safety and energy efficiency. This coverage will apply to the added costs **you** incur to repair or replace that property with material that meets those standards as compared to the **replacement cost** of that property with material that does not meet those standards. This coverage is provided as a $25,000 **sublimit** of the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING," and the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO

DWELLING" will be reduced by any amount **we** pay under this coverage. The most **we** will pay for the replacement or upgrade of any item of covered property is 200% of its **replacement cost** using material that does not meet the following standards regarding environmental safety and energy efficiency. Losses covered under this coverage are not applied to meet the combined deductible for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING."

a. Energy Efficiency Upgrades: **We** will pay the reasonable added costs **you** incur to replace damaged covered property with the following energy-efficient property:

   i. Electronic Equipment – Energy Star Replacement. If there is covered loss to electronic equipment, including but not limited to equipment for heating, ventilation, and air conditioning (HVAC) systems, that is part of the **dwelling** and that is covered under "COVERAGE A: DWELLING," and that electronic equipment must be replaced rather than repaired, then **we** will pay the reasonable expenses **you** incur to replace damaged or destroyed electronic equipment with equipment of otherwise equivalent quality and function that has been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.

   ii. Window, Door, Roofing, and Insulation Energy Upgrades. If there a loss to the **dwelling** that requires the repair or replacement of roofing or insulation material, air sealing, windows, doors, or skylights, then **we** will pay the reasonable expenses **you** incur to replace those damaged or destroyed materials with materials of otherwise equivalent quality and function that have been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.

   iii. Plumbing Fixture Upgrades. If there a loss to the **dwelling** that requires the repair or replacement of plumbing fixtures, then **we** will pay the reasonable expenses **you** incur to replace those fixtures with energy and water efficient fixtures, including automatic faucet sensors, faucet and shower head flow restrictors, dual flush toilets, and localized water heaters, using plumbing fixtures of otherwise equivalent quality and function provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of the U.S. Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines.

b. Environmental Safety Upgrades. **We** will pay reasonable added costs **you** incur to repair or replace the damaged or destroyed property covered under "COVERAGE A: DWELLING" with the following environmentally-upgraded property, provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of the U.S. Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines:

   i. Interior Finish Materials Upgrades. If there is a covered loss to the **dwelling** that requires the repair or replacement of interior finish materials, then **we** will pay the reasonable expenses **you** incur to replace those materials with materials of otherwise equivalent quality and function that are low in volatile organic compounds (VOC), sustainably developed, rapidly renewable, or comprised of recycled materials. This coverage applies to interior paints, architectural coatings, primers under coatings, adhesives and sealants, low emissions carpet and floor coverings, including adhesive to affix them to the floor, and permanently installed composite wood fixtures including counters, cabinets and partitions, where available, Forest Stewardship Council certified wood for millwork, ceilings, siding, and framing, and bamboo flooring.

   ii. Elimination of Ozone-Depleting Substances Upgrades. If there is a covered loss to the **dwelling** that requires the repair or replacement of systems containing such items, then **we** will pay the reasonable expenses **you** incur to replace chlorofluorocarbon refrigerants (CFC) or hydro-chlorofluorocarbon (HCFC) or Halon refrigerants or fire extinguishing agents with environmentally-upgraded replacements.

   iii. Flush Out of Reconstructed Space. If necessitated by the repair or replacement of covered loss to the

dwelling, **we** will pay the reasonable and necessary costs to flush out the reconstructed space with 100% outside air and new filtration media following completion of the repair or reconstruction process.

LOSSES EXCLUDED

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:

1. Fire or explosion.

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

   a. Flood, precipitation (including but not limited to rain, snow, hail, or sleet), or surface water; waves, tsunami, or tidal water; rupture of a dam, levee, berm, or sea wall; overflow of a natural or man-made body of water; or spray from any of these; or

   b. Water below the surface of the ground, whether natural or not, including water that exerts pressure on or seeps or leaks through a building, sidewalk, driveway, foundation, or other structure.

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

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

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

   (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**; or,

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

3. Controlled or uncontrolled **nuclear hazard** or any act or condition incident to any **nuclear hazard**.

4. Pollution of groundwater, land, and personal property, including all loss, damage, costs, and expenses that arise out of or are caused by pollution or pollutants, and any cost or expense to test for, monitor, clean up, remove, contain, treat, detoxify, or neutralize pollutants. The terms "pollutants" and "pollution" mean any solid, liquid, gaseous, or thermal irritant or contaminant, including, but not limited to, smoke, vapor, soot, fumes, acids, alkalis, chemicals, asbestos, and waste. The term "waste" includes but is not limited to material to be recycled, reconditioned, or reclaimed.

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.

6. **Fungi**, including but not limited to the cost to repair or replace property damaged by **fungi** or to test for, monitor, abate, mitigate, remove, dispose of or remediate **fungi**, except for loss or damage to the **dwelling** or to wall-to-wall carpeting attached to the **dwelling** caused by **fungi** the presence of which directly results from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, and subject to the $5,000 **sublimit** set forth in "Special Limits of Insurance—Coverage A," Item 2.

7. Theft, vandalism or other human conduct causing loss following an **earthquake**.

8. Required compliance with any ordinance, law, or residential building code that regulates the use, construction, repair, or demolition of a building or other structure, except as specifically provided under this policy, in "OTHER COVERAGES," Item 2, Building Code Upgrades.

9. Power failure, meaning the failure of delivery of electrical power to the **dwelling** or to the **residence premises**.

10. **Your** neglect to take all reasonable action to save and preserve covered property at the time of and after a covered loss.

11. Declared or undeclared war, acts of terrorism, insurrection, rebellion, revolution, warlike act by a military force or military personnel or any person, destruction or seizure or use for a military purpose, and any consequence of any of these. Discharge of a nuclear weapon will be deemed a warlike act even if accidental.

12. Intentional acts, meaning any loss arising out of any act committed:

    a. by **you** or at **your** direction, or at the direction of any **insured** or of any **person** named as an additional **insured**; and

    b. with the intent to cause, aggravate or increase a loss.

YOUR RIGHTS CONCERNING CLAIMS INVESTIGATION

The law provides certain rights and protections to policyholders who are involved in the presentation of a claim. Included among these are the following:

1. Specific rights to privacy under California and Federal law which may protect **you** during the claims process;

2. The right to have **your** claim handled in accordance with the California Insurance Code and Subchapter 7.5 of Chapter 5 of Title 10 of the California Code of Regulations, which impose fair claims handling procedures and requirements on insurers; and

3. The right to be represented by an attorney at **your** expense.

CONDITIONS

1. Insurable Interest and **Limit of Insurance**. Even if more than one **person** has an insurable interest in the property covered, **we** will not be liable:

    a. to **you** for an amount greater than **your** interest; nor

    b. for more than the applicable **limit of insurance**.

2. Concealment or Fraud. The entire policy will be void if, before or after a loss, any **insured** does any of the following:

    a. Intentionally conceals or misrepresents any material fact or circumstance;

b. Engages in fraudulent conduct relating to this insurance; or

c. Intentionally makes false statements relating to this insurance.

3. **Your** Duties After Loss. If a loss occurs to covered property, **you** must perform the following duties:

a. Give written notice to the **participating insurer** without delay.

b. Protect the property from further damage. Make any emergency repairs that are necessary and reasonable to protect the property from further damage. Keep records of all costs **you** incur to repair or replace covered property or to protect covered property from further damage.

c. Make and keep a list of all damaged or destroyed personal property, showing in detail the quantity, description, and amount of covered loss. Keep all bills, receipts, and related records that support **your** figures.

d. As often as reasonably required:

(i) Exhibit damaged property to the **participating insurer**;

(ii) Provide the **participating insurer** with the records and documents that are necessary to support **your** claim under the policy and which the **participating insurer** may request, including bills, receipts, cancelled checks, and related records that support **your** figures, and permit the **participating insurer** to make copies; and

(iii) While not in the presence of any other **insured**, submit to examination under oath and sign a transcript of the examination.

e. Send the **participating insurer**, within 60 days of **our** or the **participating insurer's** request, **your** signed, sworn proof of loss that sets forth, to the best of **your** knowledge and belief the following:

(i) The time, date, and cause of loss;

(ii) **Your** interest and the interest of all others in the property that sustained a loss, and evidence of all liens or encumbrances on the property;

(iii) A detailed description of all legal claims against the property that sustained a loss;

(iv) Evidence of other insurance that may cover the loss;

(v) A description of changes in title to or occupancy of the property during the term of the policy;

(vi) Descriptions and detailed repair estimates of any damaged building or other covered structure;

(vii) The list of damaged or destroyed personal property covered under this policy; and

(viii) All receipts and records that support any claim for additional living expense or fair rental value.

4. Loss Settlement: Coverages A, B, and C.

In case of loss to a pair or set **we** can elect to do either of the following:

a. Repair or replace any part to restore the pair or set to its value before the loss; or

b. Pay the difference between **replacement cost** of the pair or set before and after the loss.

5. Loss Settlement: Coverages A and B.

a. **Our** liability for any loss to property insured under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" will not exceed the smallest of the following:

(i) The **replacement cost** at the time of loss;

(ii) If the damaged property has been actually repaired or replaced, the amount actually and necessarily spent to repair or replace the damaged property; or

(iii) The applicable **limit of insurance** or any applicable **sublimit(s)**.

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

c. **We** will not pay for increased costs resulting from enforcement of 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 in "OTHER COVERAGES", Item 2, "Building Code Upgrades."

d. **We** will pay for the cost to repair or replace only that portion of any regularly-used walkway, driveway, deck, or patio covered under this policy that is necessary to restore (i) pedestrian ingress to and egress from the **dwelling** or (ii) ingress to and egress from the **dwelling** by any non-ambulatory **insured**.

e. To repair or replace plaster, **we** will not pay more than the cost to repair or replace the plaster with sheetrock or drywall.

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

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

(i) The **sublimit** of $10,000 that applies to **chimneys**;

(ii) The cost of replacement of a masonry **chimney** or **chimneys** with a non-masonry, **earthquake**-resistant **chimney** or **chimneys**; or

(iii) The necessary amount actually spent to repair the damaged **chimney** or **chimneys**.

6. Loss Settlement: Coverage C.

a. **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.

b. **Our** liability for loss to any property insured under "COVERAGE C: PERSONAL PROPERTY" will not exceed the smallest of the following:

(i) The **replacement cost** at the time of loss;

(ii) 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)**.

7. Appraisal. If **you** and **we** fail to agree on the amount of loss, either of us may demand an appraisal of the loss. In this event, each party will choose a competent and disinterested appraiser within 20 days after receiving the written demand from the other. The two appraisers will choose a neutral and independent umpire. If they cannot agree on an umpire within 15 days, **you** or **we** may request that a judge of a California court of competent jurisdiction in the county where the insured **dwelling** is located appoint an umpire. The two appraisers will separately appraise the amount of loss under this policy. If the appraisers submit an agreed written report to **us**, the amount they agree on will be the amount of loss under this policy. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two of the three appraisers will set the amount of loss under this policy. Each party will (a) pay its own appraiser, and (b) bear the other expenses of the appraisal and of the umpire equally.

8. Other Insurance.

   a. If there is other insurance that covers **earthquake** loss to the **dwelling** or other property covered under this policy, **we** will pay **our** share of the covered loss or damage. **Our** share is the proportion that the applicable **limit of insurance** under this policy bears to the combined **limits of insurance** of all policies that cover the same property.

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

9. Subrogation. **You** may waive in writing before a loss under this policy all **your** rights of recovery against any **person**. If **you** do not waive those rights, **we** may require an assignment of **your** rights of recovery for a loss to the extent that **we** make payment for that loss. If **we** seek an assignment, the **insured** must sign and deliver all related papers to **us** and cooperate with **us**.

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

11. **Our** Option to Repair or Replace Property. If **we** give **you** written notice within 30 days after **we** receive **your** proof of loss, **we** may repair or replace any part of the damaged property with like property.

12. Loss Adjustment: **We**, through the **participating insurer**, will adjust all losses with **you**. 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.

13. Loss Payment. As to all claims **we** determine to be covered under this policy, **we** will pay **you** unless some other **person** is named in the policy or is legally entitled to receive payment. That portion of a claim that is not in dispute will be payable within 30 days after **we** receive **your** proof of loss. All other losses will be payable within 30 days after **we** receive **your** proof of loss and:

    a. **we** reach an agreement with **you**;

    b. there is an entry of a final judgment; or

    c. there is a filing of a final appraisal award with **us**.

14. Mortgagee Clause.

    a. The word "mortgagee" as used in this policy includes trustee or beneficiary under a trust deed.

    b. If a mortgagee is named as a loss payee in this policy and, as a condition for making a loan to **you** secured by the **dwelling**, that mortgagee either (1) required **you** to purchase **earthquake** insurance that covers the **dwelling** or (2) required that the mortgagee be named as a loss payee under any coverage on the **dwelling**, any loss payable under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" will be paid to the mortgagee, to the extent of its interest, and to **you**. If more than one mortgagee is so named and otherwise qualifies, the order of payment will be the same as the order of preference of the mortgages.

    c. If **we** deny **your** claim, that denial will not apply to a valid claim of the mortgagee, if the mortgagee does all of the following:

        (i) Notifies the **participating insurer** of any change in ownership or occupancy of the **dwelling**, or of any substantial change in risk of which the mortgagee is aware;

        (ii) Pays any premium due under this policy on demand if **you** have neglected to pay the premium; and

        (iii) Submits a signed, sworn statement of loss within 60 days after it receives notice from **us** of **your** failure to do so.

    d. If **we** decide to cancel or not to renew this policy, **we** will take reasonable steps to notify any mortgagee named as a loss payee under this policy at least 10 days before the date cancellation or nonrenewal takes effect.

    e. If **we** pay the mortgagee for any loss and deny payment to **you**:

        (i) **We** are subrogated to all the rights of the mortgagee granted under the mortgage on the property, which will not impair the right of the mortgagee to recover the full amount of the mortgagee's claim, or

        (ii) At **our** option, **we** may pay to the mortgagee the whole principal on the mortgage plus any accrued interest, in which event, **we** will receive a full assignment and transfer of the mortgage and all security held as collateral for the mortgage debt.

    f. Policy conditions relating to loss settlement and payment, including, but not limited to, the Appraisal, Legal Action, Loss Adjustment, and Loss Payment conditions, apply to the mortgagee.

15. No Benefit to Bailee. **We** will not recognize any assignment or grant any coverage that benefits a **person** that holds, stores, or moves property for a fee, regardless of any other provision of this policy, unless that **person** is named as an **insured** under this policy.

16. Payment. If **you** pay the initial premium for **your** first policy period by check, draft, or any remittance other than cash, **we** will credit **you** with that payment only if the check, draft, or remittance is honored on presentation. If **your** check, draft, or remittance is not honored on presentation, this policy is void from its inception. "Void from its inception" means that **we** will not be liable under this policy for any claims or damages that would otherwise have

been covered had the check, draft, or remittance been honored on presentation and had the policy remained in effect.

17. Automatic Termination**.** If, before the end of the then current policy period of this policy, **we** or the **participating insurer** provide **you** with a renewal notice for **your** policy, that notice will be deemed **our** offer to renew **your** policy for an additional policy period. If **we** do not receive **your** required premium payment on or before the end of the then current policy period, **your** policy will terminate automatically at the expiration of the then current policy period. This means that **you** will have elected not to accept **our** offer to renew the policy, and no notice will be sent to **you**. **Your** failure to accept **our** offer to renew the policy is not a cancellation or non-renewal by **us**.

18. Cancellation.

    a. When the **companion policy** is cancelled for any reason, this policy is cancelled effective on the same date the **companion policy** cancellation takes effect, and any unearned premiums will be returned to **you** on a pro rata basis. This policy will not provide coverage if there is no **companion policy** in effect at the time of loss.

    b. **You** may cancel this policy at any time by returning it to the **participating insurer** or by notifying the **participating insurer** in writing of the date cancellation is to take effect. **You** may return the policy and submit the cancellation date to the agent of the **participating insurer**.

    c. **We** may cancel this policy for the reasons stated in this condition or for any other grounds permitted by law, by notifying **you** in writing of the date cancellation takes or took effect. The cancellation notice may be delivered to **you**, or mailed to **you** at **your** mailing address shown in the **DECLARATIONS**. Proof of mailing will be sufficient proof of notice.

        (i) When **you** have not paid the premium when due and payable, **we** may cancel at any time by notifying **you** at least 10 days before the cancellation takes effect.

        (ii) When this policy has been in effect for less than 60 days and is not a renewal with **us**, **we** may cancel the policy if the property does not meet the eligibility standards of the **CEA**, by notifying **you** at least 20 days before the date cancellation takes effect.

        (iii) When this policy has been in effect 60 or more days, or is a renewal with **us**, **we** may cancel at any time by notifying **you** at least 30 days before the date cancellation takes effect, based on the occurrence of one or more of the following:

            (A) **Your** conviction of a crime having as one of its necessary elements an act increasing any hazard insured against; or

            (B) **Our** discovery of fraud or material misrepresentation by either the **insured** or the **insured's** representative in obtaining the insurance, or by **you** or **your** representative in pursuing a claim under the policy; or

            (C) **Our** discovery of grossly negligent acts or omissions by the **insured** or his or her representative that have substantially increased any of the hazards insured against; or

            (D) Physical changes to the **residence premises** that result in the property failing to meet the eligibility standards of the **CEA**; however, **we** may not cancel this policy because of physical changes that occur solely as a result of an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period; or

            (E) **Your** failure to pay an **earthquake** policy surcharge imposed and authorized by the **California Earthquake Authority**, in accordance with California Insurance Code section 10089.29, subdivision (d).

    d. When this policy is cancelled, any premium paid for the period from the effective date of the cancellation to the expiration date will be refunded. When the policy is cancelled, the return premium will be pro rata.

e. If, when **we** cancel this policy, the return premium is not refunded with the notice of cancellation, **we** will refund it within 25 business days after the notice of cancellation is sent. If, when **you** cancel this policy, the return premium is not refunded when **you** return the policy to **us**, **we** will refund it within 25 business days after the date **we** receive **your** notice of cancellation.

19. Conditional Reinstatement. If **we** mail a cancellation notice because **you** did not pay required premium when due and **you** then tender payment of the premium by check, draft, or other remittance that is not honored on presentation, **your** policy will terminate on the date and time shown on the cancellation notice and any notice **we** issue that states that it waives the cancellation or reinstates the coverage is void. This means **we** will not be liable under this policy for claims or damages after the date and time stated on the cancellation notice.

20. Non-Renewal. **We** may elect not to renew this policy by delivering to **you** or mailing to **you** at **your** mailing address shown in the **DECLARATIONS**, written notice of non-renewal at least ~~45~~ 75 days before the expiration date of this policy. Proof of mailing will be sufficient proof of notice.

21. Waiver or Change of Policy Provisions. No waiver or change of a policy provision is valid unless it is in writing and signed by **us**. **Our** request for an appraisal or examination does not waive any of **our** rights.

22. Assignment. **Your** assignment of this policy will not be valid unless **we** give written consent.

23. Death. If **you** die during the policy term, each of the following persons will be deemed an **insured** with respect to the property insured under this policy:

    a. The legal representatives or **person** who by law succeeds to the ownership of the insured property, but only with respect to the property of the deceased covered under this policy at the time of death until the termination date of this policy; and

    b. With respect to the property covered under this policy at the time of death, the **person** that has proper temporary custody of the property until appointment and qualification of a legal representative.

24. Recovered Property. If **you** or **we** recover any property for which **we** have made payment under this policy, **you** or **we** will notify the other of the recovery. At **your** option, the property will be returned to or retained by **you** or it will become **our** property. If the recovered property is returned to or retained by **you**, the loss payment will be adjusted based on the amount of the payment **we** made for the recovered property.

25. Abandonment of Property. **We** need not accept any property abandoned by an **insured**.

26. Surcharge Clause. In the event of an **earthquake** or series of **earthquakes**, **we** can impose a surcharge, as permitted by law, up to 20% of **your** annual policy premium within any one year, in accordance with California Insurance Code section 10089.29, subdivision (b), paragraph (1).

27. Pro-rata or Installment Claims Payments. In accordance with California Insurance Code Section 10089.35, if, at any time, the available capital of the **California Earthquake Authority** is insufficient to meet anticipated losses and there are no additional funds from assessments, reinsurance, or private capital markets available to pay claims, the **California Earthquake Authority** may pay claims on a pro-rata basis from the remaining funds available, or claims may be paid on an installment basis, based on a plan approved by the California Insurance Commissioner. If this occurs, **you** may not be paid the full amount of **your** claim. If **we** submit a pro rata or installment plan to the Insurance Commissioner, deadlines in this policy that apply to **our** payment of **your** claim may, at **our** sole option, be extended by the length of time the Insurance Commissioner has the plan under consideration; the deadlines will be reinstated and recomputed no later than the date an approved plan is in place. Also, with respect to **California Earthquake Authority** claims payments, California Insurance Code section 10089.25, subdivision (d), reads as follows: "The State of California shall have no liability for payment of claims in excess of funds available pursuant to this chapter. The State of California, and any of the funds of the State of California, shall have no obligations whatsoever for payment of claims or costs arising from this act, except as specifically provided in this act."

28. Changes to Policy Terms in the Event of an **Earthquake**. If an **earthquake** occurs during the policy period, and the

dwelling identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the rights, at **our** option, to do either or both of the following:

a. To refuse any request **you** make from the time of that **earthquake** until thirty days after the **earthquake** to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy; and

b. To inspect the **residence premises** prior to granting any request **you** make from the time of that **earthquake** until the expiration of the term of this policy to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy, and to deny **your** request to alter the terms of this policy if **our** inspection reveals the existence of any **earthquake**-related damage to the **residence premises**.

29. Renewal of Policy in the Event of an **Earthquake**. In the event an **earthquake** occurs during the policy period and the **dwelling** identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the following rights with respect to the renewal of this policy:

    a. If the expiration date of this policy is between the date of the **earthquake** and 30 days after the **earthquake**, **we** have the right, at **our** option, to refuse to renew this policy on terms different from those contained in this policy. This means that **we** have the right to refuse any request **you** make from the time of the **earthquake** until thirty days thereafter to change the limits of any of the coverages of this policy on renewal, purchase additional coverages from **us** on renewal, or lower the deductible of this policy on renewal.

    b. **We** have the right, at **our** option, to inspect the **residence premises** prior to granting any request **you** make to renew this policy on terms different from those contained in this policy, including any request that **you** make on renewal to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy. **We** have the right to deny **your** request to alter the terms of this policy on renewal if **our** inspection reveals the existence of any **earthquake**-related damage to the **residence premises**.

30. Liberalization Clause. If **we** make a change that broadens coverage under this edition of **our** policy without additional premium charge to **you**, that change will automatically apply to **your** insurance as of the date **we** implement the change.

    This Liberalization Clause does not apply to changes implemented through **our** introduction of a subsequent edition of **our** policy.

CALIFORNIA EARTHQUAKE AUTHORITY
BASIC EARTHQUAKE POLICY—HOMEOWNERS CHOICE

PLEASE READ YOUR POLICY

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IMPORTANT NOTICES

Many of the terms of this **California Earthquake Authority** policy are substantially different from the terms of **your companion policy** and many other policies that cover **dwellings**. The following items, among others, are unique to this policy. But these are not the only terms that are different from the terms of **your companion policy** and other **dwelling** policies—there are many others. Therefore **we** urge **you** to read **your** entire **CEA** policy.

The terms that appear in bold type appear frequently in this policy and are defined below under DEFINITIONS.

1. Deductible. No payment will be made for any property loss until the amount of covered loss to the type of property for which **you** make a claim under this policy exceeds the deductible stated on the **DECLARATIONS**. Because of the way the deductible is determined, **you** could have substantial uninsured loss. There are other requirements and restrictions that relate to the deductible and there are coverages to which the deductible may not apply. Only the following coverages are not subject to any deductible:

    a. "COVERAGE D: LOSS OF USE," and
    b. The first $1,500 of coverage provided under "OTHER COVERAGES," Item 1, "Emergency Repairs."

    The deductible amounts shown on the **DECLARATIONS** will not reduce the dollar amount of any **limit of insurance** stated on the **DECLARATIONS**; in other words, the amount **we** will pay will be the full amount by which **your** covered loss exceeds the applicable deductible, up to the applicable **limit of insurance** stated on the **DECLARATIONS**.

    Please read the deductible clause relating to each type of covered property.

2. **Companion Policy** Requirement. This policy and California law require that, during the entire policy period of this **CEA** policy, **you** must keep a **companion policy** in force. That **companion policy** must provide fire insurance for the property that is the subject of this **California Earthquake Authority** policy. That **companion policy** must be issued by the same **participating insurer** that issued this **earthquake** policy—if no **companion policy** is in effect at the time of loss, this **CEA** policy is void and no payment will be made under this **CEA** policy.

3. Not a "Guaranteed Replacement Cost" or "Extended Replacement Cost" Policy. This policy does not have a "guaranteed replacement cost" or "extended replacement cost" feature. For that reason, this policy does not provide for full repair or full replacement of covered property if, and to the extent, the loss exceeds (a) the applicable **limit of insurance** stated in the **DECLARATIONS** or, (b) if a **sublimit** applies to the loss, the applicable **sublimit** stated in the policy. The combined single **limit of insurance** for COVERAGE A: DWELLING and COVERAGE B: EXTENSIONS TO DWELLING stated on the **DECLARATIONS** of this **CEA** policy is not modified by any guaranteed-replacement-cost or extended-replacement-cost feature(s) that may increase the **limits of insurance** of **your** homeowners insurance policy or other **companion policy**.

4. Pro-rata or Installment Claims Payments**.** In accordance with California Insurance Code section 10089.35, if at any time the **California Earthquake Authority** Governing Board determines that the **CEA's** available capital may be exhausted and that no additional funds (from specified sources) will be available to the **CEA** to pay policyholder claims, the **CEA** may pay claims on a pro-rata basis or in installment payments, based on a plan presented to the California Insurance Commissioner. If this occurs, **you** might not be paid the full amount of **your** claim or **your** claim might be paid in installments, or both. Under no circumstances will the State of California be responsible for the payment of **your** claim. Please read the Pro-rata or Installment Claims Payments Clause on page ___.

5. Premium Surcharge if CEA Claim-Paying Capacity Is Exhausted**.** If an **earthquake,** or a series of **earthquakes,** exhausts the **California Earthquake Authority's** claim-paying capacity (as provided from specified sources), California Insurance Code section 10089.29, subdivision (b), paragraph (1), gives **us** the power to impose an annual surcharge of up to 20% of **your** annual policy premium. Please read the Surcharge Clause on page ____.

THE LANGUAGE OF THIS POLICY HAS BEEN
APPROVED BY THE CALIFORNIA INSURANCE COMMISSIONER.

BASIC EARTHQUAKE POLICY—HOMEOWNERS CHOICE

Please note that terms that appear frequently in this policy are defined below under DEFINITIONS and appear in bold type.

AGREEMENT

This policy is issued by the **California Earthquake Authority (CEA)**, a public instrumentality of the State of California established and authorized by law to transact insurance in California as necessary to sell policies of basic residential **earthquake** insurance.

1. Covered Losses. This policy insures for 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 to property described under COVERAGES A, B, and C, subject to all of the terms, **limits of insurance**, and conditions of this policy. In addition, as provided in COVERAGE D, **we** insure for Loss of Use of the **dwelling** resulting from a covered loss to covered property, subject to all of the terms, **limits of insurance**, and conditions of the policy.

2. Deductible. Except as otherwise explicitly stated in this policy, **we** will pay only when a covered loss to property exceeds the deductible amount shown on the **DECLARATIONS** page applicable to that category of property. When a covered loss exceeds the applicable deductible amount shown on the **DECLARATIONS** page, **we** will pay, up to the applicable **limit of insurance** stated on the **DECLARATIONS** page, the amount by which the covered loss exceeds the deductible amount. The deductible will be applied one time for each **seismic event**. There is one combined deductible that applies to COVERAGE A: DWELLING and COVERAGE B: EXTENSIONS TO DWELLING, and a separate deductible that applies to COVERAGE C: PERSONAL PROPERTY. **We** will pay no amount for any loss under COVERAGE A: DWELLING or COVERAGE B: EXTENSIONS TO DWELLING until the amount of the loss exceeds the amount of the combined deductible for COVERAGE A: DWELLING and COVERAGE B: EXTENSIONS TO DWELLING shown on the **DECLARATIONS** page; and **we** will pay no amount for any loss under COVERAGE C: PERSONAL PROPERTY until the amount of the loss exceeds the amount of the deductible for COVERAGE C: PERSONAL PROPERTY shown on the **DECLARATIONS** page. For further information and what will be applied to meet each deductible, see "Computation of Deductible—Coverage A and Coverage B" on page _____ and "Deductible—Coverage C" on page _____.

3. Premium Payment. **We** will provide the insurance described in this policy in return for **your** payment of the premium and **your** compliance with all applicable provisions of this policy.

4. Policy Period. The policy period as shown on the **DECLARATIONS** page will begin and end at 12:01 a.m. Pacific Standard Time or Pacific Daylight Savings Time, whichever is in effect on the inception or termination date.

5. **Companion Policy. You** agree to keep in effect a **companion policy** written by the **participating insurer** that services this policy. If at the time of loss no **companion policy** is in effect, this **earthquake** policy is void and no payment will be made under this **earthquake** policy.

6. Policy Services. Policy services and claims adjusting will be provided by the **participating insurer.** All inquiries and correspondence regarding this policy should be directed to the **participating insurer.**

DEFINITIONS

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

1. **"Actual cash value"** means **replacement cost** less depreciation.

2. **"Association of owners"** means, if the location described in the **DECLARATIONS** is part of a **common interest development**, a nonprofit corporation or unincorporated association created for the purpose of governing and managing the **common interest development** in which the **dwelling** is located.

3. **"Business property"** means property pertaining to or intended for use in any (a) full-time or part-time trade, profession, or occupation, or (b) other activity intended for economic gain.

4. **"California Earthquake Authority"** or **"CEA"** means the entity that issued this policy. The **CEA** is a public instrumentality of the State of California created and authorized by law to transact insurance in California as necessary to sell policies of basic residential **earthquake** insurance. The authorization appears in the California Insurance Code, beginning at section 10089.5.

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

6. "**Collectible**" or "**collectibles**" means an item or group of items of personal property, regardless of whether an individual item or part of a collection, the monetary worth of which is not primarily based on its utility or function, but rather, is primarily based on its value to a collector, including property that is kept for investment, has a real or perceived past or expected future increase in value because it would be desirable to collectors as part of a collection, or that has a monetary worth significantly greater than its intrinsic value because of its rarity or its demand among collectors.

7. **"Common interest development"** means any of the following:
   - A community apartment project, as defined in California Civil Code section 4105;
   - A condominium project, as defined in California Civil Code section 4125;
   - A planned development, as defined in California Civil Code section 4175; or
   - A stock cooperative, as defined in California Civil Code section 4190.

8. **"Companion policy"** means the fire insurance policy, homeowners policy, or other insurance policy that provides fire coverage for the property that is the subject of this **CEA** policy, and that is issued by the same **participating insurer** that services this **CEA** policy.

9. "**DECLARATIONS**" or "**DECLARATIONS** page" means the single-page document that accompanies, and forms a part of, this **CEA** policy, and which lists certain basic information specific to this policy, including, but not limited to, the policy number, policy period, name and mailing address of the named insured, **dwelling** address, and the **limits of insurance**, deductibles, and premium applicable to this policy. The following title appears at the top of the **DECLARATIONS** page:

   CALIFORNIA EARTHQUAKE AUTHORITY
   BASIC EARTHQUAKE POLICY—HOMEOWNERS CHOICE
   DECLARATIONS

10. **"Domestic partner"** means a party to a two-person domestic relationship registered by the California Secretary of State through the filing of a Declaration of Domestic Partnership, pursuant to California Family Code section 298.5.

11. **"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.

12. **"Earthquake"** means a vibration-generating rupture event caused by displacement within the earth's crust through release of strain associated with **tectonic processes** and includes effects such as ground shaking,

liquefaction, and damaging amplification of ground motion. While land sliding, including seismically-induced land sliding, is not itself an **earthquake**, **we** cover, subject to "LOSSES EXCLUDED" Item 5 and subject to all other terms and conditions of this policy, loss to covered property arising out of a seismically-induced landslide if that landslide 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. **Earthquake** does not mean or include tsunami or volcanic eruption.

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

14. **"Insured"** means **you** and the following **persons** if they are permanent residents of **your** household:

    a. **your** relatives, whether related by blood, marriage or adoption; <u>and</u>

    b. anyone under the age of 21 who is in the care or custody of **you** or of any of **your** relatives who are permanent residents of **your** household.

15. **"Limit of insurance"** means the most **we** will pay for covered loss arising from any **seismic event**.

16. **"Loss assessment"** means an assessment charged by an **association of owners** against all property owners in a **common interest development** that is properly and legally made as a result of a loss to structures or other real property contained within that **common interest development**, and those structures or other real property are 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**.

17. **"Nuclear hazard"** means any nuclear reaction, radiation, or radioactive contamination, or any consequence of any of these.

18. **"Participating insurer"** means the insurance company that issued the **companion policy**, meets the legal requirements to offer residential **earthquake** coverage by participating in the **CEA**, and provides claims and policyholder services for this policy on behalf of the **CEA**.

19. **"Person"** means any human, association, organization, governmental entity, partnership, business trust, limited liability company, or corporation.

20. **"Replacement cost"** means:

    a. With respect to structures, the lesser of the reasonable cost at the time of loss to repair or replace covered damaged or destroyed property, without deduction for depreciation, (i) at the location of the **residence premises,** (ii) for the same use, and (iii) with materials of like kind and quality;
    b. With respect to personal property and wall-to-wall carpeting, the cost, without deduction for depreciation, of (i) new property identical to the damaged property or, (ii) if identical property is not obtainable, of new property of like quality and of comparable usefulness as the damaged property.

21. **"Residence premises"** means the one, two, three, or four unit **dwelling**, extensions to **dwelling**, and grounds at the address shown in the **DECLARATIONS** owned by **you**. **Residence premises** does not include land or extensions to **dwelling** not owned by **you**. **Residence premises** does not include property owned by a corporation, **association of owners**, or other entity, including but not limited to property for the common use of members or shareholders even if **you** are a member or shareholder, except for any extensions to **dwelling** subject to a **loss assessment** covered under Item 4 of "<u>Property Covered—Coverage B</u>" on page __ of this policy.

22. **"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**.

23. **"Sublimit"** means a dollar limit on a coverage for a specific type of property within a category of property that is subject to a higher total **limit of insurance**. Payment under a **sublimit** will reduce the amount available under the total **limit of insurance**. For example, a **chimney** is covered under "COVERAGE A: DWELLING" which has a **limit of insurance** shown on the **DECLARATIONS** page, but no more than the $10,000 **sublimit** will be paid for loss to any and all **chimney**(s). In that example, the overall amount available under the "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" combined single **limit of insurance** would be reduced by the amount that is paid for loss to any **chimney**.

24. **"Tectonic processes"** means natural adjustments of the earth's crust that are wholly in response to regional stress conditions caused by natural dynamic forces within the earth's interior, and not initiated, in whole or in any part, by any human activity.

SINGLE LIMIT OF INSURANCE FOR DWELLING AND EXTENSIONS TO DWELLING; OTHER LIMITS AND SUBLIMITS

If **you** purchase coverage for COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING," and if therefore a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS**, then that combined single **limit of insurance** is the most **we** will pay for all covered loss by **earthquake** under "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING." This combined limit is shown on **your DECLARATIONS** as the amount of **your dwelling limit of insurance**. The amount of insurance available to **you** under "COVERAGE A: DWELLING" will be reduced to the extent that **we** make any payment for "COVERAGE B: EXTENSIONS TO DWELLING," and the amount of coverage available to **you** under "COVERAGE B: EXTENSIONS TO DWELLING" will be reduced to the extent that **we** make any payment for "COVERAGE A: DWELLING." All other limits shown on the **DECLARATIONS** page are separate **limits of insurance**. There are **sublimits** within the **limits of insurance** that may reduce **your** recovery under this policy.

COVERAGES

COVERAGE A: DWELLING

If a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy, we provide the following coverage, subject to that combined single **limit of insurance**, the application of the "Computation of Deductible—Coverage A and Coverage B" clause, and all the terms and conditions of this policy.

If no combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE A: DWELLING".

Property Covered—Coverage A

We cover:

1. The **dwelling** on the **residence premises**, except those parts of the **dwelling** that are described in "Property Not Covered—Coverages A and B" on pages ___ and ___ of this policy;

2. Wall-to-wall carpeting attached to the **dwelling**.

3. The reasonable expense **you** incur in removing from the **residence premises** the debris of that damaged property covered under "COVERAGE A: DWELLING," including but not limited to the reasonable expense **you** incur for the transportation of such debris to landfills or disposal facilities and disposal of the debris at those facilities,

or the transportation of such debris to suitable recycling facilities rather than landfills and disposal of the debris at those facilities. The combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" will be reduced by any amount **we** pay under this coverage, but in the event that **your** covered losses under COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" exceed the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" shown on the **DECLARATIONS** page of this policy, **we** will provide, as additional insurance, up to 5% of that combined single **limit of insurance** for the aggregate of the expenses **you** incur in removing from the **residence premises** the debris of (a) property covered under "COVERAGE A: DWELLING," as provided for in this paragraph, and (b) property covered under "COVERAGE B: EXTENSIONS TO DWELLING," as provided for under Item 5 of "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered—Coverage B."

Special Limits of Insurance—Coverage A

The **limits of insurance** shown below are **sublimits** of the policy's **limit of insurance** provided for "COVERAGE A: DWELLING" and do not increase the **limit of insurance** for "COVERAGE A: DWELLING" shown in the **DECLARATIONS**. The **sublimit** for each numbered category, immediately below, is the total **limit of insurance** for all loss in that category. For property that falls into more than one category, the lowest applicable **sublimit** will apply.

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

2. $5,000 for all loss or damage to the **dwelling** or to wall-to-wall carpeting attached to the **dwelling** caused by **fungi** the presence of which directly results from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, including, but not limited to, the cost to repair damage from **fungi** or to test for, monitor, abate, mitigate, remove, dispose of, or remediate **fungi**. This **sublimit** of $5,000 in coverage for loss or damage caused by **fungi** will be reduced by any amount that **we** pay under "OTHER COVERAGES," Item 1, "Emergency Repairs," for emergency repairs resulting from **fungi**. Except for the coverage specifically provided for in this **sublimit**, this policy does not provide coverage for any loss that is caused directly or indirectly by, or that in any way results from, is contributed to by, or is aggravated by **fungi**.

COVERAGE B: EXTENSIONS TO DWELLING

If a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy, we provide the following coverage, subject to that combined single **limit of insurance**, the application of the "Computation of Deductible—Coverage A and Coverage B" clause, and all the terms and conditions of this policy.

If no combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE B: EXTENSIONS TO DWELLING."

Property Covered—Coverage B

We cover:

1. Equipment and utility service structures for electric, telephone, natural or bottled gas, heating, oil, water, septic, and sanitary sewage systems that (1) are owned by **you** and (2) are located outside of the foundation or walls of the **dwelling** but on the **residence premises** and (3) affect the habitability of the **dwelling**.

2. Walkways, driveways, decks, or patios on the **residence premises** that are necessary for and regularly used for either (1) pedestrian ingress to or egress from the **dwelling** by any **insured** or (2) ingress to and egress from the

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

3. Those bulkheads, piers, retaining walls, and masonry fences on the **residence premises** that are integral to the stability of the **dwelling**. Except as provided for in "OTHER COVERAGES," Item 3, the cost of repairing, replacing or stabilizing the land under or around these devices is not covered.

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

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

COVERAGE A: DWELLING AND COVERAGE B: EXTENSIONS TO DWELLING

Computation of Deductible—Coverage A and Coverage B

We will pay no amount for any loss under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" until the amount of the loss exceeds the amount of the combined deductible for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" shown on the **DECLARATIONS** page. The deductible will be applied one time for each **seismic event**. Only the following will be applied to meet the "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" combined deductible:

1. The reasonable and necessary cost, not to exceed **replacement cost**, of any of the following:

   a. Replacement or repair of the covered damage to property covered under "COVERAGE A: DWELLING," but with respect to property for which there is a **sublimit** under "COVERAGE A: DWELLING," only the amount up to the applicable **sublimit** for that property, and

b. Replacement or repair of the covered damage to property covered under "COVERAGE B: EXTENSIONS TO DWELLING," but with respect to property for which there is a **sublimit** under "COVERAGE B: EXTENSIONS TO DWELLING," only the amount up to the applicable **sublimit** for that property, and

c. Emergency measures in excess of $1,500 covered under "OTHER COVERAGES," Item 1, "Emergency Repairs," that **you** actually take to protect the property that is covered under "COVERAGE A: DWELLING" or COVERAGE B: EXTENSIONS TO DWELLING" against further damage or to 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 cost to replace, rebuild, stabilize or otherwise restore the land that is covered under "OTHER COVERAGES" Item 3, "Land," but only up to the **sublimit** of $10,000, and

2. An amount equal to the reasonable and necessary costs of construction covered under "OTHER COVERAGES" Item 2, "Building Code Upgrades," but only up to the **limit of insurance** for "OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the **DECLARATIONS** page. Although the full amount of loss that would be covered under that coverage, up to the **limit of insurance** for "OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the **DECLARATIONS** page, will be applied to meet the deductible, no payment will be made to **you** under OTHER COVERAGES" Item 2, "Building Code Upgrades" unless **you** actually do undertake repair or replacement of that covered property.

The cost to repair or replace personal property, or any other cost not set forth in Items 1(a) through 1(d) or Item 2, above, will not be applied to meet this deductible.

Property Not Covered—Coverage A and Coverage B

We do not cover:

1. Land, including land underlying the **dwelling**, except as provided for in "OTHER COVERAGES," Item 3, "Land."

2. Except as provided for in "OTHER COVERAGES," Item 3, "Land," the cost of (a) land stabilization; (b) structures, apparatuses, or devices to stabilize the land; and (c) engineering associated with land stabilization.

3. Awnings and patio coverings, and their support structures. For purposes of this exclusion, carport covers are not awnings or patio coverings.

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

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

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

7. Plaster, to the extent the cost to repair or replace it exceeds the value of its replacement with sheetrock or drywall.

8. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," any structure on the **residence premises** other than the **dwelling**, including detached garages, outbuildings, and other structures.

9. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," Item 1, exterior water supply systems including, but not limited to, irrigation systems, sprinkler systems, and water reclamation systems.

10. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING", Property Covered, Item 1, 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.

11. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," Item 2, walkways, driveways, decks, and patios.

12. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," Item 3, fences, bulkheads, piers, and outside walls including retaining walls.

13. Except as provided under "OTHER COVERAGES," Item 2, "Building Code Upgrades," any added costs of repair or replacement of covered property resulting from enforcement of any ordinance, law, or residential building code that regulates the use, construction, repair, or demolition of a building or other structure.

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

15. Swimming pools, spas, and hot tubs and all of their components, including the tile or other material linking or attaching the pool, spa, or hot tub to a deck or to the **dwelling**.

COVERAGE C: PERSONAL PROPERTY

If a **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" is shown on the **DECLARATIONS** page of this policy, **we** provide the following coverage, subject to that **limit of insurance**, the application of the "Deductible—Coverage C" clause, and all the terms and conditions of this policy. If no **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE C: PERSONAL PROPERTY."

Property Covered—Coverage C

We cover (1) personal property owned or used by an **insured** and located at the **residence premises**, (2) at **your** request and subject to the **sublimit** of $2,500, personal property owned by others while that property is on any part of the **dwelling** occupied by an **insured**, and (3) the reasonable expense **you** incur in removing from the **residence premises** the debris of damaged covered personal property.

Special Limits of Insurance—Coverage C

The **limits of insurance** shown below are **sublimits** of the policy's **limit of insurance** provided for "COVERAGE C: PERSONAL PROPERTY" and do not increase the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" shown in the **DECLARATIONS**. The **sublimit** for each numbered category, immediately below, is the total **limit of insurance** for all loss in that category. For property that falls into more than one category, the lowest applicable **sublimit** will apply. If any item of property falls both into one of the following **sublimits** and one of the categories of property listed under "Property Not Covered—Coverage C," then **we** do not cover that item of property.

1. $250 in the aggregate on all money, bank notes, coins and medals, including any of these that are part of a collection.

2. $250 in the aggregate on all securities, checks, cashier's checks, traveler's checks, money orders, and other negotiable instruments; accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, passports, and tickets.

3. $3,000 in the aggregate on all computers and other electronic data processing equipment, including storage media and software used with that equipment, whether or not it is **business property**. Storage media or software that cannot be replaced with other property of like kind and quality on the current consumer retail market is not covered.

4. $1,000 in the aggregate on all **business property** other than computers and other electronic data processing equipment, storage media, and software.

5. $3,000 in the aggregate on all jewelry, watches, furs, and precious and semi-precious stones, but not more than $1,000 for any one article.

6. $3,000 in the aggregate on all **collectibles**, including but not limited to sports cards; **collectible** dolls, model trains, or toys; **collectible** postage stamps; **collectible** autographed items; memorabilia; and commemorative or otherwise **collectible** plates, spoons, or cups; regardless of whether any such item is a single item or part of a collection.

7. $3,000 in the aggregate on all beverages contained in bottles or in other glass, ceramic, or pottery containers, including but not limited to wine, port, liquor, beer, and all other alcoholic or non-alcoholic beverages.

Deductible—Coverage C

We will pay no amount for any loss under "COVERAGE C: PERSONAL PROPERTY" until the amount of the loss exceeds the amount of the deductible for "COVERAGE C: PERSONAL PROPERTY" shown on the **DECLARATIONS** page. The deductible will be applied one time for each **seismic event**. Only losses that are covered under "COVERAGE C: PERSONAL PROPERTY," as limited by the application of any **sublimits** that apply to those losses, can be applied to meet this deductible requirement.

If a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy, and the applicable deductible for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" has been met or exceeded pursuant to the "Computation of Deductible—Coverage A and Coverage B" clause, the deductible for "COVERAGE C: PERSONAL PROPERTY" will be waived and no deductible will apply to losses to property covered under "COVERAGE C: PERSONAL PROPERTY."

Property Not Covered—Coverage C

We do not cover:

1. Pets, birds, fish, livestock, or other animals.

2. Motor vehicles, riding lawn mowers, or any motorized land conveyance, including their parts or accessories while in or on the motor vehicle, lawn mower, or conveyance. This exclusion does not apply to motorized land conveyances not licensed for use on public roads that are designed to assist and are used by the handicapped, or to the parts and accessories of those conveyances.

3. Any electronic equipment that is designed for operation by the electrical system of a motor vehicle, motorized land conveyance, or a camp or home trailer while any of this equipment is in, on, or installed in a motor vehicle, motorized land conveyance, or a camp or home trailer, including but not limited to: computers; citizens band and other two-way mobile radios; satellite and cellular telephones; radio receivers, transceivers, and transmitters; scanners and scanning monitor receivers; radar detectors; tape or disc players and recorders, MP3 players; televisions; video players, recorders, and monitors; global positioning satellite (GPS) devices, personal digital

assistants and other handheld devices; and any accessories, antennas, speakers, tapes, discs, cartridges, media, carrying cases, charging devices, batteries, or other devices and accessories used with that equipment.

4. Aircraft, including their parts and equipment.

5. Property that is not owned or used by an **insured,** including but not limited to the property of roomers, boarders and other tenants, except (a) the property owned by others that **we** cover at **your** request under Item 2 of "Property Covered—Coverage C," subject to the applicable **sublimit** of $2,500, and (b) the property of roomers and boarders related to any **insured**.

6. Valuable papers, records or data, including:

   a. books of account, drawings, card index systems and other records; and

   b. data stored on electronic data storage devices, including processing tapes, wires, records, discs, computer drives, portable storage devices or media, or other magnetic or optical media.

   We do, however, cover the cost of blank recording or storage media and of prerecorded computer programs that are available on the retail market, subject to the **sublimit** set forth in "Special Limits of Insurance—Coverage C," Item 3.

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

8. Breakable items, consisting of the following:

   a. Glassware, crystal, china, ceramic, pottery, and porcelain items created as table settings, serving ware, or otherwise intended for use in serving or consuming food or beverage, whether currently being used for that purpose or not; and,

   b. Figurines, vessels, vases, and other ornamental items made of crystal, china, pottery, ceramics, porcelain, glass, or marble.

9. Watercraft, including their furnishings, equipment, and inboard, outboard, or inboard-outboard motors.

10. Trailers.

11. Trees, shrubs, or plants, or their containers.

12. Swimming pools, spas, and hot tubs, including all of their components.

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

COVERAGE D: LOSS OF USE

If a **limit of insurance** for "COVERAGE D: LOSS OF USE" is shown on the **DECLARATIONS** page, then subject to that **limit of insurance** and all the terms and conditions of this policy, **we** provide the following coverage, not subject to any deductible. If no **limit of insurance** for "COVERAGE D: LOSS OF USE" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE D: LOSS OF USE."

1. Additional Living Expense. If the part of the **dwelling** that **you** occupy becomes unfit to live in and **you** are forced to vacate the **dwelling** as a result of either (1) damage to the **dwelling** or covered extensions to **dwelling** 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 **dwelling** or covered extensions to **dwelling** 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 **dwelling you** occupy that are unfit to live in, or (b) for **you** to permanently relocate elsewhere if **you** do not elect to repair or replace **your dwelling**.

2. Loss of Rent. If the part of the **dwelling** that **you** rent to others or that **you** actually hold for rental becomes unfit to live in as a result of either (1) damage to the **dwelling** or covered extensions to **dwelling** 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 **dwelling** or covered extensions to **dwelling** caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** cover the fair rental value of that part of the **dwelling** that is rented to others or that **you** actually held for rental prior to the loss, less any expenses that do not continue while the rental portion of the **dwelling** is unfit to live in. Fair rental value means the average rental amount immediately before the **earthquake** in **your** rental market for a residential unit similar to that covered under this policy.

   We will pay for the shortest time reasonably needed to repair or replace the parts of the **dwelling** rented or held for rental that are unfit to live in. **Your** loss of rents due to cancellation of a lease or rental agreement is not covered.

3. 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** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** cover the resulting Additional Living Expense or Loss of Rent, subject to the "COVERAGE D: LOSS OF USE" **limits of insurance**.

OTHER COVERAGES

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

1. Emergency Repairs. If covered damage occurs to covered property and such emergency measures are made necessary as the result of an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** will pay the following portion of the cost **you** incur for reasonable and necessary emergency measures **you** take (1) to protect against further damage to covered property, or (2) if a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy and the **dwelling** is otherwise habitable, to remove from covered property in the **dwelling** the residue of broken glass or to repair or replace covered broken windows in the **dwelling** or other covered structural glass that is part of the **dwelling**. This Emergency Repairs coverage provides coverage up to a **sublimit** of 5% of the policy **limit of insurance** for the type of property being protected. The applicable total **limit of insurance** for the type of property being protected will be reduced by any amount **we** pay for this coverage, but **we** will never pay more for emergency repairs than 5% of the policy **limit of insurance** for the type of property being protected.

   a. The first $1,500 of covered costs **you** incur for such reasonable and necessary emergency measures is not subject to the application of any deductible. Costs **you** incur for such emergency measures in excess of $1,500 are subject to the application of the deductible that applies to the type of covered property being protected, which means that until **you** satisfy the applicable deductible amount, **you** will not be paid for any such costs **you** incur above $1,500.

   b. **Your** taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve **you** of **your** responsibilities outlined in "**Your** Duties After Loss" (CONDITIONS, Item 3).

2. Building Code Upgrades. If a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy and there is a covered loss to property covered under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" in excess of the applicable deductible and **you** repair or replace that covered property, then subject to the **limit of insurance** for "OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the **DECLARATIONS** page, **we** cover the cost of reconstruction or replacement to bring that property up to local residential building code standards in effect at the **residence premises** location on the date of the

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

3. Land. If a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the **DECLARATIONS** page of this policy and there is a covered loss to property covered under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" in excess of the applicable deductible**, we** will pay up to $10,000 for the cost, including engineering costs, to replace, rebuild, stabilize or otherwise restore land that is owned by **you** and necessary to support the **dwelling** or covered extensions to **dwelling**, or to add devices or apparatuses to stabilize land that is owned by **you** and necessary to support the **dwelling** or covered extensions to **dwelling**, if the need for stabilization is caused directly by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period and the stabilization is necessary for the habitability of the **dwelling**. This coverage is provided as a $10,000 **sublimit** of the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING." The combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" will be reduced by any amount **we** pay under this coverage.

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

   a. Energy Efficiency Upgrades: **We** will pay the reasonable added costs **you** incur to replace damaged covered property with the following energy-efficient property:

      i. Electronic Equipment – Energy Star Replacement. If there is covered loss to electronic equipment, including but not limited to equipment for heating, ventilation, and air conditioning (HVAC) systems, that is part of the **dwelling** and that is covered under "COVERAGE A: DWELLING," and that electronic equipment must be replaced rather than repaired, then **we** will pay the reasonable expenses **you** incur to replace damaged or destroyed electronic equipment with equipment of otherwise equivalent quality and function that has been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.

ii. Window, Door, Roofing, and Insulation Energy Upgrades. If there a loss to the **dwelling** that requires the repair or replacement of roofing or insulation material, air sealing, windows, doors, or skylights, then **we** will pay the reasonable expenses **you** incur to replace those damaged or destroyed materials with materials of otherwise equivalent quality and function that have been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.

iii. Plumbing Fixture Upgrades. If there a loss to the **dwelling** that requires the repair or replacement of plumbing fixtures, then **we** will pay the reasonable expenses **you** incur to replace those fixtures with energy and water efficient fixtures, including automatic faucet sensors, faucet and shower head flow restrictors, dual flush toilets, and localized water heaters, using plumbing fixtures of otherwise equivalent quality and function provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of the U.S. Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines.

b. Environmental Safety Upgrades. **We** will pay reasonable added costs **you** incur to repair or replace the damaged or destroyed property covered under "COVERAGE A: DWELLING" with the following environmentally-upgraded property, provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of the U.S. Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines:

i. Interior Finish Materials Upgrades. If there is a covered loss to the **dwelling** that requires the repair or replacement of interior finish materials, then **we** will pay the reasonable expenses **you** incur to replace those materials with materials of otherwise equivalent quality and function that are low in volatile organic compounds (VOC), sustainably developed, rapidly renewable, or comprised of recycled materials. This coverage applies to interior paints, architectural coatings, primers under coatings, adhesives and sealants, low emissions carpet and floor coverings, including adhesive to affix them to the floor, and permanently installed composite wood fixtures including counters, cabinets and partitions, where available, Forest Stewardship Council certified wood for millwork, ceilings, siding, and framing, and bamboo flooring.

ii. Elimination of Ozone-Depleting Substances Upgrades. If there is a covered loss to the **dwelling** that requires the repair or replacement of systems containing such items, then **we** will pay the reasonable expenses **you** incur to replace chlorofluorocarbon refrigerants (CFC) or hydro-chlorofluorocarbon (HCFC) or Halon refrigerants or fire extinguishing agents with environmentally-upgraded replacements.

iii. Flush Out of Reconstructed Space. If necessitated by the repair or replacement of covered loss to the **dwelling**, **we** will pay the reasonable and necessary costs to flush out the reconstructed space with 100% outside air and new filtration media following completion of the repair or reconstruction process.

LOSSES EXCLUDED

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:

1. Fire or explosion.

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

a. Flood, precipitation (including but not limited to rain, snow, hail, or sleet), or surface water; waves, tsunami, or tidal water; rupture of a dam, levee, berm, or sea wall; overflow of a natural or man-made body of water; or spray from any of these; or

b. Water below the surface of the ground, whether natural or not, including water that exerts pressure on or seeps or leaks through a building, sidewalk, driveway, foundation, or other structure.

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

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

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

(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**; or,

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

3. Controlled or uncontrolled **nuclear hazard** or any act or condition incident to any **nuclear hazard**.

4. Pollution of groundwater, land, and personal property, including all loss, damage, costs, and expenses that arise out of or are caused by pollution or pollutants, and any cost or expense to test for, monitor, clean up, remove, contain, treat, detoxify, or neutralize pollutants. The terms "pollutants" and "pollution" mean any solid, liquid, gaseous, or thermal irritant or contaminant, including, but not limited to, smoke, vapor, soot, fumes, acids, alkalis, chemicals, asbestos, and waste. The term "waste" includes but is not limited to material to be recycled, reconditioned, or reclaimed.

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; <u>and</u>
   b. causes loss that manifests within one year after the **earthquake** that caused the loss.

6. **Fungi**, including but not limited to the cost to repair or replace property damaged by **fungi** or to test for, monitor, abate, mitigate, remove, dispose of or remediate **fungi**, except for loss or damage to the **dwelling** or to wall-to-wall carpeting attached to the **dwelling** caused by **fungi** the presence of which directly results from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, and subject to the $5,000 **sublimit** set forth in "<u>Special Limits of Insurance—Coverage A</u>," Item 2.

7. Theft, vandalism or other human conduct causing loss following an **earthquake**.

8. Required compliance with any ordinance, law, or residential building code that regulates the use, construction, repair, or demolition of a building or other structure, except as specifically provided under this policy, in "OTHER COVERAGES," Item 2, <u>Building Code Upgrades</u>.

9. Power failure, meaning the failure of delivery of electrical power to the **dwelling** or to the **residence premises**.

10. **Your** neglect to take all reasonable action to save and preserve covered property at the time of and after a covered loss.

11. Declared or undeclared war, acts of terrorism, insurrection, rebellion, revolution, warlike act by a military force or military personnel or any person, destruction or seizure or use for a military purpose, and any consequence of any of these. Discharge of a nuclear weapon will be deemed a warlike act even if accidental.

12. Intentional acts, meaning any loss arising out of any act committed:

    a. by **you** or at **your** direction, or at the direction of any **insured** or of any **person** named as an additional **insured**; and

    b. with the intent to cause, aggravate or increase a loss.

YOUR RIGHTS CONCERNING CLAIMS INVESTIGATION

The law provides certain rights and protections to policyholders who are involved in the presentation of a claim. Included among these are the following:

1. Specific rights to privacy under California and Federal law which may protect **you** during the claims process;

2. The right to have **your** claim handled in accordance with the California Insurance Code and Subchapter 7.5 of Chapter 5 of Title 10 of the California Code of Regulations, which impose fair claims handling procedures and requirements on insurers; and

3. The right to be represented by an attorney at **your** expense.

CONDITIONS

1. Insurable Interest and **Limit of Insurance**. Even if more than one **person** has an insurable interest in the property covered, **we** will not be liable:

    a. to **you** for an amount greater than **your** interest; nor

    b. for more than the applicable **limit of insurance**.

2. Concealment or Fraud. The entire policy will be void if, before or after a loss, any **insured** does any of the following:

    a. Intentionally conceals or misrepresents any material fact or circumstance;

    b. Engages in fraudulent conduct relating to this insurance; or

    c. Intentionally makes false statements relating to this insurance.

3. **Your** Duties After Loss. If a loss occurs to covered property, **you** must perform the following duties:

    a. Give written notice to the **participating insurer** without delay.

    b. Protect the property from further damage. Make any emergency repairs that are necessary and reasonable to protect the property from further damage. Keep records of all costs **you** incur to repair or replace covered property or to protect covered property from further damage.

c. Make and keep a list of all damaged or destroyed personal property, showing in detail the quantity, description, and amount of covered loss. Keep all bills, receipts, and related records that support **your** figures.

d. As often as reasonably required:

(i) Exhibit damaged property to the **participating insurer**;

(ii) Provide the **participating insurer** with the records and documents that are necessary to support **your** claim under the policy and which the **participating insurer** may request, including bills, receipts, cancelled checks, and related records that support **your** figures, and permit the **participating insurer** to make copies; and

(iii) While not in the presence of any other **insured**, submit to examination under oath and sign a transcript of the examination.

e. Send the **participating insurer**, within 60 days of **our** or the **participating insurer's** request, **your** signed, sworn proof of loss that sets forth, to the best of **your** knowledge and belief the following:

(i) The time, date, and cause of loss;

(ii) **Your** interest and the interest of all others in the property that sustained a loss, and evidence of all liens or encumbrances on the property;

(iii) A detailed description of all legal claims against the property that sustained a loss;

(iv) Evidence of other insurance that may cover the loss;

(v) A description of changes in title to or occupancy of the property during the term of the policy;

(vi) Descriptions and detailed repair estimates of any damaged building or other covered structure;

(vii) The list of damaged or destroyed personal property covered under this policy; and

(viii) All receipts and records that support any claim for additional living expense or fair rental value.

4. Loss Settlement: Coverages A, B, and C.

In case of loss to a pair or set **we** can elect to do either of the following:

a. Repair or replace any part to restore the pair or set to its value before the loss; or

b. Pay the difference between **replacement cost** of the pair or set before and after the loss.

5. Loss Settlement: Coverages A and B.

a. **Our** liability for any loss to property insured under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" will not exceed the smallest of the following:

(i) The **replacement cost** at the time of loss;

(ii) If the damaged property has been actually repaired or replaced, the amount actually and necessarily spent to repair or replace the damaged property; or

(iii) The applicable **limit of insurance** or any applicable **sublimit(s)**.

b. If the **dwelling** is rebuilt or replaced at a location other than the **residence premises** location shown on the **DECLARATIONS** page, **we** will settle a loss to the property at an amount no more than the **replacement cost**

of the covered loss to the property at the **residence premises** location shown on the **DECLARATIONS** page, up to the applicable **limit of insurance**. For these purposes, the construction of a new home at another location may be deemed to be the rebuilding of the **dwelling** at another location, and the purchase of an existing home at another location may be deemed to be the replacement of the **dwelling** at another location.

c. **We** will not pay for increased costs resulting from enforcement of 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 in "OTHER COVERAGES", Item 2, "Building Code Upgrades."

d. **We** will pay for the cost to repair or replace only that portion of any regularly-used walkway, driveway, deck, or patio covered under this policy that is necessary to restore (i) pedestrian ingress to and egress from the **dwelling** or (ii) ingress to and egress from the **dwelling** by any non-ambulatory **insured**.

e. To repair or replace plaster, **we** will not pay more than the cost to repair or replace the plaster with sheetrock or drywall.

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

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

(i) The **sublimit** of $10,000 that applies to **chimneys**;

(ii) The cost of replacement of a masonry **chimney** or **chimneys** with a non-masonry, **earthquake**-resistant **chimney** or **chimneys**; or

(iii) The necessary amount actually spent to repair the damaged **chimney** or **chimneys**.

6. Loss Settlement: Coverage C.

a. **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.

b. **Our** liability for loss to any property insured under "COVERAGE C: PERSONAL PROPERTY" will not exceed the smallest of the following:

(i) The **replacement cost** at the time of loss;

(ii) 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)**.

7. Appraisal. If **you** and **we** fail to agree on the amount of loss, either of us may demand an appraisal of the loss. In this event, each party will choose a competent and disinterested appraiser within 20 days after receiving the written demand from the other. The two appraisers will choose a neutral and independent umpire. If they cannot agree on an umpire within 15 days, **you** or **we** may request that a judge of a California court of competent jurisdiction in the county where the insured **dwelling** is located appoint an umpire. The two appraisers will separately appraise the amount of loss under this policy. If the appraisers submit an agreed written report to **us**, the amount they agree on will be the amount of loss under this policy. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two of the three appraisers will set the amount of loss under this policy. Each party will (a)

pay its own appraiser, and (b) bear the other expenses of the appraisal and of the umpire equally.

8. Other Insurance.

   a. If there is other insurance that covers **earthquake** loss to the **dwelling** or other property covered under this policy, **we** will pay **our** share of the covered loss or damage. **Our** share is the proportion that the applicable **limit of insurance** under this policy bears to the combined **limits of insurance** of all policies that cover the same property.

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

9. Subrogation. **You** may waive in writing before a loss under this policy all **your** rights of recovery against any **person**. If **you** do not waive those rights, **we** may require an assignment of **your** rights of recovery for a loss to the extent that **we** make payment for that loss. If **we** seek an assignment, the **insured** must sign and deliver all related papers to **us** and cooperate with **us**.

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

11. **Our** Option to Repair or Replace Property. If **we** give **you** written notice within 30 days after **we** receive **your** proof of loss, **we** may repair or replace any part of the damaged property with like property.

12. Loss Adjustment: **We**, through the **participating insurer**, will adjust all losses with **you**. 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.

13. Loss Payment. As to all claims **we** determine to be covered under this policy, **we** will pay **you** unless some other **person** is named in the policy or is legally entitled to receive payment. That portion of a claim that is not in dispute will be payable within 30 days after **we** receive **your** proof of loss. All other losses will be payable within 30 days after **we** receive **your** proof of loss and:

    a. **we** reach an agreement with **you**;

    b. there is an entry of a final judgment; or

    c. there is a filing of a final appraisal award with **us**.

14. Mortgagee Clause.

    a. The word "mortgagee" as used in this policy includes trustee or beneficiary under a trust deed.

b. If a mortgagee is named as a loss payee in this policy and, as a condition for making a loan to **you** secured by the **dwelling**, that mortgagee either (1) required **you** to purchase **earthquake** insurance that covers the **dwelling** or (2) required that the mortgagee be named as a loss payee under any coverage on the **dwelling**, any loss payable under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" will be paid to the mortgagee, to the extent of its interest, and to **you**. If more than one mortgagee is so named and otherwise qualifies, the order of payment will be the same as the order of preference of the mortgages.

c. If **we** deny **your** claim, that denial will not apply to a valid claim of the mortgagee, if the mortgagee does all of the following:

(i) Notifies the **participating insurer** of any change in ownership or occupancy of the **dwelling**, or of any substantial change in risk of which the mortgagee is aware;

(ii) Pays any premium due under this policy on demand if **you** have neglected to pay the premium; and

(iii) Submits a signed, sworn statement of loss within 60 days after it receives notice from **us** of **your** failure to do so.

d. If **we** decide to cancel or not to renew this policy, **we** will take reasonable steps to notify any mortgagee named as a loss payee under this policy at least 10 days before the date cancellation or nonrenewal takes effect.

e. If **we** pay the mortgagee for any loss and deny payment to **you**:

(i) **We** are subrogated to all the rights of the mortgagee granted under the mortgage on the property, which will not impair the right of the mortgagee to recover the full amount of the mortgagee's claim, or

(ii) At **our** option, **we** may pay to the mortgagee the whole principal on the mortgage plus any accrued interest, in which event, **we** will receive a full assignment and transfer of the mortgage and all security held as collateral for the mortgage debt.

f. Policy conditions relating to loss settlement and payment, including, but not limited to, the Appraisal, Legal Action, Loss Adjustment, and Loss Payment conditions, apply to the mortgagee.

15. No Benefit to Bailee. **We** will not recognize any assignment or grant any coverage that benefits a **person** that holds, stores, or moves property for a fee, regardless of any other provision of this policy, unless that **person** is named as an **insured** under this policy.

16. Payment. If **you** pay the initial premium for **your** first policy period by check, draft, or any remittance other than cash, **we** will credit **you** with that payment only if the check, draft, or remittance is honored on presentation. If **your** check, draft, or remittance is not honored on presentation, this policy is void from its inception. "Void from its inception" means that **we** will not be liable under this policy for any claims or damages that would otherwise have been covered had the check, draft, or remittance been honored on presentation and had the policy remained in effect.

17. Automatic Termination**.** If, before the end of the then current policy period of this policy, **we** or the **participating insurer** provide **you** with a renewal notice for **your** policy, that notice will be deemed **our** offer to renew **your** policy for an additional policy period. If **we** do not receive **your** required premium payment on or before the end of the then current policy period, **your** policy will terminate automatically at the expiration of the then current policy period. This means that **you** will have elected not to accept **our** offer to renew the policy, and no notice will be sent to **you**. **Your** failure to accept **our** offer to renew the policy is not a cancellation or non-renewal by **us**.

18. Cancellation.

a. When the **companion policy** is cancelled for any reason, this policy is cancelled effective on the same date the **companion policy** cancellation takes effect, and any unearned premiums will be returned to **you** on a pro rata basis. This policy will not provide coverage if there is no **companion policy** in effect at the time of loss.

b. **You** may cancel this policy at any time by returning it to the **participating insurer** or by notifying the **participating insurer** in writing of the date cancellation is to take effect. **You** may return the policy and submit the cancellation date to the agent of the **participating insurer**.

c. **We** may cancel this policy for the reasons stated in this condition or for any other grounds permitted by law, by notifying **you** in writing of the date cancellation takes or took effect. The cancellation notice may be delivered to **you**, or mailed to **you** at **your** mailing address shown in the **DECLARATIONS**. Proof of mailing will be sufficient proof of notice.

(i) When **you** have not paid the premium when due and payable, **we** may cancel at any time by notifying **you** at least 10 days before the cancellation takes effect.

(ii) When this policy has been in effect for less than 60 days and is not a renewal with **us**, **we** may cancel the policy if the property does not meet the eligibility standards of the **CEA**, by notifying **you** at least 20 days before the date cancellation takes effect.

(iii) When this policy has been in effect 60 or more days, or is a renewal with **us**, **we** may cancel at any time by notifying **you** at least 30 days before the date cancellation takes effect, based on the occurrence of one or more of the following:

(A) **Your** conviction of a crime having as one of its necessary elements an act increasing any hazard insured against; <u>or</u>

(B) **Our** discovery of fraud or material misrepresentation by either the **insured** or the **insured's** representative in obtaining the insurance, or by **you** or **your** representative in pursuing a claim under the policy; <u>or</u>

(C) **Our** discovery of grossly negligent acts or omissions by the **insured** or his or her representative that have substantially increased any of the hazards insured against; <u>or</u>

(D) Physical changes to the **residence premises** that result in the property failing to meet the eligibility standards of the **CEA**; however, **we** may not cancel this policy because of physical changes that occur solely as a result of an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period; or

(E) **Your** failure to pay an **earthquake** policy surcharge imposed and authorized by the **California Earthquake Authority**, in accordance with California Insurance Code section 10089.29, subdivision (d).

d. When this policy is cancelled, any premium paid for the period from the effective date of the cancellation to the expiration date will be refunded. When the policy is cancelled, the return premium will be pro rata.

e. If, when **we** cancel this policy, the return premium is not refunded with the notice of cancellation, **we** will refund it within 25 business days after the notice of cancellation is sent. If, when **you** cancel this policy, the return premium is not refunded when **you** return the policy to **us**, **we** will refund it within 25 business days after the date **we** receive **your** notice of cancellation.

19. <u>Conditional Reinstatement</u>. If **we** mail a cancellation notice because **you** did not pay required premium when due and **you** then tender payment of the premium by check, draft, or other remittance that is not honored on presentation, **your** policy will terminate on the date and time shown on the cancellation notice and any notice **we** issue that states that it waives the cancellation or reinstates the coverage is void. This means **we** will not be liable under this policy for claims or damages after the date and time stated on the cancellation notice.

20. <u>Non-Renewal</u>. **We** may elect not to renew this policy by delivering to **you** or mailing to **you** at **your** mailing address shown in the **DECLARATIONS**, written notice of non-renewal at least 75 days before the expiration date of this policy. Proof of mailing will be sufficient proof of notice.

21. Waiver or Change of Policy Provisions. No waiver or change of a policy provision is valid unless it is in writing and signed by **us**. **Our** request for an appraisal or examination does not waive any of **our** rights.

22. Assignment. **Your** assignment of this policy will not be valid unless **we** give written consent.

23. Death. If **you** die during the policy term, each of the following persons will be deemed an **insured** with respect to the property insured under this policy:

    a. The legal representatives or **person** who by law succeeds to the ownership of the insured property, but only with respect to the property of the deceased covered under this policy at the time of death until the termination date of this policy; and

    b. With respect to the property covered under this policy at the time of death, the **person** that has proper temporary custody of the property until appointment and qualification of a legal representative.

24. Recovered Property. If **you** or **we** recover any property for which **we** have made payment under this policy, **you** or **we** will notify the other of the recovery. At **your** option, the property will be returned to or retained by **you** or it will become **our** property. If the recovered property is returned to or retained by **you**, the loss payment will be adjusted based on the amount of the payment **we** made for the recovered property.

25. Abandonment of Property. **We** need not accept any property abandoned by an **insured**.

26. Surcharge Clause. In the event of an **earthquake** or series of **earthquakes**, **we** can impose a surcharge, as permitted by law, up to 20% of **your** annual policy premium within any one year, in accordance with California Insurance Code section 10089.29, subdivision (b), paragraph (1).

27. Pro-rata or Installment Claims Payments. In accordance with California Insurance Code Section 10089.35, if, at any time, the available capital of the **California Earthquake Authority** is insufficient to meet anticipated losses and there are no additional funds from assessments, reinsurance, or private capital markets available to pay claims, the **California Earthquake Authority** may pay claims on a pro-rata basis from the remaining funds available, or claims may be paid on an installment basis, based on a plan approved by the California Insurance Commissioner. If this occurs, **you** may not be paid the full amount of **your** claim. If **we** submit a pro rata or installment plan to the Insurance Commissioner, deadlines in this policy that apply to **our** payment of **your** claim may, at **our** sole option, be extended by the length of time the Insurance Commissioner has the plan under consideration; the deadlines will be reinstated and recomputed no later than the date an approved plan is in place. Also, with respect to **California Earthquake Authority** claims payments, California Insurance Code section 10089.25, subdivision (d), reads as follows: "The State of California shall have no liability for payment of claims in excess of funds available pursuant to this chapter. The State of California, and any of the funds of the State of California, shall have no obligations whatsoever for payment of claims or costs arising from this act, except as specifically provided in this act."

28. Changes to Policy Terms in the Event of an **Earthquake**. If an **earthquake** occurs during the policy period, and the **dwelling** identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the rights, at **our** option, to do either or both of the following:

    a. To refuse any request **you** make from the time of that **earthquake** until thirty days after the **earthquake** to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy; and

    b. To inspect the **residence premises** prior to granting any request **you** make from the time of that **earthquake** until the expiration of the term of this policy to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy, and to deny **your** request to alter the terms of this policy if **our** inspection reveals the existence of any **earthquake**-related damage to the **residence premises**.

29. Renewal of Policy in the Event of an **Earthquake**. In the event an **earthquake** occurs during the policy period and the **dwelling** identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the following rights with respect to the renewal of this policy:

    a. If the expiration date of this policy is between the date of the **earthquake** and 30 days after the **earthquake**, **we** have the right, at **our** option, to refuse to renew this policy on terms different from those contained in this policy. This means that **we** have the right to refuse any request **you** make from the time of the **earthquake** until thirty days thereafter to change the limits of any of the coverages of this policy on renewal, purchase additional coverages from **us** on renewal, or lower the deductible of this policy on renewal.

    b. **We** have the right, at **our** option, to inspect the **residence premises** prior to granting any request **you** make to renew this policy on terms different from those contained in this policy, including any request that **you** make on renewal to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy. **We** have the right to deny **your** request to alter the terms of this policy on renewal if **our** inspection reveals the existence of any **earthquake**-related damage to the **residence premises**.

30. Liberalization Clause. If **we** make a change that broadens coverage under this edition of **our** policy without additional premium charge to **you**, that change will automatically apply to **your** insurance as of the date **we** implement the change.

    This Liberalization Clause does not apply to changes implemented through **our** introduction of a subsequent edition of **our** policy.

CALIFORNIA EARTHQUAKE AUTHORITY

BASIC EARTHQUAKE POLICY
COMMON INTEREST DEVELOPMENT

PLEASE READ YOUR POLICY

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IMPORTANT NOTICES

Many of the terms of this policy are substantially different from the terms of **your companion policy** and most other policies that cover a condominium unit or other **dwelling unit**. The following items, among others, are unique to this policy; these are not the only terms, however, that are different from the terms of **your companion policy** and other policies—there are many others. Therefore, **we** urge **you** to read the entire policy.

The terms that appear in bold type appear frequently in this policy and are defined below under DEFINITIONS.

1. Deductible. No payment will be made for any property loss until the amount of covered loss to the type of property for which **you** make a claim under this policy exceeds the deductible stated on the **DECLARATIONS**. Because of the way the deductible is determined, **you** could have substantial uninsured loss. The deductible amounts shown on the **DECLARATIONS** will not reduce the dollar amount of any **limit of insurance** stated on the **DECLARATIONS**; in other words, the amount **we** will pay will be the full amount by which **your** covered loss exceeds the applicable deductible, up to the applicable **limit of insurance** stated on the **DECLARATIONS**. There are other requirements and restrictions that relate to the deductible. Please read the deductible clause relating to each type of covered property.

2. **Companion Policy** Requirement. This policy and California law require that, during the entire policy period of this **CEA** policy, **you** must keep a **companion policy** in force. That **companion policy** must provide fire insurance for the property that is the subject of this **California Earthquake Authority** policy. That **companion policy** must be issued by the same **participating insurer** that issued this **earthquake** policy—if no **companion policy** is in effect at the time of loss, this **CEA** policy is void and no payment will be made under this **CEA** policy.

3. This is Limited Coverage.

   (a) This **CEA** policy covers only some parts of **your dwelling unit** and does not cover many other components of **your** interest in **your common interest development**. **You** may wish to determine if **your association of owners** has purchased an **association master policy** that includes **earthquake** coverage.

   (b) Unlike some fire insurance policies, this policy does not have a "guaranteed replacement cost" or "extended replacement cost" feature. For that reason, this policy does not provide for full repair or full replacement of covered property if, and to the extent, the loss exceeds (1) the applicable **limit of insurance** stated in the **DECLARATIONS** or, (2) if a **sublimit** applies to the loss, the applicable **sublimit** stated in the policy.

4. Pro-rata or Installment Claims Payments**.** In accordance with California Insurance Code section 10089.35, if at any time the **California Earthquake Authority** Governing Board determines that the **CEA's** available capital may be exhausted and that no additional funds (from specified sources) will be available to the **CEA** to pay policyholder claims, the **CEA** may pay claims on a pro-rata basis or in installment payments, based on a plan presented to the California Insurance Commissioner. If this occurs, **you** might not be paid the full amount of **your** claim or **your** claim might be paid in installments, or both. Under no circumstances will the State of California be responsible for the payment of **your** claim. Please read the Pro-rata or Installment Claims Payments Clause on page ___.

5. Surcharge in the Event of **Earthquake**. If an **earthquake,** or a series of **earthquakes,** exhausts the **California Earthquake Authority's** claim-paying capacity (as provided from specified sources), California Insurance Code section 10089.29, subdivision (b), paragraph (1), gives **us** the power to impose an annual surcharge of up to 20% of **your** annual policy premium. Please read the Surcharge Clause on page ____.

THE LANGUAGE OF THIS POLICY HAS BEEN
APPROVED BY THE CALIFORNIA INSURANCE COMMISSIONER

BASIC EARTHQUAKE POLICY
COMMON INTEREST DEVELOPMENT

Please note that terms that appear frequently in this policy are defined below under DEFINITIONS and appear in bold type.

AGREEMENT

This policy is issued by the **California Earthquake Authority (CEA)**, a public instrumentality of the State of California established and authorized by law to transact insurance in California as necessary to sell policies of basic residential earthquake insurance.

1. Covered Losses.

   a. This policy insures the following property for 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, subject to all of the terms, conditions, deductibles, **limits of insurance**, and **sublimits** of the policy:

      1. The property described under "COVERAGE A: BUILDING PROPERTY," but only if a **limit of insurance** is shown for COVERAGE A on the **DECLARATIONS** page of this policy;

      2. The property described under "COVERAGE C: PERSONAL PROPERTY," but only if a **limit of insurance** is shown for COVERAGE C on the **DECLARATIONS** page of this policy; and

      3. **Your** portion of those loss assessments and reductions in value described under "COVERAGE E: LOSS ASSESSMENT," but only if a **limit of insurance** is shown for COVERAGE E on the **DECLARATIONS** page of this policy.

   b. In addition, if a **limit of insurance** is shown for "COVERAGE D: LOSS OF USE" on the **DECLARATIONS** page of this policy, **we** insure for Loss of Use of the **dwelling unit** resulting from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, subject to all of the terms, conditions, and **limits of insurance** of the policy.

2. Deductible. Except as otherwise explicitly stated in this policy, **we** will pay only when a covered loss to property exceeds the deductible amount shown on the **DECLARATIONS** page applicable to that category of property. When a covered loss to property exceeds the deductible amount shown on the **DECLARATIONS** page applicable to that category of property, **we** will pay, up to the applicable **limit of insurance** applicable to that category of property stated on the **DECLARATIONS** page, the amount by which the covered loss exceeds the deductible amount. The deductible will be applied one time for each **seismic event**. There is one deductible that applies to COVERAGE A: BUILDING PROPERTY, a separate deductible that applies to COVERAGE C: PERSONAL PROPERTY, and a separate deductible that applies to COVERAGE E: LOSS ASSESSMENTS. **We** will pay no amount for any loss under COVERAGE A: BUILDING PROPERTY until the amount of the loss exceeds the amount of the deductible for COVERAGE A: BUILDING PROPERTY shown on the **DECLARATIONS** page; **we** will pay no amount for any loss under COVERAGE C: PERSONAL PROPERTY until the amount of the loss exceeds the amount of the deductible for COVERAGE C: PERSONAL PROPERTY shown on the **DECLARATIONS** page; and **we** will pay no amount for any loss under COVERAGE E: LOSS ASSESSMENT until the amount of the loss exceeds the amount of the deductible for COVERAGE E: LOSS ASSESSMENT shown on the **DECLARATIONS** page. For further information and what will be applied to meet each deductible, see "Deductible—Coverage A" on page ____, "Deductible—Coverage C" on page ____, and "Deductible—Coverage E" on page ____ in the COVERAGES Section of this policy.

3. Premium Payment. **We** will provide the insurance described in this policy in return for **your** payment of the premium and **your** compliance with all applicable provisions of this policy.

4. Policy Period. The policy period as shown on the **DECLARATIONS** page will begin and end at 12:01 a.m. Pacific Standard Time or Pacific Daylight Savings Time, whichever is in effect on the inception or termination date.

5. **Companion Policy. You** agree to keep in effect a **companion policy** written by the **participating insurer** that services this policy. If at the time of loss no **companion policy** is in effect, this **earthquake** policy is void and no payment will be made under this **earthquake** policy.

6. Policy Services. Policy services and claims adjusting will be provided by the **participating insurer.** All inquiries and correspondence regarding this policy should be directed to the **participating insurer**.

DEFINITIONS

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

1. **"Actual cash value"** means **replacement cost** less depreciation.

2. **"Association governing documents"** means the declaration and any other documents, such as bylaws, operating rules of the **association of owners**, articles of incorporation, or articles of association, that govern the operation of the **common interest development** or the **association of owners**.

3. **"Association master policy"** means an insurance policy (1) insuring against the perils of fire, **earthquake**, or both, (2) purchased by or issued to the **association of owners**, and (3) covering, in whole or in part, the **dwelling unit**, other real property located at the **common interest development**, or both.

4. **"Association of owners"** means a nonprofit corporation or unincorporated association created for the purpose of governing and managing the **common interest development** in which the **dwelling unit** is located.

5. **"Business property"** means property pertaining to or intended for use in any (a) full-time or part-time trade, profession, or occupation, or (b) other activity intended for economic gain.

6. **"California Earthquake Authority"** or **"CEA"** means the entity that issued this policy. The **CEA** is a public instrumentality of the State of California created and authorized by law to transact insurance in California as necessary to sell policies of basic residential **earthquake** insurance. The authorization appears in the California Insurance Code, beginning at section 10089.5.

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

8. "**Collectible**" or "**collectibles**" means an item or group of items of personal property, regardless of whether an individual item or part of a collection, the monetary worth of which is not primarily based on its utility or function, but rather, is primarily based on its value to a collector, including property that is kept for investment, has a real or perceived past or expected future increase in value because it would be desirable to collectors as part of a collection, or that has a monetary worth significantly greater than its intrinsic value because of its rarity or its demand among collectors.

9. **"Common interest development"** means any of the following:
   - A community apartment project, as defined in California Civil Code section 4105;
   - A condominium project, as defined in California Civil Code section 4125;
   - A planned development, as defined in California Civil Code section 4175; or
   - A stock cooperative, as defined in California Civil Code section 4190.

10. **"Companion policy"** means the fire insurance policy that provides fire coverage on the **dwelling unit** or personal property, or both, that is the subject of this **CEA** policy, and that is issued by the same **participating insurer** that services this **CEA** policy. **"Companion policy"** does not include the **association master policy**.

11. "**DECLARATIONS**" or "**DECLARATIONS** page" means the single-page document that accompanies, and forms a part of, this **CEA** policy, and which lists certain basic information specific to this policy, including, but not limited to, the policy number, policy period, name and mailing address of the named insured, **dwelling unit** address, and the **limits of insurance**, deductibles, and premium applicable to this policy. The following title appears at the top of the **DECLARATIONS** page:

    CALIFORNIA EARTHQUAKE AUTHORITY
    BASIC EARTHQUAKE POLICY
    COMMON INTEREST DEVELOPMENT
    DECLARATIONS

12. **"Domestic partner"** means a party to a two-person domestic relationship registered by the California Secretary of State through the filing of a Declaration of Domestic Partnership, pursuant to California Family Code section 298.5.

13. **"Dwelling unit"** means **your** individual unit in a residential structure located within the **common interest development** at the location specified in the **DECLARATIONS**.

14. **"Earthquake"** means a vibration-generating rupture event caused by displacement within the earth's crust through release of strain associated with **tectonic processes** and includes effects such as ground shaking, liquefaction, and damaging amplification of ground motion. While land sliding, including seismically-induced land sliding, is not itself an **earthquake**, **we** cover, subject to "LOSSES EXCLUDED" Item 5 and subject to all other terms and conditions of this policy, loss to covered property arising out of a seismically-induced landslide if that landslide 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. **Earthquake** does not mean or include tsunami or volcanic eruption.

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

16. **"Insured"** means **you** and the following **persons** if they are permanent residents of **your** household:

    a. **your** relatives, whether related by blood, marriage or adoption; <u>and</u>

    b. anyone under the age of 21 who is in the care or custody of **you** or of any of **your** relatives who are permanent residents of **your** household.

17. **"Limit of insurance"** means the most **we** will pay for covered loss arising from any **seismic event**.

18. **"Nuclear hazard"** means any nuclear reaction, radiation, or radioactive contamination, or any consequence of any of these.

19. **"Participating insurer"** means the insurance company that issued the **companion policy**, meets the legal requirements to offer residential earthquake coverage by participating in the **CEA,** and provides claims and policyholder services for this policy on behalf of the **CEA**.

20. **"Person"** means any human, association, organization, governmental entity, partnership, business trust, limited liability company, or corporation.

21. **"Replacement cost"** means:

a. With respect to structures, the lesser of the reasonable cost at the time of loss to repair or replace covered damaged or destroyed property, without deduction for depreciation, (i) at the location of the **dwelling unit,** (ii) for the same use, and (iii) with materials of like kind and quality.

b. With respect to personal property and wall-to-wall carpeting, the cost, without deduction for depreciation, of (i) new property identical to the damaged property or, (ii) if identical property is not obtainable, of new property of like quality and of comparable usefulness as the damaged property.

22. **"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**.

23. **"Sublimit"** means a dollar limit on a coverage for a specific type of property within a category of property that is subject to a higher total **limit of insurance**. Payment under a **sublimit** will reduce the amount available under the total **limit of insurance**.

24. **"Tectonic processes"** means natural adjustments of the earth's crust that are wholly in response to regional stress conditions caused by natural dynamic forces within the earth's interior, and not initiated, in whole or in any part, by any human activity.

COVERAGES

COVERAGE A: BUILDING PROPERTY

If a **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" is shown on the **DECLARATIONS** page of this policy, **we** provide the following coverage, subject to that **limit of insurance**, the application of the "Deductible—Coverage A" clause, and all of the terms and conditions of this policy.

If no **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE A: BUILDING PROPERTY."

Property Covered—Coverage A

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**.

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 the applicable **sublimit** of $10,000, regardless of the number of **chimneys** covered.

Special Limits of Insurance—Coverage A

The **limits of insurance** shown below are **sublimits** of the policy's **limit of insurance** provided for "COVERAGE A: BUILDING PROPERTY" and do not increase the **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" shown in the **DECLARATIONS**. The **sublimit** for each numbered category, immediately below, is the total **limit of insurance** for all loss in that category. For property that falls into more than one category, the lowest applicable **sublimit** will apply.

1. $10,000 for loss or damage to any and all **chimney(s)** attached to or part of the **dwelling unit**, regardless of the number of **chimneys** covered. This **sublimit** of $10,000 in coverage for loss or damage to **chimneys** will be reduced by any amount that **we** pay under "Other Coverages—Coverage A," Item 1, "Emergency Repairs," for emergency repairs to **chimneys**, and by any amount that **we** pay under "Other Coverages—Coverage A," Item 2, "Debris Removal" for the removal of the debris of **chimneys**.

2. $5,000 for all loss or damage to the **dwelling unit** or to wall-to-wall carpeting attached to the **dwelling unit** caused by **fungi** the presence of which directly results from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, including, but not limited to, the cost to repair damage from **fungi** or to test for, monitor, abate, mitigate, remove, dispose of, or remediate **fungi**. This **sublimit** of $5,000 in coverage for loss or damage caused by **fungi** will be reduced by any amount that **we** pay under "Other Coverages—Coverage A," Item 1, "Emergency Repairs," for emergency repairs resulting from **fungi**. Except for the coverage specifically provided for in this **sublimit**, this policy does not provide coverage for any loss that is caused directly or indirectly by, or that in any way results from, is contributed to by, or is aggravated by **fungi**.

Other Coverages—Coverage A

We provide the following other coverages, but only to the extent that the loss or expense is not covered under an **association master policy** or the deductible of that **association master policy** has not been exceeded:

1. Emergency Repairs. If covered damage occurs to property covered under "COVERAGE A: BUILDING PROPERTY," **we** will pay the cost **you** incur for reasonable and necessary emergency measures **you** take to protect against further damage to that property, to remove from covered property in the **dwelling unit** the residue of broken glass, or to repair or replace covered broken windows in the **dwelling unit** or other covered structural glass that is part of the **dwelling unit**, if 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.

   a. This Emergency Repairs coverage provides coverage up to a **sublimit** of $1500. The applicable total **limit of insurance** for the "COVERAGE A: BUILDING PROPERTY" will be reduced by any amount **we** pay for this coverage.

   b. **Your** taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve **you** of **your** responsibilities outlined in "**Your** Duties After Loss" (CONDITIONS, Item 3).

2. Debris Removal. **We** will pay the reasonable expense **you** incur in removing from the **common interest development** the debris of damaged property covered under "COVERAGE A: BUILDING PROPERTY," including but not limited to the reasonable expense **you** incur for the transportation of such debris to landfills or disposal facilities and disposal of the debris at those facilities, or the transportation of such debris to suitable recycling facilities rather than landfills and disposal of the debris at those facilities. The **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" will be reduced by any amount **we** pay under this coverage, but in the event that **your** covered losses under "COVERAGE A: BUILDING PROPERTY" exceed the combined **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" shown on the **DECLARATIONS** page of this policy, **we** will provide, as additional insurance, up to 5% of that **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" for this debris removal coverage.

3. Building Code Upgrades. If, as a result of an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, there is a covered loss to property specified under "Property Covered—Coverage A" and **you** or the **association of owners** repair or replace that property, then **we** will pay as additional insurance up to $10,000 for the cost of reconstruction or replacement to bring that property up to local residential building code standards in effect at the **dwelling unit** location on the date of the **earthquake** that caused the loss, but only so much of the reconstruction or replacement costs attributable to requirements of securing governmental approval of the ~~re~~construction permit process for repair or replacement of that covered property. If the property covered under "Property Covered—Coverage A" is rebuilt or replaced at a location other than **dwelling unit** location shown on the **DECLARATIONS** page, **we** will pay no more under this coverage for building code upgrades than what the reasonable and necessary costs of such building code upgrades would have been had the property covered under "Property Covered—Coverage A" had been repaired or replaced at the **dwelling unit** location shown on the **DECLARATIONS** page, but only up to the $10,000 **limit of insurance** for this coverage for building code upgrades.

4. Energy Efficiency and Environmental Safety Replacement Upgrades. If a combined single **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" is shown on the **DECLARATIONS** page of this policy and there is a covered loss to property covered under "COVERAGE A: BUILDING PROPERTY" in excess of the applicable deductible, and if **you** actually undertake repair or replacement of that covered loss, **we** will pay **your** cost to repair or replace that property with material that meets the following standards regarding environmental safety and energy efficiency. This coverage will apply to the added costs **you** incur to repair or replace that property with material that meets those standards as compared to the **replacement cost** of that property with material that does not meet those standards. This coverage is provided as a $10,000 **sublimit** of the combined single **limit of insurance** for "COVERAGE A: BUILDING PROPERTY," and the **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" will be reduced by any amount **we** pay under this coverage. The most **we** will pay for the replacement or upgrade of any item of covered property is 200% of its **replacement cost** using material that does not meet the following standards regarding environmental safety and energy efficiency. Losses covered under this coverage are not applied to meet the deductible for "COVERAGE A: BUILDING PROPERTY."

   a. Energy Efficiency Upgrades: **We** will pay the reasonable added costs **you** incur to replace damaged covered property with the following energy-efficient property:

      i. Electronic Equipment – Energy Star Replacement. If there is covered loss to electronic equipment, including but not limited to equipment for heating, ventilation, and air conditioning (HVAC) systems, that is part of the **dwelling unit** and that is covered under "COVERAGE A: BUILDING PROPERTY," and that electronic equipment must be replaced rather than repaired, then **we** will pay the reasonable expenses **you** incur to replace damaged or destroyed electronic equipment with equipment of otherwise equivalent quality and function that has been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.

      ii. Window, Door, Roofing, and Insulation Energy Upgrades. If there a loss to the **dwelling unit** that requires the repair or replacement of roofing or insulation material, air sealing, windows, doors, or skylights, then **we** will pay the reasonable expenses **you** incur to replace those damaged or destroyed materials with materials of otherwise equivalent quality and function that have been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.

      iii. Plumbing Fixture Upgrades. If there a loss to the **dwelling unit** that requires the repair or replacement of plumbing fixtures, then **we** will pay the reasonable expenses **you** incur to replace those fixtures with energy and water efficient fixtures, including automatic faucet sensors, faucet and shower head flow restrictors, dual flush toilets, and localized water heaters, using plumbing fixtures of otherwise equivalent quality and function provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of the U.S.

Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines.

b. Environmental Safety Upgrades. **We** will pay reasonable added costs **you** incur to repair or replace the damaged or destroyed property covered under "COVERAGE A: BUILDING PROPERTY" with the following environmentally-upgraded property, provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of the U.S. Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines:

i. Interior Finish Materials Upgrades. If there is a covered loss to the **dwelling unit** that requires the repair or replacement of interior finish materials, then **we** will pay the reasonable expenses **you** incur to replace those materials with materials of otherwise equivalent quality and function that are low in volatile organic compounds (VOC), sustainably developed, rapidly renewable, or comprised of recycled materials. This coverage applies to interior paints, architectural coatings, primers under coatings, adhesives and sealants, low emissions carpet and floor coverings, including adhesive to affix them to the floor, and permanently installed composite wood fixtures including counters, cabinets and partitions, where available, Forest Stewardship Council certified wood for millwork, ceilings, siding, and framing, and bamboo flooring.

ii. Elimination of Ozone-Depleting Substances Upgrades. If there is a covered loss to the **dwelling unit** that requires the repair or replacement of systems containing such items, then **we** will pay the reasonable expenses **you** incur to replace chlorofluorocarbon refrigerants (CFC) or hydro-chlorofluorocarbon (HCFC) or Halon refrigerants or fire extinguishing agents with environmentally-upgraded replacements.

iii. Flush Out of Reconstructed Space. If necessitated by the repair or replacement of covered loss to the **dwelling unit**, **we** will pay the reasonable and necessary costs to flush out the reconstructed space with 100% outside air and new filtration media following completion of the repair or reconstruction process.

Property Not Covered—Coverage A

We do not cover:

1. Land, including land underlying the **dwelling unit** or any other structure.

2. Detached garages, outbuildings, structures other than the residential structure containing the **dwelling unit**, fences, and masonry fences and walls that are not integral to the stability of the residential structure containing the **dwelling unit**.

3. Awnings and patio coverings, carports, and their support structures.

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

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

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

7. Plaster, to the extent the cost to repair or replace it exceeds the value of its replacement with sheetrock or drywall.

8. Except as provided under "COVERAGE A: BUILDING PROPERTY, Property Covered," Item 2.b, exterior water supply systems including, but not limited to, irrigation systems, sprinkler systems, and water reclamation systems.

9. Except as provided under "COVERAGE A: BUILDING PROPERTY, Other Coverages—Coverage A," Item 3, "Building Code Upgrades," any added costs of repair or replacement of covered property resulting from enforcement of any ordinance, law, or residential building code that regulates the use, construction, repair, or demolition of a building or other structure.

10. Except as provided under "COVERAGE A: BUILDING PROPERTY, Property Covered," Item 2.b, underground structures or equipment located outside the perimeter walls of the **dwelling unit**, including but not limited to underground pipes, cables, flues, drains, electrical supply systems and electrical lighting systems.

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

12. Fences, bulkheads, piers, and outside walls including retaining walls.

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

14. Swimming pools, spas, and hot tubs and all of their components, including the tile or other material linking or attaching the pool, spa or hot tub to a deck or to a structure.

Deductible—Coverage A

We will pay no amount for any loss under "COVERAGE A: BUILDING PROPERTY" until the amount of the loss exceeds the amount of the deductible for "COVERAGE A: BUILDING PROPERTY" shown on the **DECLARATIONS** page. The deductible will be applied one time for each **seismic event**. Only losses that are covered under "COVERAGE A: BUILDING PROPERTY," as limited by the application of any **sublimits** that apply to those losses, can be applied to meet this deductible requirement.

COVERAGE C: PERSONAL PROPERTY

If a **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" is shown on the **DECLARATIONS** page of this policy, **we** provide the following coverage, subject to that **limit of insurance**, the application of the "Deductible—Coverage C" clause, and all of the terms and conditions of this policy. If no **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE C: PERSONAL PROPERTY."

Property Covered—Coverage C

We cover (1) personal property owned or used by an **insured** and located at the **common interest development**, and (2) at **your** request and subject to a **sublimit** of $2,500, personal property owned by others while that property is on any part of the **dwelling unit** occupied by an **insured**.

Special Limits of Insurance—Coverage C

The special **limits of insurance** shown below are **sublimits** of the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" and do not increase the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" shown on the **DECLARATIONS** page of this policy. The **sublimit** for each numbered category, immediately below, is the total **limit of insurance** for all loss in that category. For property that falls into more than one category, the lowest applicable **sublimit** will apply. If any item of property falls both into one of the following

sublimits and one of the categories of property listed under "Property Not Covered—Coverage C," then **we** do not cover that item of property.

1. $250 in the aggregate on all money, bank notes, coins and medals, including any of these that are part of a collection.

2. $250 in the aggregate on all securities, checks, cashier's checks, traveler's checks, money orders, and other negotiable instruments; accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, passports, and tickets.

3. $3,000 in the aggregate on all computers and other electronic data processing equipment, including storage media and software used with that equipment, whether or not it is **business property**. Storage media or software that cannot be replaced with other property of like kind and quality on the current consumer retail market is not covered.

4. $1,000 in the aggregate on all **business property** other than computers and other electronic data processing equipment, storage media, and software.

5. $3,000 in the aggregate on all jewelry, watches, furs, and precious and semi-precious stones, but not more than $1,000 for any one article.

6. $3,000 in the aggregate on all **collectibles**, including but not limited to sports cards; **collectible** dolls, model trains, or toys; **collectible** postage stamps; **collectible** autographed items; memorabilia; and commemorative or otherwise **collectible** plates, spoons, or cups; regardless of whether any such item is a single item or part of a collection.

7. $3,000 in the aggregate on all beverages contained in bottles or in other glass, ceramic, or pottery containers, including but not limited to wine, port, liquor, beer, and all other alcoholic or non-alcoholic beverages.

Other Coverage—Coverage C

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

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

   a. 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.

   b. **Your** taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve **you** of **your** responsibilities outlined in "**Your** Duties After Loss" (CONDITIONS, Item 3).

2. Debris Removal. **We** will pay the reasonable expense **you** incur in removing from the **dwelling unit** the debris of property covered under "COVERAGE C: PERSONAL PROPERTY," including but not limited to the reasonable expense **you** incur for the transportation of such debris to landfills or disposal facilities and disposal of the debris at those facilities, or the transportation of such debris to suitable recycling facilities rather than landfills and disposal of the debris at those facilities. The **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" will be reduced by any amount **we** pay under this coverage, but in the event that **your** covered losses under "COVERAGE C: PERSONAL PROPERTY" exceed the combined **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" shown on the **DECLARATIONS** page of this policy, **we** will provide, as additional insurance, up to the lesser of (i) 5% of the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" or (ii) $1,000.

Property Not Covered—Coverage C

We do not cover:

1. Pets, birds, fish, livestock, or other animals.

2. Motor vehicles, riding lawn mowers, or any motorized land conveyance, including their parts or accessories while in or on the motor vehicle, lawn mower, or conveyance. This exclusion does not apply to motorized land conveyances not licensed for use on public roads that are designed to assist and are used by the handicapped, or to the parts and accessories of those conveyances.

3. Any electronic equipment that is designed for operation by the electrical system of a motor vehicle, motorized land conveyance, or a camp or home trailer while any of this equipment is in, on, or installed in a motor vehicle, motorized land conveyance, or a camp or home trailer, including but not limited to: computers, citizens band and other two-way mobile radios, satellite and cellular telephones, radio receivers, transceivers, and transmitters, scanners and scanning monitor receivers, radar detectors, tape or disc players and recorders, MP3 players, televisions, video players, recorders, and monitors, global positioning satellite (GPS) devices, personal digital assistants and other handheld devices, and any accessories, antennas, speakers, tapes, discs, cartridges, media, carrying cases, charging devices, batteries, or other devices and accessories used with that equipment.

4. Aircraft, including their parts and equipment.

5. Property that is not owned or used by an **insured,** including but not limited to the property of roomers, boarders and other tenants, except (a) the property owned by others that **we** cover at **your** request under Item 2 of "Property Covered—Coverage C," subject to the applicable **sublimit** of $2,500, and (b) the property of roomers and boarders related to any **insured**.

6. Valuable papers, records or data, including:

   a. books of account, drawings, card index systems and other records; and

   b. data stored on electronic data storage devices, including processing tapes, wires, records, discs, computer drives, portable storage devices or media, or other magnetic or optical media.

   We do, however, cover the cost of blank recording or storage media and of prerecorded computer programs that are available on the retail market, subject to the **sublimit** set forth in "Special Limits of Insurance—Coverage C," Item 3.

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

8. Breakable items, consisting of the following:

   a. Glassware, crystal, china, ceramic, pottery, and porcelain items created as table settings, serving ware, or otherwise intended for use in serving or consuming food or beverage, whether currently being used for that purpose or not; and,

   b. Figurines, vessels, vases, and other ornamental items made of crystal, china, pottery, ceramics, porcelain, glass, or marble.

9. Watercraft, including their furnishings, equipment, and inboard, outboard, or inboard-outboard motors.

10. Trailers.

11. Trees, shrubs, or plants, or their containers.

12. Swimming pools, spas, and hot tubs, including all of their components.

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

Deductible—Coverage C
We will pay no amount for any loss under "COVERAGE C: PERSONAL PROPERTY" until the amount of the loss exceeds the amount of the deductible for "COVERAGE C: PERSONAL PROPERTY" shown on the **DECLARATIONS** page. The deductible will be applied one time for each **seismic event**. Only losses that are covered under "COVERAGE C: PERSONAL PROPERTY," as limited by the application of any **sublimits** that apply to those losses, can be applied to meet this deductible requirement.

COVERAGE D: LOSS OF USE

If a **limit of insurance** for "COVERAGE D: LOSS OF USE" is shown on the **DECLARATIONS** page of this policy, then subject to that **limit of insurance** and subject to all the terms and conditions of this policy, **we** provide the following coverage, not subject to any deductible. If no **limit of insurance** for "COVERAGE D: LOSS OF USE" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE D: LOSS OF USE."

1. Additional Living Expense. If the part of **dwelling unit** that **you** occupy becomes unfit to live in and **you** are forced to vacate the **dwelling unit** as a result of either (1) damage to the **dwelling 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 at the **common interest development** 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 the damage that makes the parts of the **dwelling unit you** occupy unfit to live in, or (b) for **you** to permanently relocate elsewhere if **you** do not elect to repair or replace the **dwelling unit**.

2. Loss of Rent. If the part of the **dwelling unit** that **you** rent to others or that **you** actually hold for rental becomes unfit to live in as a result of either (1) damage to the **dwelling 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 at the **common interest development** caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** cover the fair rental value of that part of the **dwelling unit** that is rented to others or that **you** actually held for rental prior to the loss, less any expenses that do not continue while the rental portion of the **dwelling unit** is unfit to live in. Fair rental value means the average rental amount immediately before the **earthquake** in **your** rental market for a residential unit similar to that covered under this policy.

   We will pay for the shortest time reasonably needed to repair the damage that makes the parts of the **dwelling unit** rented or held for rental unfit to live in. **Your** loss of rents due to cancellation of a lease or rental agreement is not covered.

3. If a civil authority prohibits **you** from occupying the **dwelling unit** because of direct damage to the **common interest development** in which the **dwelling unit** is located caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** cover the resulting Additional Living Expense or Loss of Rent, subject to the "COVERAGE D: LOSS OF USE" **limits of insurance**.

COVERAGE E: LOSS ASSESSMENT

If a **limit of insurance** for "COVERAGE E: LOSS ASSESSMENT" is shown on the **DECLARATIONS** page of this policy, **we** provide the following coverage, subject to that **limit of insurance**, the application of the "Deductible—Coverage E" clause, all of the terms and conditions of this policy.

The **limit of insurance** shown on the **DECLARATIONS** page for "COVERAGE E: LOSS ASSESSMENT" is the most **we** will pay under this coverage for all claims arising out of any one **seismic event**, regardless of the number of assessments that are assessed against **you** or the number or amount of claims **you** make under this coverage. If no

limit of insurance for "COVERAGE E: LOSS ASSESSMENT" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE E: LOSS ASSESSMENT."

Losses Covered—Coverage E

1. Assessment By **Association of Owners**: **We** cover **your** share of any assessment charged by the **association of owners** 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 to structures or other real property, and those structures or other real property are 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**.

   If an assessment is made as a result of a combination of (a) losses that are not covered, including but not limited to losses specified in "Losses Not Covered—Coverage E" or in "LOSSES EXCLUDED," and (b) loss to property that is covered under "COVERAGE E: LOSS ASSESSMENT," then **we** will pay only that pro rata portion of **your** share of the assessment equal to that percentage of the entire assessment that is based on covered loss that is not excluded.

   There is a **sublimit** of $10,000 under this coverage for **your** share of any portion of an assessment resulting from the cost of reconstruction to bring the property up to local residential building code standards in effect on the date of the **earthquake** that caused the loss, as required as part of the approval of the reconstruction permit process for repair of the covered property. Any amount **we** pay for losses that are subject to this **sublimit** will reduce the applicable total **limit of insurance** for "COVERAGE E: LOSS ASSESSMENT."

2. Reduction In Value Of **Your** Ownership Interest:

   a. What Reduction In Value **We** Cover:
   If there is physical loss to structures or other real property at the **common interest development** directly caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, and the **association of owners** elects not to repair or replace that property or is permanently prevented by a government authority or court order from repairing or replacing the property, **we** cover the resulting reduction in the value of **your** ownership interest in the **dwelling unit** and the **common interest development**, 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."

   b. Partially Covered Losses
   If the reduction in the value of **your** ownership interest in the **dwelling unit** and the **common interest development** is the result of a combination of (a) losses that are not covered, including but not limited to losses specified in "Losses Not Covered—Coverage E" or in "LOSSES EXCLUDED," and (b) loss to property that is covered under "COVERAGE E: LOSS ASSESSMENT," then **we** will pay that portion of the reduction in the value of **your** ownership interest in the **dwelling unit** and the **common interest development** that directly results from covered loss.

c. How the Value of the Loss Is Calculated
The amount of reduction in the value of **your** ownership interest in the **dwelling unit** and the **common interest development** under this coverage for "Reduction In Value Of **Your** Ownership Interest" will be calculated by determining the dollar amount of that portion of the loss in fair market value of **your** ownership interest that is directly attributable to physical loss to covered property directly caused by the **earthquake** upon which **your** claim under this coverage is based, reduced by the following amounts:

i. Any payments that **we** make, under "COVERAGE A: BUILDING PROPERTY" or "COVERAGE E: LOSS ASSESSMENT" of this policy, for losses arising out of the same **seismic event** upon which the claim for this coverage under "Reduction In Value Of **Your** Ownership Interest" is based;

ii. Payments made under any other insurance policy, including the **companion policy** or an **association master policy**, to **you** or to holders of mortgages or deeds of trust secured by **your** ownership interest in the **dwelling unit** and the **common interest development**, for damage or loss to the **dwelling unit** or the **common interest development** arising out of the same **seismic event** upon which the claim for this coverage under "Reduction In Value Of **Your** Ownership Interest" is based;

iii. Payments made to **you** or to holders of mortgages or deeds of trust secured by **your** ownership interest in the **dwelling unit** and the **common interest development** by any government agency arising out of the same **seismic event** upon which the claim for this coverage under "Reduction In Value Of **Your** Ownership Interest" is based, including but not limited to disaster relief payments;

iv. Payments made by the **association of owners** to **you** or to holders of mortgages or deeds of trust secured by **your** ownership interest in the **dwelling unit** and the **common interest development** arising out of the same **seismic event** upon which the claim for this coverage under "Reduction In Value Of **Your** Ownership Interest" is based, as a result of the following:

(A) The collection of any insurance proceeds relating to damage to the **dwelling unit** or the property of the **common interest development**; or

(B) The liquidation or sale of any asset or capital that is not included in the calculation of the fair market value of **your** interest in the **dwelling unit** and the **common interest development**.

Losses Not Covered—Coverage E

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

1. Loss or damage to land, including land underlying any structure.

2. Loss or damage to detached garages, outbuildings, structures other than residential structures, or fences and masonry fences and walls that are not integral to the stability of the residential structure containing the **dwelling unit** or integral to the stability of other residential structures at the **common interest development**.

3. Loss or damage to awnings and patio coverings, carports, or their support structures.

4. Loss or damage to antennas or satellite dishes, or to any towers, brackets, or attachments that support or secure them.

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

artistic feature is not covered to the extent the cost of repair or replacement exceeds the cost of replacing it with a non-decorative, non-artistic functional replacement.

6. Loss or damage to exterior masonry veneer. For purposes of this exclusion, stucco and exterior chimney facings are not exterior masonry veneers.

7. Loss or damage to plaster, to the extent the cost to repair or replace it exceeds the value of its replacement with sheetrock or drywall.

8. Loss or damage to exterior water supply systems including, but not limited to, irrigation systems, sprinkler systems, and water reclamation systems.

9. Loss or damage to underground structures or equipment located outside the perimeter of the **dwelling unit** foundation, including but not limited to underground pipes, cables, flues, drains, electrical supply systems and electrical lighting systems.

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

11. Loss or damage to fences, bulkheads, piers, and outside walls including retaining walls.

12. Loss or damage to landscaping, trees, shrubs, lawns, or plants, even if damaged by necessary repairs to covered property.

13. Loss or damage to swimming pools, spas, and hot tubs, whether part of the **dwelling unit** or not, including the tile or other material linking or attaching the pool, spa or hot tub to a deck or to a structure.

14. Assessments that do not relate directly to the reconstruction of structures or other real property damaged or destroyed as a direct result of an **earthquake** that commences during the policy period as part of **a seismic event** that commences during the policy period.

15. Assessments made for the purpose of improving, bettering, or updating covered property to a condition or status better or more costly than the condition and status of the property as it existed immediately preceding the **earthquake** causing loss to the property. This exclusion does not apply to **your** share of any portion of assessment resulting from the cost of reconstruction to bring the property up to local residential building code standards in effect on the date of the **earthquake** that caused the loss, as required as part of the approval of the reconstruction permit process for repair of the covered property, subject to the applicable **sublimit** of $10,000.

16. Assessments that follow or relate in any way to the payment or distribution to **you**, or any other member of the **association of owners**, of capital or assets of the **association of owners**, unless the payment or distribution of capital (a) is 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 and (b) is made for the purpose of payment or reimbursement for the repair or replacement of covered loss to property at the **common interest development**.

Deductible—Coverage E

We will pay no amount for any loss under "COVERAGE E: LOSS ASSESSMENT" until the amount of the loss exceeds the amount of the deductible for "COVERAGE E: LOSS ASSESSMENT" shown on the **DECLARATIONS** page. The deductible will be applied one time for each **seismic event**. Only losses that are covered under "COVERAGE E: LOSS ASSESSMENT" can be applied to meet this deductible requirement.

LOSSES EXCLUDED

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:

1. Fire or explosion.

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

   a. Flood, precipitation (including rain, snow, hail, or sleet) or surface water; waves, tsunami, or tidal water; rupture of a dam, levee, berm, or sea wall; overflow of a natural or man-made body of water; or spray from any of these; or

   b. Water below the surface of the ground, whether natural or not, including water that exerts pressure on or seeps or leaks through a building, sidewalk, driveway, foundation, or other structure.

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

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

   (ii) The displacement of water from an aquarium, drinking water container or dispenser, 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 premises of the **common interest development** or the release of water or sewage from sewers or drains on or off the premises of the **common interest development**. Or

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

3. Controlled or uncontrolled **nuclear hazard** or any act or condition incident to any **nuclear hazard**.

4. Pollution of groundwater, land, and personal property, including all loss, damage, costs, and expenses that arise out of or are caused by pollution or pollutants, and any cost or expense to test for, monitor, clean up, remove, contain, treat, detoxify, or neutralize pollutants. The terms "pollutants" and "pollution" mean any solid, liquid, gaseous, or thermal irritant or contaminant, including, but not limited to, smoke, vapor, soot, fumes, acids, alkalis, chemicals, asbestos, and waste. The term "waste" includes but is not limited to material to be recycled, reconditioned, or reclaimed.

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.

6. Theft, vandalism or other human conduct causing loss following an **earthquake**.

7. **Fungi**, including but not limited to the cost to repair or replace property damaged by **fungi** or to test for, monitor, abate, mitigate, remove, dispose of or remediate **fungi**, except for loss or damage to the **dwelling unit** or to wall-to-wall carpeting attached to the **dwelling unit** caused by **fungi** the presence of which directly results from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, and subject to the $5,000 **sublimit** set forth in "Special Limits of Insurance—Coverage A," Item 2.

8. Required compliance with any ordinance, law, or residential building code that regulates the use, construction, repair, or demolition of a building or other structure, except as specifically provided under this policy, under the following provisions:

   a. "Other Coverages—Coverage A," Item 3, "Building Code Upgrades," subject to the applicable $10,000 **limit of insurance**, or

   b. "Losses Covered—Coverage E," Item 1, "Assessment By **Association of Owners**," subject to the applicable $10,000 **sublimit**.

9. Power failure, meaning the failure of delivery of electrical power to the **dwelling unit** or to the **common interest development**.

10. **Your** neglect to take all reasonable action to save and preserve covered property at the time of and after a covered loss.

11. Declared or undeclared war, acts of terrorism, insurrection, rebellion, revolution, warlike act by a military force or military personnel or any person, destruction or seizure or use for a military purpose, and any consequence of any of these. Discharge of a nuclear weapon will be deemed a warlike act even if accidental.

12. Intentional acts, meaning any loss arising out of any act committed:

    a. by **you** or at **your** direction, or at the direction of any **insured** or of any **person** named as an additional **insured**; and

    b. with the intent to cause, aggravate or increase a loss.

YOUR RIGHTS CONCERNING CLAIMS INVESTIGATION

The law provides certain rights and protections to policyholders who are involved in the presentation of a claim. Included among these are the following:

1. Specific rights to privacy under California and Federal law which may protect **you** during the claims process;

2. The right to have **your** claim handled in accordance with the California Insurance Code and Subchapter 7.5 of Chapter 5 of Title 10 of the California Code of Regulations, which impose fair claims handling procedures and requirements on insurers; and

3. The right to be represented by an attorney at **your** expense.

CONDITIONS

1. Insurable Interest and **Limit of Insurance**. Even if more than one **person** has an insurable interest in the property covered, **we** will not be liable:

   a. to **you** for an amount greater than **your** interest; nor

   b. for more than the applicable **limit of insurance**.

2. Concealment or Fraud. The entire policy will be void if, before or after a loss, any **insured** does any of the following:

   a. Intentionally conceals or misrepresents any material fact or circumstance;

   b. Engages in fraudulent conduct relating to this insurance; or

   c. Intentionally makes false statements relating to this insurance.

3. **Your** Duties After Loss. If a loss occurs to covered property, **you** must perform the following duties:

   a. Give written notice to the **participating insurer** without delay.

   b. Protect the property from further damage. Make any emergency repairs that are necessary and reasonable to protect the property from further damage. Keep records of all costs **you** incur to repair or replace covered property or to protect covered property from further damage.

   c. Make and keep a list of all damaged or destroyed personal property, showing in detail the quantity, description, and amount of covered loss. Keep all bills, receipts, and related records that support **your** figures.

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

   e. As often as reasonably required:

      (i) Exhibit damaged property to the **participating insurer**;

      (ii) Provide the **participating insurer** with the records and documents that are necessary to support **your** claim under the policy and which the **participating insurer** may request, including bills, receipts, canceled checks, and related records that support **your** figures, and permit the **participating insurer** to make copies; and

      (iii) While not in the presence of any other **insured**, submit to examination under oath and sign a transcript of the examination.

   f. Send the **participating insurer**, within 60 days of **our** or the **participating insurer's** request, **your** signed, sworn proof of loss that contains, to the best of **your** knowledge and belief the following:

      (i) The time, date, and cause of loss;

      (ii) Y**our** interest and the interest of all others in the property that sustained a loss, and evidence of all liens or encumbrances on the property;

      (iii) A detailed description of all legal claims against the property that sustained a loss;

      (iv) Evidence of other insurance that may cover the loss;

      (v) A description of changes in title to or occupancy of the property during the term of the policy;

      (vi) Descriptions and detailed repair estimates for any covered damage to the **dwelling unit** or other items of real property;

      (vii) The list of damaged or destroyed personal property covered under this policy; and

      (viii) All receipts and records that support any claim for additional living expense or fair rental value.

4. Loss Settlement: Coverages A and C.

In case of loss to a pair or set **we** can elect to either of the following:

a. Repair or replace any part to restore the pair or set to its value before the loss; or

b. Pay the difference between **replacement cost** of the pair or set before and after the loss.

5. Loss Settlement: Coverage A.

a. **Our** liability for any loss to property insured under "COVERAGE A: BUILDING PROPERTY" will not exceed the smallest of the following:

(i) The **replacement cost** at the time of loss;

(ii) If the damaged property has been actually repaired or replaced, the amount actually and necessarily spent to repair or replace the damaged property; or

(iii) The applicable **limit of insurance** or any applicable **sublimit(s)**.

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

c. **We** will not pay for increased costs resulting from enforcement of 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 in "COVERAGE A: BUILDING PROPERTY, Other Coverages—Coverage A," Item 3, "Building Code Upgrades."

d. **We** will pay for the cost to repair or replace only that portion of any regularly-used walkway, driveway, deck, or patio covered under this policy that is necessary to restore (i) pedestrian ingress to and egress from the **dwelling unit** or (ii) ingress to and egress from the **dwelling unit** by any non-ambulatory **insured**.

e. To repair or replace plaster, **we** will not pay more than the cost to repair or replace the plaster with sheetrock or drywall.

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

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

(i) The **sublimit** of $10,000 that applies to **chimneys**;

(ii) The cost of replacement of a masonry **chimney** or **chimneys** with a non-masonry, earthquake-resistant **chimney** or **chimneys**; or

(iii) The necessary amount actually spent to repair the damaged **chimney** or **chimneys**.

6. Loss Settlement: Coverage C.

a. **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.

b. **Our** liability for loss to any property insured under "COVERAGE C: PERSONAL PROPERTY" will not exceed the smallest of the following:

(i) The **replacement cost** at the time of loss;

(ii) 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)**.

7. Appraisal. If **you** and **we** fail to agree on the amount of loss, either of us may demand an appraisal of the loss. In this event, each party will choose a competent and disinterested appraiser within 20 days after receiving the written demand from the other. The two appraisers will choose a neutral and independent umpire. If they cannot agree on an umpire within 15 days, **you** or **we** may request that a judge of a California court of competent jurisdiction in the county where the insured **dwelling unit** is located appoint an umpire. The two appraisers will separately appraise the amount of loss under this policy. If the appraisers submit an agreed written report to **us**, the amount they agree on will be the amount of loss under this policy. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two of the three appraisers will set the amount of loss under this policy. Each party will (a) pay its own appraiser, and (b) bear the other expenses of the appraisal and of the umpire equally.

8. Other Insurance.

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

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

9. Subrogation. **You** may waive in writing before a loss under this policy all **your** rights of recovery against any **person**. If **you** do not waive those rights, **we** may require an assignment of **your** rights of recovery for a loss to the extent that **we** make payment for that loss. If **we** seek an assignment, the **insured** must sign and deliver all related papers to **us** and cooperate with **us**.

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

11. **Our** Option to Repair or Replace Property. If **we** give **you** written notice within 30 days after **we** receive **your** proof of loss, **we** may repair or replace any part of the damaged property with like property.

12. Loss Adjustment: **We**, through the **participating insurer**, will adjust all losses with **you**. 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.

13. Loss Payment. As to all claims **we** determine to be covered under this policy, **we** will pay **you** unless some other **person** is named in the policy or is legally entitled to receive payment. That portion of a claim that is not in dispute will be payable within 30 days after **we** receive **your** proof of loss. All other losses will be payable within 30 days after **we** receive **your** proof of loss and:

    a. **we** reach an agreement with **you**;

    b. there is an entry of a final judgment; or

    c. there is a filing of a final appraisal award with **us**.

14. Mortgagee Clause.

    a. The word "mortgagee" as used in this policy includes trustee or beneficiary under a trust deed.

    b. If a mortgagee is named as a loss payee in this policy and, as a condition for making a loan to **you** secured by the **dwelling unit** or by **your** interest in the **common interest development**, that mortgagee either (1) required **you** to purchase **earthquake** insurance that covers the **dwelling unit** or **your** interest in the **common interest development**, or (2) required that the mortgagee be named as a loss payee under any coverage on the **dwelling unit** or on **your** interest in the **common interest development**, then any loss payable under "COVERAGE A: DWELLING" or "COVERAGE E: LOSS ASSESSMENT" will be paid to the mortgagee, to the extent of its interest, and to **you**. If more than one mortgagee is so named and otherwise qualifies, the order of payment will be the same as the order of preference of the mortgages.

    c. If **we** deny **your** claim, that denial will not apply to a valid claim of the mortgagee, if the mortgagee does all of the following:

        (i) Notifies the **participating insurer** of any change in ownership of any insured property or change in occupancy of the **dwelling unit**, or of any substantial change in risk of which the mortgagee is aware;
        (ii) Pays any premium due under this policy on demand if **you** have neglected to pay the premium; and
        (iii) Submits a signed, sworn statement of loss within 60 days after it receives notice from **us** of **your** failure to do so.

    d. If **we** decide to cancel or not to renew this policy, **we** will take reasonable steps to notify any mortgagee named as a loss payee under this policy at least 10 days before the date cancellation or nonrenewal takes effect.

    e. If **we** pay the mortgagee for any loss and deny payment to **you**:

        (i) **We** are subrogated to all the rights of the mortgagee granted under the mortgage on the property, which will not impair the right of the mortgagee to recover the full amount of the mortgagee's claim, or

        (ii) At **our** option, **we** may pay to the mortgagee the whole principal on the mortgage plus any accrued interest, in which event, **we** will receive a full assignment and transfer of the mortgage and all security held as collateral for the mortgage debt.

    f. Policy conditions relating to loss settlement and payment, including, but not limited to, the Appraisal, Legal Action, Loss Adjustment, and Loss Payment conditions, apply to the mortgagee.

15. No Benefit to Bailee. **We** will not recognize any assignment or grant any coverage that benefits a **person** that holds, stores, or moves property for a fee, regardless of any other provision of this policy, unless that **person** is named as an **insured** under this policy.

16. Payment. If **you** pay the initial premium for **your** first policy period by check, draft, or any remittance other than cash, **we** will credit **you** with that payment only if the check, draft, or remittance is honored on presentation. If **your** check, draft, or remittance is not honored on presentation, this policy is void from its inception. "Void from its inception" means that **we** will not be liable under this policy for any claims or damages that would otherwise have been covered had the check, draft, or remittance been honored on presentation and had the policy remained in effect.

17. Automatic Termination**.** If, before the end of the then current policy period of this policy, **we** or the **participating insurer** provide **you** with a renewal notice for **your** policy, that notice will be deemed **our** offer to renew **your** policy for an additional policy period. If **we** do not receive **your** required premium payment on or before the end of the then current policy period, **your** policy will terminate automatically at the expiration of the then current policy period. This means that **you** will have elected not to accept **our** offer to renew the policy, and no notice will be sent to **you**. **Your** failure to accept **our** offer to renew the policy is not a cancellation or non-renewal by **us**.

18. Cancellation.

    a. When the **companion policy** is canceled for any reason, this policy is canceled effective on the same date the **companion policy** cancellation takes effect, and any unearned premiums will be returned to **you** on a pro rata basis. This policy will not provide coverage if there is no **companion policy** in effect at the time of loss.

    b. **You** may cancel this policy at any time by returning it to the **participating insurer** and by notifying the **participating insurer** in writing of the date cancellation is to take effect. **You** may return the policy and submit the cancellation date to the agent of the **participating insurer**.

    c. **We** may cancel this policy for the reasons stated in this condition or for any other grounds permitted by law, by notifying **you** in writing of the date cancellation takes or took effect. The cancellation notice may be delivered to **you**, or mailed to **you** at **your** mailing address shown in the **DECLARATIONS**. Proof of mailing will be sufficient proof of notice.

        (i) When **you** have not paid the premium when due and payable, **we** may cancel at any time by notifying **you** at least 10 days before the cancellation takes effect.

        (ii) When this policy has been in effect for less than 60 days and is not a renewal with **us**, **we** may cancel the policy if the property does not meet the eligibility standards of the **CEA** by notifying **you** at least 20 days before the date cancellation takes effect.

        (iii) When this policy has been in effect 60 or more days, or is a renewal with us, **we** may cancel at any time by notifying **you** at least 30 days before the date cancellation takes effect, based on the occurrence of one or more of the following:

            (A) **Your** conviction of a crime having as one of its necessary elements an act increasing any hazard insured against; or
            (B) **Our** discovery of fraud or material misrepresentation by either the **insured** or the **insured's** representative in obtaining the insurance, or by **you** or **your** representative in pursuing a claim under the policy; or
            (C) **Our** discovery of grossly negligent acts or omissions by the **insured** or his or her representative that have substantially increased any of the hazards insured against; or
            (D) Physical changes to the property that result in the property failing to meet the eligibility standards of the **CEA**; however, **we** may not cancel this policy because of physical changes that occur solely as a result of an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period; or

(E) **Your** failure to pay an **earthquake** policy surcharge imposed and authorized by the **California Earthquake Authority**, in accordance with California Insurance Code section 10089.29, subdivision (d).

d. When this policy is cancelled, any premium paid for the period from the effective date of the cancellation to the expiration date will be refunded. When the policy is cancelled, the return premium will be pro rata.

e. If, when **we** cancel this policy, the return premium is not refunded with the notice of cancellation, **we** will refund it within 25 business days after the date cancellation takes effect. If, when **you** cancel this policy, the return premium is not refunded when **you** return the policy to **us**, **we** will refund it within 25 business days after **we** receive **your** notice of cancellation.

19. Conditional Reinstatement. If **we** mail a cancellation notice because **you** did not pay required premium when due and **you** then tender payment of the premium by check, draft, or other remittance that is not honored on presentation, **your** policy will terminate on the date and time shown on the cancellation notice and any notice **we** issue that states that it waives the cancellation or reinstates the coverage is void. This means **we** will not be liable under this policy for claims or damages after the date and time stated on the cancellation notice.

20. Non-Renewal. **We** may elect not to renew this policy by delivering to **you** or mailing to **you** at **your** mailing address shown in the **DECLARATIONS**, written notice of non-renewal at least ~~45~~ 75 days before the expiration date of this policy. Proof of mailing will be sufficient proof of notice.

21. Waiver or Change of Policy Provisions. No waiver or change of a policy provision is valid unless it is in writing and signed by **us**. **Our** request for an appraisal or examination does not waive any of **our** rights.

22. Assignment. **Your** assignment of this policy will not be valid unless **we** give written consent.

23. Death. If **you** die during the policy term, each of the following persons will be deemed an **insured** with respect to the property insured under this policy:

    a. The legal representatives or person who by law succeeds to the ownership of the insured property, but only with respect to the property of the deceased covered under this policy at the time of death until the termination date of this policy; and

    b. With respect to the property covered under this policy at the time of death, the **person** that has proper temporary custody of the property until appointment and qualification of a legal representative.

24. Recovered Property. If **you** or **we** recover any property for which **we** have made payment under this policy, **you** or **we** will notify the other of the recovery. At **your** option, the property will be returned to or retained by **you** or it will become **our** property. If the recovered property is returned to or retained by **you**, the loss payment will be adjusted based on the amount of the payment **we** made for the recovered property.

25. Abandonment of Property. **We** need not accept any property abandoned by an **insured**.

26. Surcharge Clause. In the event of an **earthquake** or series of **earthquakes**, **we** can impose a surcharge, as permitted by law, up to 20% of **your** annual policy premium within any one year, in accordance with California Insurance Code section 10089.29, subdivision (b), paragraph (1).

27. Pro-rata or Installment Claims Payments. In accordance with California Insurance Code Section 10089.35, if, at any time, the available capital of the **California Earthquake Authority** is insufficient to meet anticipated losses and there are no additional funds from assessments, reinsurance, or private capital markets available to pay claims, the **California Earthquake Authority** may pay claims on a pro-rata basis from the remaining funds available, or claims may be paid on an installment basis, based on a plan approved by the California Insurance Commissioner. If this occurs, **you** may not be paid the full amount of **your** claim. If **we** submit a pro rata or installment plan to the Insurance Commissioner, deadlines in this policy that apply to **our** payment of **your** claim may, at **our** sole option, be extended by the length of time the Insurance Commissioner has the plan under consideration; the deadlines will be reinstated and recomputed no later than the date an approved plan is in place. Also, with respect to **California Earthquake Authority** claims payments, California Insurance Code

section 10089.25, subdivision (d), reads as follows: "The State of California shall have no liability for payment of claims in excess of funds available pursuant to this chapter. The State of California, and any of the funds of the State of California, shall have no obligations whatsoever for payment of claims or costs arising from this act, except as specifically provided in this act."

28. Changes to Policy Terms in the Event of an **Earthquake**. If an **earthquake** occurs during the policy period, and the **dwelling unit** identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the rights, at **our** option, to do either or both of the following:

    a. To refuse any request **you** make from the time of that **earthquake** until thirty days after the **earthquake** to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy; and

    b. To inspect the insured property prior to granting any request **you** make from the time of that **earthquake** until the expiration of the term of this policy to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy, and to deny **your** request to alter the terms of this policy if **our** inspection reveals the existence of any **earthquake**-related damage to the insured property.

29. Renewal of Policy in the Event of an **Earthquake**. In the event an **earthquake** occurs during the policy period and the **dwelling unit** identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the following rights with respect to the renewal of this policy:

    a. If the expiration date of this policy is between the date of the **earthquake** and 30 days after the **earthquake**, **we** have the right, at **our** option, to refuse to renew this policy on terms different from those contained in this policy. This means that **we** have the right to refuse any request **you** make from the time of the **earthquake** until thirty days thereafter to change the limits of any of the coverages of this policy on renewal, purchase additional coverages from **us** on renewal, or lower the deductible of this policy on renewal.

    b. **We** have the right, at **our** option, to inspect the insured property prior to granting any request **you** make to renew this policy on terms different from those contained in this policy, including any request that **you** make on renewal to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy. **We** have the right to deny **your** request to alter the terms of this policy on renewal if **our** inspection reveals the existence of any **earthquake**-related damage to the insured property.

30. Liberalization Clause. If **we** make a change that broadens coverage under this edition of **our** policy without additional premium charge to **you**, that change will automatically apply to **your** insurance as of the date **we** implement the change.

    This Liberalization Clause does not apply to changes implemented through **our** introduction of a subsequent edition of **our** policy.

CALIFORNIA EARTHQUAKE AUTHORITY

BASIC EARTHQUAKE POLICY
COMMON INTEREST DEVELOPMENT

PLEASE READ YOUR POLICY

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IMPORTANT NOTICES

Many of the terms of this policy are substantially different from the terms of **your companion policy** and most other policies that cover a condominium unit or other **dwelling unit**. The following items, among others, are unique to this policy; these are not the only terms, however, that are different from the terms of **your companion policy** and other policies—there are many others. Therefore, **we** urge **you** to read the entire policy.

The terms that appear in bold type appear frequently in this policy and are defined below under DEFINITIONS.

1. Deductible. No payment will be made for any property loss until the amount of covered loss to the type of property for which **you** make a claim under this policy exceeds the deductible stated on the **DECLARATIONS**. Because of the way the deductible is determined, **you** could have substantial uninsured loss. The deductible amounts shown on the **DECLARATIONS** will not reduce the dollar amount of any **limit of insurance** stated on the **DECLARATIONS**; in other words, the amount **we** will pay will be the full amount by which **your** covered loss exceeds the applicable deductible, up to the applicable **limit of insurance** stated on the **DECLARATIONS**. There are other requirements and restrictions that relate to the deductible. Please read the deductible clause relating to each type of covered property.

2. **Companion Policy** Requirement. This policy and California law require that, during the entire policy period of this **CEA** policy, **you** must keep a **companion policy** in force. That **companion policy** must provide fire insurance for the property that is the subject of this **California Earthquake Authority** policy. That **companion policy** must be issued by the same **participating insurer** that issued this **earthquake** policy—if no **companion policy** is in effect at the time of loss, this **CEA** policy is void and no payment will be made under this **CEA** policy.

3. This is Limited Coverage.

   (a) This **CEA** policy covers only some parts of **your dwelling unit** and does not cover many other components of **your** interest in **your common interest development**. **You** may wish to determine if **your association of owners** has purchased an **association master policy** that includes **earthquake** coverage.

   (b) Unlike some fire insurance policies, this policy does not have a "guaranteed replacement cost" or "extended replacement cost" feature. For that reason, this policy does not provide for full repair or full replacement of covered property if, and to the extent, the loss exceeds (1) the applicable **limit of insurance** stated in the **DECLARATIONS** or, (2) if a **sublimit** applies to the loss, the applicable **sublimit** stated in the policy.

4. Pro-rata or Installment Claims Payments**.** In accordance with California Insurance Code section 10089.35, if at any time the **California Earthquake Authority** Governing Board determines that the **CEA's** available capital may be exhausted and that no additional funds (from specified sources) will be available to the **CEA** to pay policyholder claims, the **CEA** may pay claims on a pro-rata basis or in installment payments, based on a plan presented to the California Insurance Commissioner. If this occurs, **you** might not be paid the full amount of **your** claim or **your** claim might be paid in installments, or both. Under no circumstances will the State of California be responsible for the payment of **your** claim. Please read the Pro-rata or Installment Claims Payments Clause on page ___.

5. Surcharge in the Event of **Earthquake**. If an **earthquake,** or a series of **earthquakes,** exhausts the **California Earthquake Authority's** claim-paying capacity (as provided from specified sources), California Insurance Code section 10089.29, subdivision (b), paragraph (1), gives **us** the power to impose an annual surcharge of up to 20% of **your** annual policy premium. Please read the Surcharge Clause on page ____.

THE LANGUAGE OF THIS POLICY HAS BEEN
APPROVED BY THE CALIFORNIA INSURANCE COMMISSIONER

BASIC EARTHQUAKE POLICY
COMMON INTEREST DEVELOPMENT

Please note that terms that appear frequently in this policy are defined below under DEFINITIONS and appear in bold type.

AGREEMENT

This policy is issued by the **California Earthquake Authority (CEA)**, a public instrumentality of the State of California established and authorized by law to transact insurance in California as necessary to sell policies of basic residential earthquake insurance.

1. Covered Losses.

   a. This policy insures the following property for 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, subject to all of the terms, conditions, deductibles, **limits of insurance**, and **sublimits** of the policy:

      1. The property described under "COVERAGE A: BUILDING PROPERTY," but only if a **limit of insurance** is shown for COVERAGE A on the **DECLARATIONS** page of this policy;

      2. The property described under "COVERAGE C: PERSONAL PROPERTY," but only if a **limit of insurance** is shown for COVERAGE C on the **DECLARATIONS** page of this policy; and

      3. **Your** portion of those loss assessments and reductions in value described under "COVERAGE E: LOSS ASSESSMENT," but only if a **limit of insurance** is shown for COVERAGE E on the **DECLARATIONS** page of this policy.

   b. In addition, if a **limit of insurance** is shown for "COVERAGE D: LOSS OF USE" on the **DECLARATIONS** page of this policy, **we** insure for Loss of Use of the **dwelling unit** resulting from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, subject to all of the terms, conditions, and **limits of insurance** of the policy.

2. Deductible. Except as otherwise explicitly stated in this policy, **we** will pay only when a covered loss to property exceeds the deductible amount shown on the **DECLARATIONS** page applicable to that category of property. When a covered loss to property exceeds the deductible amount shown on the **DECLARATIONS** page applicable to that category of property, **we** will pay, up to the applicable **limit of insurance** applicable to that category of property stated on the **DECLARATIONS** page, the amount by which the covered loss exceeds the deductible amount. The deductible will be applied one time for each **seismic event**. There is one deductible that applies to COVERAGE A: BUILDING PROPERTY, a separate deductible that applies to COVERAGE C: PERSONAL PROPERTY, and a separate deductible that applies to COVERAGE E: LOSS ASSESSMENTS. **We** will pay no amount for any loss under COVERAGE A: BUILDING PROPERTY until the amount of the loss exceeds the amount of the deductible for COVERAGE A: BUILDING PROPERTY shown on the **DECLARATIONS** page; **we** will pay no amount for any loss under COVERAGE C: PERSONAL PROPERTY until the amount of the loss exceeds the amount of the deductible for COVERAGE C: PERSONAL PROPERTY shown on the **DECLARATIONS** page; and **we** will pay no amount for any loss under COVERAGE E: LOSS ASSESSMENT until the amount of the loss exceeds the amount of the deductible for COVERAGE E: LOSS ASSESSMENT shown on the **DECLARATIONS** page. For further information and what will be applied to meet each deductible, see "Deductible—Coverage A" on page ____, "Deductible—Coverage C" on page ____, and "Deductible—Coverage E" on page ____ in the COVERAGES Section of this policy.

3. Premium Payment. **We** will provide the insurance described in this policy in return for **your** payment of the premium and **your** compliance with all applicable provisions of this policy.

4. Policy Period. The policy period as shown on the **DECLARATIONS** page will begin and end at 12:01 a.m. Pacific Standard Time or Pacific Daylight Savings Time, whichever is in effect on the inception or termination date.

5. **Companion Policy. You** agree to keep in effect a **companion policy** written by the **participating insurer** that services this policy. If at the time of loss no **companion policy** is in effect, this **earthquake** policy is void and no payment will be made under this **earthquake** policy.

6. Policy Services. Policy services and claims adjusting will be provided by the **participating insurer.** All inquiries and correspondence regarding this policy should be directed to the **participating insurer**.

DEFINITIONS

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

1. **"Actual cash value"** means **replacement cost** less depreciation.

2. **"Association governing documents"** means the declaration and any other documents, such as bylaws, operating rules of the **association of owners**, articles of incorporation, or articles of association, that govern the operation of the **common interest development** or the **association of owners**.

3. **"Association master policy"** means an insurance policy (1) insuring against the perils of fire, **earthquake**, or both, (2) purchased by or issued to the **association of owners**, and (3) covering, in whole or in part, the **dwelling unit**, other real property located at the **common interest development**, or both.

4. **"Association of owners"** means a nonprofit corporation or unincorporated association created for the purpose of governing and managing the **common interest development** in which the **dwelling unit** is located.

5. **"Business property"** means property pertaining to or intended for use in any (a) full-time or part-time trade, profession, or occupation, or (b) other activity intended for economic gain.

6. **"California Earthquake Authority"** or **"CEA"** means the entity that issued this policy. The **CEA** is a public instrumentality of the State of California created and authorized by law to transact insurance in California as necessary to sell policies of basic residential **earthquake** insurance. The authorization appears in the California Insurance Code, beginning at section 10089.5.

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

8. "**Collectible**" or "**collectibles**" means an item or group of items of personal property, regardless of whether an individual item or part of a collection, the monetary worth of which is not primarily based on its utility or function, but rather, is primarily based on its value to a collector, including property that is kept for investment, has a real or perceived past or expected future increase in value because it would be desirable to collectors as part of a collection, or that has a monetary worth significantly greater than its intrinsic value because of its rarity or its demand among collectors.

9. **"Common interest development"** means any of the following:
   - A community apartment project, as defined in California Civil Code section 4105;
   - A condominium project, as defined in California Civil Code section 4125;
   - A planned development, as defined in California Civil Code section 4175; or
   - A stock cooperative, as defined in California Civil Code section 4190.

10. **"Companion policy"** means the fire insurance policy that provides fire coverage on the **dwelling unit** or personal property, or both, that is the subject of this **CEA** policy, and that is issued by the same **participating insurer** that services this **CEA** policy. **"Companion policy"** does not include the **association master policy**.

11. "**DECLARATIONS**" or "**DECLARATIONS** page" means the single-page document that accompanies, and forms a part of, this **CEA** policy, and which lists certain basic information specific to this policy, including, but not limited to, the policy number, policy period, name and mailing address of the named insured, **dwelling unit** address, and the **limits of insurance**, deductibles, and premium applicable to this policy. The following title appears at the top of the **DECLARATIONS** page:

    CALIFORNIA EARTHQUAKE AUTHORITY
    BASIC EARTHQUAKE POLICY
    COMMON INTEREST DEVELOPMENT
    DECLARATIONS

12. **"Domestic partner"** means a party to a two-person domestic relationship registered by the California Secretary of State through the filing of a Declaration of Domestic Partnership, pursuant to California Family Code section 298.5.

13. **"Dwelling unit"** means **your** individual unit in a residential structure located within the **common interest development** at the location specified in the **DECLARATIONS**.

14. **"Earthquake"** means a vibration-generating rupture event caused by displacement within the earth's crust through release of strain associated with **tectonic processes** and includes effects such as ground shaking, liquefaction, and damaging amplification of ground motion. While land sliding, including seismically-induced land sliding, is not itself an **earthquake**, **we** cover, subject to "LOSSES EXCLUDED" Item 5 and subject to all other terms and conditions of this policy, loss to covered property arising out of a seismically-induced landslide if that landslide 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. **Earthquake** does not mean or include tsunami or volcanic eruption.

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

16. **"Insured"** means **you** and the following **persons** if they are permanent residents of **your** household:

    a. **your** relatives, whether related by blood, marriage or adoption; <u>and</u>

    b. anyone under the age of 21 who is in the care or custody of **you** or of any of **your** relatives who are permanent residents of **your** household.

17. **"Limit of insurance"** means the most **we** will pay for covered loss arising from any **seismic event**.

18. **"Nuclear hazard"** means any nuclear reaction, radiation, or radioactive contamination, or any consequence of any of these.

19. **"Participating insurer"** means the insurance company that issued the **companion policy**, meets the legal requirements to offer residential earthquake coverage by participating in the **CEA,** and provides claims and policyholder services for this policy on behalf of the **CEA**.

20. **"Person"** means any human, association, organization, governmental entity, partnership, business trust, limited liability company, or corporation.

21. **"Replacement cost"** means:

a. With respect to structures, the lesser of the reasonable cost at the time of loss to repair or replace covered damaged or destroyed property, without deduction for depreciation, (i) at the location of the **dwelling unit,** (ii) for the same use, and (iii) with materials of like kind and quality.

b. With respect to personal property and wall-to-wall carpeting, the cost, without deduction for depreciation, of (i) new property identical to the damaged property or, (ii) if identical property is not obtainable, of new property of like quality and of comparable usefulness as the damaged property.

22. **"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**.

23. **"Sublimit"** means a dollar limit on a coverage for a specific type of property within a category of property that is subject to a higher total **limit of insurance**. Payment under a **sublimit** will reduce the amount available under the total **limit of insurance**.

24. **"Tectonic processes"** means natural adjustments of the earth's crust that are wholly in response to regional stress conditions caused by natural dynamic forces within the earth's interior, and not initiated, in whole or in any part, by any human activity.

COVERAGES

COVERAGE A: BUILDING PROPERTY

If a **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" is shown on the **DECLARATIONS** page of this policy, **we** provide the following coverage, subject to that **limit of insurance**, the application of the "Deductible—Coverage A" clause, and all of the terms and conditions of this policy.

If no **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE A: BUILDING PROPERTY."

Property Covered—Coverage A

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**.

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 the applicable **sublimit** of $10,000, regardless of the number of **chimneys** covered.

Special Limits of Insurance—Coverage A

The **limits of insurance** shown below are **sublimits** of the policy's **limit of insurance** provided for "COVERAGE A: BUILDING PROPERTY" and do not increase the **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" shown in the **DECLARATIONS**. The **sublimit** for each numbered category, immediately below, is the total **limit of insurance** for all loss in that category. For property that falls into more than one category, the lowest applicable **sublimit** will apply.

1. $10,000 for loss or damage to any and all **chimney(s)** attached to or part of the **dwelling unit**, regardless of the number of **chimneys** covered. This **sublimit** of $10,000 in coverage for loss or damage to **chimneys** will be reduced by any amount that **we** pay under "Other Coverages—Coverage A," Item 1, "Emergency Repairs," for emergency repairs to **chimneys**, and by any amount that **we** pay under "Other Coverages—Coverage A," Item 2, "Debris Removal" for the removal of the debris of **chimneys**.

2. $5,000 for all loss or damage to the **dwelling unit** or to wall-to-wall carpeting attached to the **dwelling unit** caused by **fungi** the presence of which directly results from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, including, but not limited to, the cost to repair damage from **fungi** or to test for, monitor, abate, mitigate, remove, dispose of, or remediate **fungi**. This **sublimit** of $5,000 in coverage for loss or damage caused by **fungi** will be reduced by any amount that **we** pay under "Other Coverages—Coverage A," Item 1, "Emergency Repairs," for emergency repairs resulting from **fungi**. Except for the coverage specifically provided for in this **sublimit**, this policy does not provide coverage for any loss that is caused directly or indirectly by, or that in any way results from, is contributed to by, or is aggravated by **fungi**.

Other Coverages—Coverage A

We provide the following other coverages, but only to the extent that the loss or expense is not covered under an **association master policy** or the deductible of that **association master policy** has not been exceeded:

1. Emergency Repairs. If covered damage occurs to property covered under "COVERAGE A: BUILDING PROPERTY," **we** will pay the cost **you** incur for reasonable and necessary emergency measures **you** take to protect against further damage to that property, to remove from covered property in the **dwelling unit** the residue of broken glass, or to repair or replace covered broken windows in the **dwelling unit** or other covered structural glass that is part of the **dwelling unit**, if 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.

   a. This Emergency Repairs coverage provides coverage up to a **sublimit** of $1500. The applicable total **limit of insurance** for the "COVERAGE A: BUILDING PROPERTY" will be reduced by any amount **we** pay for this coverage.

   b. **Your** taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve **you** of **your** responsibilities outlined in "**Your** Duties After Loss" (CONDITIONS, Item 3).

2. Debris Removal. **We** will pay the reasonable expense **you** incur in removing from the **common interest development** the debris of damaged property covered under "COVERAGE A: BUILDING PROPERTY," including but not limited to the reasonable expense **you** incur for the transportation of such debris to landfills or disposal facilities and disposal of the debris at those facilities, or the transportation of such debris to suitable recycling facilities rather than landfills and disposal of the debris at those facilities. The **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" will be reduced by any amount **we** pay under this coverage, but in the event that **your** covered losses under "COVERAGE A: BUILDING PROPERTY" exceed the combined **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" shown on the **DECLARATIONS** page of this policy, **we** will provide, as additional insurance, up to 5% of that **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" for this debris removal coverage.

3. Building Code Upgrades. If, as a result of an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, there is a covered loss to property specified under "Property Covered—Coverage A" and **you** or the **association of owners** repair or replace that property, then **we** will pay as additional insurance up to $10,000 for the cost of reconstruction or replacement to bring that property up to local residential building code standards in effect at the **dwelling unit** location on the date of the **earthquake** that caused the loss, but only so much of the reconstruction or replacement costs attributable to requirements of securing governmental approval of the construction permit process for repair or replacement of that covered property. If the property covered under "Property Covered—Coverage A" is rebuilt or replaced at a location other than **dwelling unit** location shown on the **DECLARATIONS** page, **we** will pay no more under this coverage for building code upgrades than what the reasonable and necessary costs of such building code upgrades would have been had the property covered under "Property Covered—Coverage A" had been repaired or replaced at the **dwelling unit** location shown on the **DECLARATIONS** page, but only up to the $10,000 **limit of insurance** for this coverage for building code upgrades.

4. Energy Efficiency and Environmental Safety Replacement Upgrades. If a combined single **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" is shown on the **DECLARATIONS** page of this policy and there is a covered loss to property covered under "COVERAGE A: BUILDING PROPERTY" in excess of the applicable deductible, and if **you** actually undertake repair or replacement of that covered loss, **we** will pay **your** cost to repair or replace that property with material that meets the following standards regarding environmental safety and energy efficiency. This coverage will apply to the added costs **you** incur to repair or replace that property with material that meets those standards as compared to the **replacement cost** of that property with material that does not meet those standards. This coverage is provided as a $10,000 **sublimit** of the combined single **limit of insurance** for "COVERAGE A: BUILDING PROPERTY," and the **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" will be reduced by any amount **we** pay under this coverage. The most **we** will pay for the replacement or upgrade of any item of covered property is 200% of its **replacement cost** using material that does not meet the following standards regarding environmental safety and energy efficiency. Losses covered under this coverage are not applied to meet the deductible for "COVERAGE A: BUILDING PROPERTY."

   a. Energy Efficiency Upgrades: **We** will pay the reasonable added costs **you** incur to replace damaged covered property with the following energy-efficient property:

      i. Electronic Equipment – Energy Star Replacement. If there is covered loss to electronic equipment, including but not limited to equipment for heating, ventilation, and air conditioning (HVAC) systems, that is part of the **dwelling unit** and that is covered under "COVERAGE A: BUILDING PROPERTY," and that electronic equipment must be replaced rather than repaired, then **we** will pay the reasonable expenses **you** incur to replace damaged or destroyed electronic equipment with equipment of otherwise equivalent quality and function that has been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.

      ii. Window, Door, Roofing, and Insulation Energy Upgrades. If there a loss to the **dwelling unit** that requires the repair or replacement of roofing or insulation material, air sealing, windows, doors, or skylights, then **we** will pay the reasonable expenses **you** incur to replace those damaged or destroyed materials with materials of otherwise equivalent quality and function that have been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.

      iii. Plumbing Fixture Upgrades. If there a loss to the **dwelling unit** that requires the repair or replacement of plumbing fixtures, then **we** will pay the reasonable expenses **you** incur to replace those fixtures with energy and water efficient fixtures, including automatic faucet sensors, faucet and shower head flow restrictors, dual flush toilets, and localized water heaters, using plumbing fixtures of otherwise equivalent quality and function provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of the U.S.

Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines.

b. Environmental Safety Upgrades. **We** will pay reasonable added costs **you** incur to repair or replace the damaged or destroyed property covered under "COVERAGE A: BUILDING PROPERTY" with the following environmentally-upgraded property, provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of the U.S. Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines:

i. Interior Finish Materials Upgrades. If there is a covered loss to the **dwelling unit** that requires the repair or replacement of interior finish materials, then **we** will pay the reasonable expenses **you** incur to replace those materials with materials of otherwise equivalent quality and function that are low in volatile organic compounds (VOC), sustainably developed, rapidly renewable, or comprised of recycled materials. This coverage applies to interior paints, architectural coatings, primers under coatings, adhesives and sealants, low emissions carpet and floor coverings, including adhesive to affix them to the floor, and permanently installed composite wood fixtures including counters, cabinets and partitions, where available, Forest Stewardship Council certified wood for millwork, ceilings, siding, and framing, and bamboo flooring.

ii. Elimination of Ozone-Depleting Substances Upgrades. If there is a covered loss to the **dwelling unit** that requires the repair or replacement of systems containing such items, then **we** will pay the reasonable expenses **you** incur to replace chlorofluorocarbon refrigerants (CFC) or hydro-chlorofluorocarbon (HCFC) or Halon refrigerants or fire extinguishing agents with environmentally-upgraded replacements.

iii. Flush Out of Reconstructed Space. If necessitated by the repair or replacement of covered loss to the **dwelling unit**, **we** will pay the reasonable and necessary costs to flush out the reconstructed space with 100% outside air and new filtration media following completion of the repair or reconstruction process.

Property Not Covered—Coverage A

We do not cover:

1. Land, including land underlying the **dwelling unit** or any other structure.

2. Detached garages, outbuildings, structures other than the residential structure containing the **dwelling unit**, fences, and masonry fences and walls that are not integral to the stability of the residential structure containing the **dwelling unit**.

3. Awnings and patio coverings, carports, and their support structures.

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

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

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

7. Plaster, to the extent the cost to repair or replace it exceeds the value of its replacement with sheetrock or drywall.

8. Except as provided under "COVERAGE A: BUILDING PROPERTY, Property Covered," Item 2.b, exterior water supply systems including, but not limited to, irrigation systems, sprinkler systems, and water reclamation systems.

9. Except as provided under "COVERAGE A: BUILDING PROPERTY, Other Coverages—Coverage A," Item 3, "Building Code Upgrades," any added costs of repair or replacement of covered property resulting from enforcement of any ordinance, law, or residential building code that regulates the use, construction, repair, or demolition of a building or other structure.

10. Except as provided under "COVERAGE A: BUILDING PROPERTY, Property Covered," Item 2.b, underground structures or equipment located outside the perimeter walls of the **dwelling unit**, including but not limited to underground pipes, cables, flues, drains, electrical supply systems and electrical lighting systems.

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

12. Fences, bulkheads, piers, and outside walls including retaining walls.

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

14. Swimming pools, spas, and hot tubs and all of their components, including the tile or other material linking or attaching the pool, spa or hot tub to a deck or to a structure.

Deductible—Coverage A

We will pay no amount for any loss under "COVERAGE A: BUILDING PROPERTY" until the amount of the loss exceeds the amount of the deductible for "COVERAGE A: BUILDING PROPERTY" shown on the **DECLARATIONS** page. The deductible will be applied one time for each **seismic event**. Only losses that are covered under "COVERAGE A: BUILDING PROPERTY," as limited by the application of any **sublimits** that apply to those losses, can be applied to meet this deductible requirement.

COVERAGE C: PERSONAL PROPERTY

If a **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" is shown on the **DECLARATIONS** page of this policy, **we** provide the following coverage, subject to that **limit of insurance**, the application of the "Deductible—Coverage C" clause, and all of the terms and conditions of this policy. If no **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE C: PERSONAL PROPERTY."

Property Covered—Coverage C

We cover (1) personal property owned or used by an **insured** and located at the **common interest development**, and (2) at **your** request and subject to a **sublimit** of $2,500, personal property owned by others while that property is on any part of the **dwelling unit** occupied by an **insured**.

Special Limits of Insurance—Coverage C

The special **limits of insurance** shown below are **sublimits** of the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" and do not increase the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" shown on the **DECLARATIONS** page of this policy. The **sublimit** for each numbered category, immediately below, is the total **limit of insurance** for all loss in that category. For property that falls into more than one category, the lowest applicable **sublimit** will apply. If any item of property falls both into one of the following

sublimits and one of the categories of property listed under "Property Not Covered—Coverage C," then **we** do not cover that item of property.

1. $250 in the aggregate on all money, bank notes, coins and medals, including any of these that are part of a collection.

2. $250 in the aggregate on all securities, checks, cashier's checks, traveler's checks, money orders, and other negotiable instruments; accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, passports, and tickets.

3. $3,000 in the aggregate on all computers and other electronic data processing equipment, including storage media and software used with that equipment, whether or not it is **business property**. Storage media or software that cannot be replaced with other property of like kind and quality on the current consumer retail market is not covered.

4. $1,000 in the aggregate on all **business property** other than computers and other electronic data processing equipment, storage media, and software.

5. $3,000 in the aggregate on all jewelry, watches, furs, and precious and semi-precious stones, but not more than $1,000 for any one article.

6. $3,000 in the aggregate on all **collectibles**, including but not limited to sports cards; **collectible** dolls, model trains, or toys; **collectible** postage stamps; **collectible** autographed items; memorabilia; and commemorative or otherwise **collectible** plates, spoons, or cups; regardless of whether any such item is a single item or part of a collection.

7. $3,000 in the aggregate on all beverages contained in bottles or in other glass, ceramic, or pottery containers, including but not limited to wine, port, liquor, beer, and all other alcoholic or non-alcoholic beverages.

Other Coverage—Coverage C

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

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

   a. 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.

   b. **Your** taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve **you** of **your** responsibilities outlined in "**Your** Duties After Loss" (CONDITIONS, Item 3).

2. Debris Removal. **We** will pay the reasonable expense **you** incur in removing from the **dwelling unit** the debris of property covered under "COVERAGE C: PERSONAL PROPERTY," including but not limited to the reasonable expense **you** incur for the transportation of such debris to landfills or disposal facilities and disposal of the debris at those facilities, or the transportation of such debris to suitable recycling facilities rather than landfills and disposal of the debris at those facilities. The **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" will be reduced by any amount **we** pay under this coverage, but in the event that **your** covered losses under "COVERAGE C: PERSONAL PROPERTY" exceed the combined **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" shown on the **DECLARATIONS** page of this policy, **we** will provide, as additional insurance, up to the lesser of (i) 5% of the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" or (ii) $1,000.

Property Not Covered—Coverage C

We do not cover:

1. Pets, birds, fish, livestock, or other animals.

2. Motor vehicles, riding lawn mowers, or any motorized land conveyance, including their parts or accessories while in or on the motor vehicle, lawn mower, or conveyance. This exclusion does not apply to motorized land conveyances not licensed for use on public roads that are designed to assist and are used by the handicapped, or to the parts and accessories of those conveyances.

3. Any electronic equipment that is designed for operation by the electrical system of a motor vehicle, motorized land conveyance, or a camp or home trailer while any of this equipment is in, on, or installed in a motor vehicle, motorized land conveyance, or a camp or home trailer, including but not limited to: computers, citizens band and other two-way mobile radios, satellite and cellular telephones, radio receivers, transceivers, and transmitters, scanners and scanning monitor receivers, radar detectors, tape or disc players and recorders, MP3 players, televisions, video players, recorders, and monitors, global positioning satellite (GPS) devices, personal digital assistants and other handheld devices, and any accessories, antennas, speakers, tapes, discs, cartridges, media, carrying cases, charging devices, batteries, or other devices and accessories used with that equipment.

4. Aircraft, including their parts and equipment.

5. Property that is not owned or used by an **insured,** including but not limited to the property of roomers, boarders and other tenants, except (a) the property owned by others that **we** cover at **your** request under Item 2 of "Property Covered—Coverage C," subject to the applicable **sublimit** of $2,500, and (b) the property of roomers and boarders related to any **insured**.

6. Valuable papers, records or data, including:

   a. books of account, drawings, card index systems and other records; and

   b. data stored on electronic data storage devices, including processing tapes, wires, records, discs, computer drives, portable storage devices or media, or other magnetic or optical media.

   We do, however, cover the cost of blank recording or storage media and of prerecorded computer programs that are available on the retail market, subject to the **sublimit** set forth in "Special Limits of Insurance—Coverage C," Item 3.

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

8. Breakable items, consisting of the following:

   a. Glassware, crystal, china, ceramic, pottery, and porcelain items created as table settings, serving ware, or otherwise intended for use in serving or consuming food or beverage, whether currently being used for that purpose or not; and,

   b. Figurines, vessels, vases, and other ornamental items made of crystal, china, pottery, ceramics, porcelain, glass, or marble.

9. Watercraft, including their furnishings, equipment, and inboard, outboard, or inboard-outboard motors.

10. Trailers.

11. Trees, shrubs, or plants, or their containers.

12. Swimming pools, spas, and hot tubs, including all of their components.

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

Deductible—Coverage C
We will pay no amount for any loss under "COVERAGE C: PERSONAL PROPERTY" until the amount of the loss exceeds the amount of the deductible for "COVERAGE C: PERSONAL PROPERTY" shown on the **DECLARATIONS** page. The deductible will be applied one time for each **seismic event**. Only losses that are covered under "COVERAGE C: PERSONAL PROPERTY," as limited by the application of any **sublimits** that apply to those losses, can be applied to meet this deductible requirement.

COVERAGE D: LOSS OF USE

If a **limit of insurance** for "COVERAGE D: LOSS OF USE" is shown on the **DECLARATIONS** page of this policy, then subject to that **limit of insurance** and subject to all the terms and conditions of this policy, **we** provide the following coverage, not subject to any deductible. If no **limit of insurance** for "COVERAGE D: LOSS OF USE" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE D: LOSS OF USE."

1. Additional Living Expense. If the part of **dwelling unit** that **you** occupy becomes unfit to live in and **you** are forced to vacate the **dwelling unit** as a result of either (1) damage to the **dwelling 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 at the **common interest development** 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 the damage that makes the parts of the **dwelling unit you** occupy unfit to live in, or (b) for **you** to permanently relocate elsewhere if **you** do not elect to repair or replace the **dwelling unit**.

2. Loss of Rent. If the part of the **dwelling unit** that **you** rent to others or that **you** actually hold for rental becomes unfit to live in as a result of either (1) damage to the **dwelling 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 at the **common interest development** caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** cover the fair rental value of that part of the **dwelling unit** that is rented to others or that **you** actually held for rental prior to the loss, less any expenses that do not continue while the rental portion of the **dwelling unit** is unfit to live in. Fair rental value means the average rental amount immediately before the **earthquake** in **your** rental market for a residential unit similar to that covered under this policy.

   We will pay for the shortest time reasonably needed to repair the damage that makes the parts of the **dwelling unit** rented or held for rental unfit to live in. **Your** loss of rents due to cancellation of a lease or rental agreement is not covered.

3. If a civil authority prohibits **you** from occupying the **dwelling unit** because of direct damage to the **common interest development** in which the **dwelling unit** is located caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** cover the resulting Additional Living Expense or Loss of Rent, subject to the "COVERAGE D: LOSS OF USE" **limits of insurance**.

COVERAGE E: LOSS ASSESSMENT

If a **limit of insurance** for "COVERAGE E: LOSS ASSESSMENT" is shown on the **DECLARATIONS** page of this policy, **we** provide the following coverage, subject to that **limit of insurance**, the application of the "Deductible—Coverage E" clause, all of the terms and conditions of this policy.

The **limit of insurance** shown on the **DECLARATIONS** page for "COVERAGE E: LOSS ASSESSMENT" is the most **we** will pay under this coverage for all claims arising out of any one **seismic event**, regardless of the number of assessments that are assessed against **you** or the number or amount of claims **you** make under this coverage. If no

limit of insurance for "COVERAGE E: LOSS ASSESSMENT" is shown on the **DECLARATIONS** page of this policy, this policy does not provide any coverage under "COVERAGE E: LOSS ASSESSMENT."

Losses Covered—Coverage E

1. Assessment By **Association of Owners**: **We** cover **your** share of any assessment charged by the **association of owners** 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 to structures or other real property, and those structures or other real property are 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**.

   If an assessment is made as a result of a combination of (a) losses that are not covered, including but not limited to losses specified in "Losses Not Covered—Coverage E" or in "LOSSES EXCLUDED," and (b) loss to property that is covered under "COVERAGE E: LOSS ASSESSMENT," then **we** will pay only that pro rata portion of **your** share of the assessment equal to that percentage of the entire assessment that is based on covered loss that is not excluded.

   There is a **sublimit** of $10,000 under this coverage for **your** share of any portion of an assessment resulting from the cost of reconstruction to bring the property up to local residential building code standards in effect on the date of the **earthquake** that caused the loss, as required as part of the approval of the reconstruction permit process for repair of the covered property. Any amount **we** pay for losses that are subject to this **sublimit** will reduce the applicable total **limit of insurance** for "COVERAGE E: LOSS ASSESSMENT."

2. Reduction In Value Of **Your** Ownership Interest:

   a. What Reduction In Value **We** Cover:
   If there is physical loss to structures or other real property at the **common interest development** directly caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, and the **association of owners** elects not to repair or replace that property or is permanently prevented by a government authority or court order from repairing or replacing the property, **we** cover the resulting reduction in the value of **your** ownership interest in the **dwelling unit** and the **common interest development**, 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."

   b. Partially Covered Losses
   If the reduction in the value of **your** ownership interest in the **dwelling unit** and the **common interest development** is the result of a combination of (a) losses that are not covered, including but not limited to losses specified in "Losses Not Covered—Coverage E" or in "LOSSES EXCLUDED," and (b) loss to property that is covered under "COVERAGE E: LOSS ASSESSMENT," then **we** will pay that portion of the reduction in the value of **your** ownership interest in the **dwelling unit** and the **common interest development** that directly results from covered loss.

c. How the Value of the Loss Is Calculated
The amount of reduction in the value of **your** ownership interest in the **dwelling unit** and the **common interest development** under this coverage for "Reduction In Value Of **Your** Ownership Interest" will be calculated by determining the dollar amount of that portion of the loss in fair market value of **your** ownership interest that is directly attributable to physical loss to covered property directly caused by the **earthquake** upon which **your** claim under this coverage is based, reduced by the following amounts:

i. Any payments that **we** make, under "COVERAGE A: BUILDING PROPERTY" or "COVERAGE E: LOSS ASSESSMENT" of this policy, for losses arising out of the same **seismic event** upon which the claim for this coverage under "Reduction In Value Of **Your** Ownership Interest" is based;

ii. Payments made under any other insurance policy, including the **companion policy** or an **association master policy**, to **you** or to holders of mortgages or deeds of trust secured by **your** ownership interest in the **dwelling unit** and the **common interest development**, for damage or loss to the **dwelling unit** or the **common interest development** arising out of the same **seismic event** upon which the claim for this coverage under "Reduction In Value Of **Your** Ownership Interest" is based;

iii. Payments made to **you** or to holders of mortgages or deeds of trust secured by **your** ownership interest in the **dwelling unit** and the **common interest development** by any government agency arising out of the same **seismic event** upon which the claim for this coverage under "Reduction In Value Of **Your** Ownership Interest" is based, including but not limited to disaster relief payments;

iv. Payments made by the **association of owners** to **you** or to holders of mortgages or deeds of trust secured by **your** ownership interest in the **dwelling unit** and the **common interest development** arising out of the same **seismic event** upon which the claim for this coverage under "Reduction In Value Of **Your** Ownership Interest" is based, as a result of the following:

(A) The collection of any insurance proceeds relating to damage to the **dwelling unit** or the property of the **common interest development**; or

(B) The liquidation or sale of any asset or capital that is not included in the calculation of the fair market value of **your** interest in the **dwelling unit** and the **common interest development**.

Losses Not Covered—Coverage E

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

1. Loss or damage to land, including land underlying any structure.

2. Loss or damage to detached garages, outbuildings, structures other than residential structures, or fences and masonry fences and walls that are not integral to the stability of the residential structure containing the **dwelling unit** or integral to the stability of other residential structures at the **common interest development**.

3. Loss or damage to awnings and patio coverings, carports, or their support structures.

4. Loss or damage to antennas or satellite dishes, or to any towers, brackets, or attachments that support or secure them.

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

artistic feature is not covered to the extent the cost of repair or replacement exceeds the cost of replacing it with a non-decorative, non-artistic functional replacement.

6. Loss or damage to exterior masonry veneer. For purposes of this exclusion, stucco and exterior chimney facings are not exterior masonry veneers.

7. Loss or damage to plaster, to the extent the cost to repair or replace it exceeds the value of its replacement with sheetrock or drywall.

8. Loss or damage to exterior water supply systems including, but not limited to, irrigation systems, sprinkler systems, and water reclamation systems.

9. Loss or damage to underground structures or equipment located outside the perimeter of the **dwelling unit** foundation, including but not limited to underground pipes, cables, flues, drains, electrical supply systems and electrical lighting systems.

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

11. Loss or damage to fences, bulkheads, piers, and outside walls including retaining walls.

12. Loss or damage to landscaping, trees, shrubs, lawns, or plants, even if damaged by necessary repairs to covered property.

13. Loss or damage to swimming pools, spas, and hot tubs, whether part of the **dwelling unit** or not, including the tile or other material linking or attaching the pool, spa or hot tub to a deck or to a structure.

14. Assessments that do not relate directly to the reconstruction of structures or other real property damaged or destroyed as a direct result of an **earthquake** that commences during the policy period as part of **a seismic event** that commences during the policy period.

15. Assessments made for the purpose of improving, bettering, or updating covered property to a condition or status better or more costly than the condition and status of the property as it existed immediately preceding the **earthquake** causing loss to the property. This exclusion does not apply to **your** share of any portion of assessment resulting from the cost of reconstruction to bring the property up to local residential building code standards in effect on the date of the **earthquake** that caused the loss, as required as part of the approval of the reconstruction permit process for repair of the covered property, subject to the applicable **sublimit** of $10,000.

16. Assessments that follow or relate in any way to the payment or distribution to **you**, or any other member of the **association of owners**, of capital or assets of the **association of owners**, unless the payment or distribution of capital (a) is 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 <u>and</u> (b) is made for the purpose of payment or reimbursement for the repair or replacement of covered loss to property at the **common interest development**.

<u>Deductible—Coverage E</u>

We will pay no amount for any loss under "COVERAGE E: LOSS ASSESSMENT" until the amount of the loss exceeds the amount of the deductible for "COVERAGE E: LOSS ASSESSMENT" shown on the **DECLARATIONS** page. The deductible will be applied one time for each **seismic event**. Only losses that are covered under "COVERAGE E: LOSS ASSESSMENT" can be applied to meet this deductible requirement.

LOSSES EXCLUDED

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:

1. Fire or explosion.

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

   a. Flood, precipitation (including rain, snow, hail, or sleet) or surface water; waves, tsunami, or tidal water; rupture of a dam, levee, berm, or sea wall; overflow of a natural or man-made body of water; or spray from any of these; or

   b. Water below the surface of the ground, whether natural or not, including water that exerts pressure on or seeps or leaks through a building, sidewalk, driveway, foundation, or other structure.

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

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

   (ii) The displacement of water from an aquarium, drinking water container or dispenser, 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 premises of the **common interest development** or the release of water or sewage from sewers or drains on or off the premises of the **common interest development**. Or

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

3. Controlled or uncontrolled **nuclear hazard** or any act or condition incident to any **nuclear hazard**.

4. Pollution of groundwater, land, and personal property, including all loss, damage, costs, and expenses that arise out of or are caused by pollution or pollutants, and any cost or expense to test for, monitor, clean up, remove, contain, treat, detoxify, or neutralize pollutants. The terms "pollutants" and "pollution" mean any solid, liquid, gaseous, or thermal irritant or contaminant, including, but not limited to, smoke, vapor, soot, fumes, acids, alkalis, chemicals, asbestos, and waste. The term "waste" includes but is not limited to material to be recycled, reconditioned, or reclaimed.

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; <u>and</u>

   b. causes loss that manifests within one year after the **earthquake** that caused the loss.

6. Theft, vandalism or other human conduct causing loss following an **earthquake**.

7. **Fungi**, including but not limited to the cost to repair or replace property damaged by **fungi** or to test for, monitor, abate, mitigate, remove, dispose of or remediate **fungi**, except for loss or damage to the **dwelling unit** or to wall-to-wall carpeting attached to the **dwelling unit** caused by **fungi** the presence of which directly results from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, and subject to the $5,000 **sublimit** set forth in "Special Limits of Insurance—Coverage A," Item 2.

8. Required compliance with any ordinance, law, or residential building code that regulates the use, construction, repair, or demolition of a building or other structure, except as specifically provided under this policy, under the following provisions:

   a. "Other Coverages—Coverage A," Item 3, "Building Code Upgrades," subject to the applicable $10,000 **limit of insurance**, or

   b. "Losses Covered—Coverage E," Item 1, "Assessment By **Association of Owners**," subject to the applicable $10,000 **sublimit**.

9. Power failure, meaning the failure of delivery of electrical power to the **dwelling unit** or to the **common interest development**.

10. **Your** neglect to take all reasonable action to save and preserve covered property at the time of and after a covered loss.

11. Declared or undeclared war, acts of terrorism, insurrection, rebellion, revolution, warlike act by a military force or military personnel or any person, destruction or seizure or use for a military purpose, and any consequence of any of these. Discharge of a nuclear weapon will be deemed a warlike act even if accidental.

12. Intentional acts, meaning any loss arising out of any act committed:

    a. by **you** or at **your** direction, or at the direction of any **insured** or of any **person** named as an additional **insured**; and

    b. with the intent to cause, aggravate or increase a loss.

YOUR RIGHTS CONCERNING CLAIMS INVESTIGATION

The law provides certain rights and protections to policyholders who are involved in the presentation of a claim. Included among these are the following:

1. Specific rights to privacy under California and Federal law which may protect **you** during the claims process;

2. The right to have **your** claim handled in accordance with the California Insurance Code and Subchapter 7.5 of Chapter 5 of Title 10 of the California Code of Regulations, which impose fair claims handling procedures and requirements on insurers; and

3. The right to be represented by an attorney at **your** expense.

CONDITIONS

1. Insurable Interest and **Limit of Insurance**. Even if more than one **person** has an insurable interest in the property covered, **we** will not be liable:

   a. to **you** for an amount greater than **your** interest; nor

   b. for more than the applicable **limit of insurance**.

2. Concealment or Fraud. The entire policy will be void if, before or after a loss, any **insured** does any of the following:

   a. Intentionally conceals or misrepresents any material fact or circumstance;

   b. Engages in fraudulent conduct relating to this insurance; or

   c. Intentionally makes false statements relating to this insurance.

3. **Your** Duties After Loss. If a loss occurs to covered property, **you** must perform the following duties:

   a. Give written notice to the **participating insurer** without delay.

   b. Protect the property from further damage. Make any emergency repairs that are necessary and reasonable to protect the property from further damage. Keep records of all costs **you** incur to repair or replace covered property or to protect covered property from further damage.

   c. Make and keep a list of all damaged or destroyed personal property, showing in detail the quantity, description, and amount of covered loss. Keep all bills, receipts, and related records that support **your** figures.

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

   e. As often as reasonably required:

      (i) Exhibit damaged property to the **participating insurer**;

      (ii) Provide the **participating insurer** with the records and documents that are necessary to support **your** claim under the policy and which the **participating insurer** may request, including bills, receipts, canceled checks, and related records that support **your** figures, and permit the **participating insurer** to make copies; and

      (iii) While not in the presence of any other **insured**, submit to examination under oath and sign a transcript of the examination.

   f. Send the **participating insurer**, within 60 days of **our** or the **participating insurer's** request, **your** signed, sworn proof of loss that contains, to the best of **your** knowledge and belief the following:

      (i) The time, date, and cause of loss;

      (ii) Y**our** interest and the interest of all others in the property that sustained a loss, and evidence of all liens or encumbrances on the property;

      (iii) A detailed description of all legal claims against the property that sustained a loss;

      (iv) Evidence of other insurance that may cover the loss;

      (v) A description of changes in title to or occupancy of the property during the term of the policy;

      (vi) Descriptions and detailed repair estimates for any covered damage to the **dwelling unit** or other items of real property;

      (vii) The list of damaged or destroyed personal property covered under this policy; and

      (viii) All receipts and records that support any claim for additional living expense or fair rental value.

4. Loss Settlement: Coverages A and C.

In case of loss to a pair or set **we** can elect to either of the following:

a. Repair or replace any part to restore the pair or set to its value before the loss; or

b. Pay the difference between **replacement cost** of the pair or set before and after the loss.

5. Loss Settlement: Coverage A.

a. **Our** liability for any loss to property insured under "COVERAGE A: BUILDING PROPERTY" will not exceed the smallest of the following:

(i) The **replacement cost** at the time of loss;

(ii) If the damaged property has been actually repaired or replaced, the amount actually and necessarily spent to repair or replace the damaged property; or

(iii) The applicable **limit of insurance** or any applicable **sublimit(s)**.

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

c. **We** will not pay for increased costs resulting from enforcement of 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 in "COVERAGE A: BUILDING PROPERTY, Other Coverages—Coverage A," Item 3, "Building Code Upgrades."

d. **We** will pay for the cost to repair or replace only that portion of any regularly-used walkway, driveway, deck, or patio covered under this policy that is necessary to restore (i) pedestrian ingress to and egress from the **dwelling unit** or (ii) ingress to and egress from the **dwelling unit** by any non-ambulatory **insured**.

e. To repair or replace plaster, **we** will not pay more than the cost to repair or replace the plaster with sheetrock or drywall.

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

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

(i) The **sublimit** of $10,000 that applies to **chimneys**;

(ii) The cost of replacement of a masonry **chimney** or **chimneys** with a non-masonry, earthquake-resistant **chimney** or **chimneys**; or

(iii) The necessary amount actually spent to repair the damaged **chimney** or **chimneys**.

6. Loss Settlement: Coverage C.

a. **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.

b. **Our** liability for loss to any property insured under "COVERAGE C: PERSONAL PROPERTY" will not exceed the smallest of the following:

(i) The **replacement cost** at the time of loss;

(ii) 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)**.

7. Appraisal. If **you** and **we** fail to agree on the amount of loss, either of us may demand an appraisal of the loss. In this event, each party will choose a competent and disinterested appraiser within 20 days after receiving the written demand from the other. The two appraisers will choose a neutral and independent umpire. If they cannot agree on an umpire within 15 days, **you** or **we** may request that a judge of a California court of competent jurisdiction in the county where the insured **dwelling unit** is located appoint an umpire. The two appraisers will separately appraise the amount of loss under this policy. If the appraisers submit an agreed written report to **us**, the amount they agree on will be the amount of loss under this policy. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two of the three appraisers will set the amount of loss under this policy. Each party will (a) pay its own appraiser, and (b) bear the other expenses of the appraisal and of the umpire equally.

8. Other Insurance.

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

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

9. Subrogation. **You** may waive in writing before a loss under this policy all **your** rights of recovery against any **person**. If **you** do not waive those rights, **we** may require an assignment of **your** rights of recovery for a loss to the extent that **we** make payment for that loss. If **we** seek an assignment, the **insured** must sign and deliver all related papers to **us** and cooperate with **us**.

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

11. **Our** Option to Repair or Replace Property. If **we** give **you** written notice within 30 days after **we** receive **your** proof of loss, **we** may repair or replace any part of the damaged property with like property.

12. Loss Adjustment: **We**, through the **participating insurer**, will adjust all losses with **you**. 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.

13. Loss Payment. As to all claims **we** determine to be covered under this policy, **we** will pay **you** unless some other **person** is named in the policy or is legally entitled to receive payment. That portion of a claim that is not in dispute will be payable within 30 days after **we** receive **your** proof of loss. All other losses will be payable within 30 days after **we** receive **your** proof of loss and:

    a. **we** reach an agreement with **you**;

    b. there is an entry of a final judgment; or

    c. there is a filing of a final appraisal award with **us**.

14. Mortgagee Clause.

    a. The word "mortgagee" as used in this policy includes trustee or beneficiary under a trust deed.

    b. If a mortgagee is named as a loss payee in this policy and, as a condition for making a loan to **you** secured by the **dwelling unit** or by **your** interest in the **common interest development**, that mortgagee either (1) required **you** to purchase **earthquake** insurance that covers the **dwelling unit** or **your** interest in the **common interest development**, or (2) required that the mortgagee be named as a loss payee under any coverage on the **dwelling unit** or on **your** interest in the **common interest development**, then any loss payable under "COVERAGE A: DWELLING" or "COVERAGE E: LOSS ASSESSMENT" will be paid to the mortgagee, to the extent of its interest, and to **you**. If more than one mortgagee is so named and otherwise qualifies, the order of payment will be the same as the order of preference of the mortgages.

    c. If **we** deny **your** claim, that denial will not apply to a valid claim of the mortgagee, if the mortgagee does all of the following:

        (i) Notifies the **participating insurer** of any change in ownership of any insured property or change in occupancy of the **dwelling unit**, or of any substantial change in risk of which the mortgagee is aware;
        (ii) Pays any premium due under this policy on demand if **you** have neglected to pay the premium; and
        (iii) Submits a signed, sworn statement of loss within 60 days after it receives notice from **us** of **your** failure to do so.

    d. If **we** decide to cancel or not to renew this policy, **we** will take reasonable steps to notify any mortgagee named as a loss payee under this policy at least 10 days before the date cancellation or nonrenewal takes effect.

    e. If **we** pay the mortgagee for any loss and deny payment to **you**:

        (i) **We** are subrogated to all the rights of the mortgagee granted under the mortgage on the property, which will not impair the right of the mortgagee to recover the full amount of the mortgagee's claim, or

        (ii) At **our** option, **we** may pay to the mortgagee the whole principal on the mortgage plus any accrued interest, in which event, **we** will receive a full assignment and transfer of the mortgage and all security held as collateral for the mortgage debt.

    f. Policy conditions relating to loss settlement and payment, including, but not limited to, the Appraisal, Legal Action, Loss Adjustment, and Loss Payment conditions, apply to the mortgagee.

15. No Benefit to Bailee. **We** will not recognize any assignment or grant any coverage that benefits a **person** that holds, stores, or moves property for a fee, regardless of any other provision of this policy, unless that **person** is named as an **insured** under this policy.

16. Payment. If **you** pay the initial premium for **your** first policy period by check, draft, or any remittance other than cash, **we** will credit **you** with that payment only if the check, draft, or remittance is honored on presentation. If **your** check, draft, or remittance is not honored on presentation, this policy is void from its inception. "Void from its inception" means that **we** will not be liable under this policy for any claims or damages that would otherwise have been covered had the check, draft, or remittance been honored on presentation and had the policy remained in effect.

17. Automatic Termination**.** If, before the end of the then current policy period of this policy, **we** or the **participating insurer** provide **you** with a renewal notice for **your** policy, that notice will be deemed **our** offer to renew **your** policy for an additional policy period. If **we** do not receive **your** required premium payment on or before the end of the then current policy period, **your** policy will terminate automatically at the expiration of the then current policy period. This means that **you** will have elected not to accept **our** offer to renew the policy, and no notice will be sent to **you**. **Your** failure to accept **our** offer to renew the policy is not a cancellation or non-renewal by **us**.

18. Cancellation.

    a. When the **companion policy** is canceled for any reason, this policy is canceled effective on the same date the **companion policy** cancellation takes effect, and any unearned premiums will be returned to **you** on a pro rata basis. This policy will not provide coverage if there is no **companion policy** in effect at the time of loss.

    b. **You** may cancel this policy at any time by returning it to the **participating insurer** and by notifying the **participating insurer** in writing of the date cancellation is to take effect. **You** may return the policy and submit the cancellation date to the agent of the **participating insurer**.

    c. **We** may cancel this policy for the reasons stated in this condition or for any other grounds permitted by law, by notifying **you** in writing of the date cancellation takes or took effect. The cancellation notice may be delivered to **you**, or mailed to **you** at **your** mailing address shown in the **DECLARATIONS**. Proof of mailing will be sufficient proof of notice.

        (i) When **you** have not paid the premium when due and payable, **we** may cancel at any time by notifying **you** at least 10 days before the cancellation takes effect.

        (ii) When this policy has been in effect for less than 60 days and is not a renewal with **us**, **we** may cancel the policy if the property does not meet the eligibility standards of the **CEA** by notifying **you** at least 20 days before the date cancellation takes effect.

        (iii) When this policy has been in effect 60 or more days, or is a renewal with us, **we** may cancel at any time by notifying **you** at least 30 days before the date cancellation takes effect, based on the occurrence of one or more of the following:

            (A) **Your** conviction of a crime having as one of its necessary elements an act increasing any hazard insured against; or
            (B) **Our** discovery of fraud or material misrepresentation by either the **insured** or the **insured's** representative in obtaining the insurance, or by **you** or **your** representative in pursuing a claim under the policy; or
            (C) **Our** discovery of grossly negligent acts or omissions by the **insured** or his or her representative that have substantially increased any of the hazards insured against; or
            (D) Physical changes to the property that result in the property failing to meet the eligibility standards of the **CEA**; however, **we** may not cancel this policy because of physical changes that occur solely as a result of an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period; or

(E) **Your** failure to pay an **earthquake** policy surcharge imposed and authorized by the **California Earthquake Authority**, in accordance with California Insurance Code section 10089.29, subdivision (d).

d. When this policy is cancelled, any premium paid for the period from the effective date of the cancellation to the expiration date will be refunded. When the policy is cancelled, the return premium will be pro rata.

e. If, when **we** cancel this policy, the return premium is not refunded with the notice of cancellation, **we** will refund it within 25 business days after the date cancellation takes effect. If, when **you** cancel this policy, the return premium is not refunded when **you** return the policy to **us**, **we** will refund it within 25 business days after **we** receive **your** notice of cancellation.

19. Conditional Reinstatement. If **we** mail a cancellation notice because **you** did not pay required premium when due and **you** then tender payment of the premium by check, draft, or other remittance that is not honored on presentation, **your** policy will terminate on the date and time shown on the cancellation notice and any notice **we** issue that states that it waives the cancellation or reinstates the coverage is void. This means **we** will not be liable under this policy for claims or damages after the date and time stated on the cancellation notice.

20. Non-Renewal. **We** may elect not to renew this policy by delivering to **you** or mailing to **you** at **your** mailing address shown in the **DECLARATIONS**, written notice of non-renewal at least 75 days before the expiration date of this policy. Proof of mailing will be sufficient proof of notice.

21. Waiver or Change of Policy Provisions. No waiver or change of a policy provision is valid unless it is in writing and signed by **us**. **Our** request for an appraisal or examination does not waive any of **our** rights.

22. Assignment. **Your** assignment of this policy will not be valid unless **we** give written consent.

23. Death. If **you** die during the policy term, each of the following persons will be deemed an **insured** with respect to the property insured under this policy:

    a. The legal representatives or person who by law succeeds to the ownership of the insured property, but only with respect to the property of the deceased covered under this policy at the time of death until the termination date of this policy; and

    b. With respect to the property covered under this policy at the time of death, the **person** that has proper temporary custody of the property until appointment and qualification of a legal representative.

24. Recovered Property. If **you** or **we** recover any property for which **we** have made payment under this policy, **you** or **we** will notify the other of the recovery. At **your** option, the property will be returned to or retained by **you** or it will become **our** property. If the recovered property is returned to or retained by **you**, the loss payment will be adjusted based on the amount of the payment **we** made for the recovered property.

25. Abandonment of Property. **We** need not accept any property abandoned by an **insured**.

26. Surcharge Clause. In the event of an **earthquake** or series of **earthquakes**, **we** can impose a surcharge, as permitted by law, up to 20% of **your** annual policy premium within any one year, in accordance with California Insurance Code section 10089.29, subdivision (b), paragraph (1).

27. Pro-rata or Installment Claims Payments. In accordance with California Insurance Code Section 10089.35, if, at any time, the available capital of the **California Earthquake Authority** is insufficient to meet anticipated losses and there are no additional funds from assessments, reinsurance, or private capital markets available to pay claims, the **California Earthquake Authority** may pay claims on a pro-rata basis from the remaining funds available, or claims may be paid on an installment basis, based on a plan approved by the California Insurance Commissioner. If this occurs, **you** may not be paid the full amount of **your** claim. If **we** submit a pro rata or installment plan to the Insurance Commissioner, deadlines in this policy that apply to **our** payment of **your** claim may, at **our** sole option, be extended by the length of time the Insurance Commissioner has the plan under consideration; the deadlines will be reinstated and recomputed no later than the date an approved plan is in place. Also, with respect to **California Earthquake Authority** claims payments, California Insurance Code

section 10089.25, subdivision (d), reads as follows: "The State of California shall have no liability for payment of claims in excess of funds available pursuant to this chapter. The State of California, and any of the funds of the State of California, shall have no obligations whatsoever for payment of claims or costs arising from this act, except as specifically provided in this act."

28. Changes to Policy Terms in the Event of an **Earthquake**. If an **earthquake** occurs during the policy period, and the **dwelling unit** identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the rights, at **our** option, to do either or both of the following:

    a. To refuse any request **you** make from the time of that **earthquake** until thirty days after the **earthquake** to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy; and

    b. To inspect the insured property prior to granting any request **you** make from the time of that **earthquake** until the expiration of the term of this policy to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy, and to deny **your** request to alter the terms of this policy if **our** inspection reveals the existence of any **earthquake**-related damage to the insured property.

29. Renewal of Policy in the Event of an **Earthquake**. In the event an **earthquake** occurs during the policy period and the **dwelling unit** identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the following rights with respect to the renewal of this policy:

    a. If the expiration date of this policy is between the date of the **earthquake** and 30 days after the **earthquake**, **we** have the right, at **our** option, to refuse to renew this policy on terms different from those contained in this policy. This means that **we** have the right to refuse any request **you** make from the time of the **earthquake** until thirty days thereafter to change the limits of any of the coverages of this policy on renewal, purchase additional coverages from **us** on renewal, or lower the deductible of this policy on renewal.

    b. **We** have the right, at **our** option, to inspect the insured property prior to granting any request **you** make to renew this policy on terms different from those contained in this policy, including any request that **you** make on renewal to change the limits of any of the coverages of this policy, purchase additional coverages from **us**, or lower the deductible of this policy. **We** have the right to deny **your** request to alter the terms of this policy on renewal if **our** inspection reveals the existence of any **earthquake**-related damage to the insured property.

30. Liberalization Clause. If **we** make a change that broadens coverage under this edition of **our** policy without additional premium charge to **you**, that change will automatically apply to **your** insurance as of the date **we** implement the change.

    This Liberalization Clause does not apply to changes implemented through **our** introduction of a subsequent edition of **our** policy.

CALIFORNIA EARTHQUAKE AUTHORITY
BASIC EARTHQUAKE POLICY—RENTERS

PLEASE READ YOUR POLICY

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IMPORTANT NOTICES

Many of the terms of this policy are substantially different from the terms of **your companion policy** and most other policies covering a **rental unit**. The following items, among others, are particularly unique to this policy. However, these are not the only terms that are different from the terms of **your companion policy** and other policies—there are many others. Therefore, **we** urge **you** to read the entire policy. The terms that appear in bold type appear frequently in this policy and are defined below under DEFINITIONS.

1. Deductible. No payment will be made for any loss to personal property until the amount of loss to property that is covered under "COVERAGE C: PERSONAL PROPERTY" exceeds the deductible shown on the **DECLARATIONS**. The deductible amount shown on the **DECLARATIONS** will not reduce the dollar amount of the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" stated on the **DECLARATIONS**; in other words, the amount **we** will pay will be the full amount by which **your** covered loss exceeds the deductible, up to the applicable **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" stated on the **DECLARATIONS**. "COVERAGE D: LOSS OF USE" is not subject to any deductible. Please read the deductible provision on page _____.

2. **Companion Policy** Requirement. This policy and California law require that, during the entire policy period of this **CEA** policy, **you** must keep a **companion policy** in force. That **companion policy** must provide fire insurance for the property that is the subject of this **California Earthquake Authority** policy. That **companion policy** must be issued by the same **participating insurer** that issued this **earthquake** policy—if no **companion policy** is in effect at the time of loss, this **CEA** policy is void and no payment will be made under this **CEA** policy.

3. Pro-rata or Installment Claims Payments**.** In accordance with California Insurance Code section 10089.35, if at any time the **California Earthquake Authority** Governing Board determines that the **CEA's** available capital may be exhausted and that no additional funds (from specified sources) will be available to the **CEA** to pay policyholder claims, the **CEA** may pay claims on a pro-rata basis or in installment payments, based on a plan presented to the California Insurance Commissioner. If this occurs, **you** might not be paid the full amount of **your** claim or **your** claim might be paid in installments, or both. Under no circumstances will the State of California be responsible for the payment of **your** claim. Please read the Pro-rata or Installment Claims Payments Clause on page ___.

4. Premium Surcharge if CEA Claim-Paying Capacity Is Exhausted**.** If an **earthquake,** or a series of **earthquakes,** exhausts the **California Earthquake Authority's** claim-paying capacity (as provided from specified sources), California Insurance Code section 10089.29, subdivision (b), paragraph (1), gives **us** the power to impose an annual surcharge of up to 20% of **your** annual policy premium. Please read the Surcharge Clause on page ____.

THE LANGUAGE OF THIS POLICY HAS BEEN
APPROVED BY THE CALIFORNIA INSURANCE COMMISSIONER

BASIC EARTHQUAKE POLICY—RENTERS

Please note that terms that appear frequently in this policy are defined below under DEFINITIONS and appear in bold type.

AGREEMENT

This policy is issued by the **California Earthquake Authority (CEA)**, a public instrumentality of the State of California established and authorized by law to transact insurance in California as necessary to sell policies of basic residential earthquake insurance.

1. Covered Losses. This policy insures for 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 to personal property described under "COVERAGE C: PERSONAL PROPERTY," subject to all of the terms, **limits of insurance**, and conditions of this policy. In addition, as provided in COVERAGE D, **we** insure for Loss of Use of the **rental unit** resulting from 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, subject to all of the terms, **limits of insurance**, and conditions of the policy.

2. Deductible. Except as otherwise explicitly stated in this policy, **we** will pay only when a covered loss to property covered under COVERAGE C: PERSONAL PROPERTY exceeds the deductible amount shown on the **DECLARATIONS** page. When a covered loss to property covered under COVERAGE C: PERSONAL PROPERTY exceeds the deductible amount shown on the **DECLARATIONS** page, **we** will pay, up to the **limit of insurance** for COVERAGE C: PERSONAL PROPERTY stated on the **DECLARATIONS** page, the amount by which the covered loss exceeds the deductible amount. The deductible will be applied one time for each **seismic event**. **We** will pay no amount for any loss under COVERAGE C: PERSONAL PROPERTY until the amount of the loss exceeds the amount of the deductible for COVERAGE C: PERSONAL PROPERTY shown on the **DECLARATIONS** page. For further information and what will be applied to meet each deductible, see "Deductible—Coverage C" on page _____.

3. Premium Payment. **We** will provide the insurance described in this policy in return for **your** payment of the premium and **your** compliance with all applicable provisions of this policy.

4. Policy Period. The policy period as shown on the **DECLARATIONS** page will begin and end at 12:01 a.m. Pacific Standard Time or Pacific Daylight Savings Time, whichever is in effect on the inception or termination date.

5. **Companion Policy. You** agree to keep in effect a **companion policy** written by the **participating insurer** that services this policy. If at the time of loss no **companion policy** is in effect, this **earthquake** policy is void and no payment will be made under this **earthquake** policy.

6. Policy Services. Policy services and claims adjusting will be provided by the **participating insurer**. All inquiries and correspondence regarding this policy should be directed to the **participating insurer**.

DEFINITIONS

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

1. **"Actual cash value"** means **replacement cost** less depreciation.

2. **"Business property"** means property pertaining to or intended for use in any (a) full-time or part-time trade, profession, or occupation, or (b) other activity intended for economic gain.

3. **"California Earthquake Authority"** or **"CEA"** means the entity that issued this policy. The **CEA** is an instrumentality of the State of California created and authorized by law to transact insurance in California as necessary to sell policies of basic residential **earthquake** insurance. The authorization appears in the California Insurance Code, beginning at section 10089.5.

4. "**Collectible**" or "**collectibles**" means an item or group of items of personal property, regardless of whether an individual item or part of a collection, the monetary worth of which is not primarily based on its utility or function, but rather, is primarily based on its value to a collector, including property that is kept for investment, has a real or perceived past or expected future increase in value because it would be desirable to collectors as part of a collection, or that has a monetary worth significantly greater than its intrinsic value because of its rarity or its demand among collectors.

5. **"Companion policy"** means the tenant's or renter's insurance policy that provides fire insurance coverage for the personal property contained within the **rental unit**, and that is issued by the same **participating insurer** that services this **CEA** policy.

6. "**DECLARATIONS**" or "**DECLARATIONS** page" means the single-page document that accompanies, and forms a part of, this **CEA** policy, and which lists certain basic information specific to this policy, including, but not limited to, the policy number, policy period, name and mailing address of the named insured, **rental unit** address, and the **limits of insurance**, deductible, and premium applicable to this policy. The following title appears at the top of the **DECLARATIONS** page:

   CALIFORNIA EARTHQUAKE AUTHORITY
   BASIC EARTHQUAKE POLICY—RENTERS
   DECLARATIONS

7. **"Domestic partner"** means a party to a two-person domestic relationship registered by the California Secretary of State through the filing of a Declaration of Domestic Partnership, pursuant to California Family Code section 298.5.

8. **"Earthquake"** means a vibration-generating rupture event caused by displacement within the earth's crust through release of strain associated with **tectonic processes** and includes effects such as ground shaking, liquefaction, and damaging amplification of ground motion. While land sliding, including seismically-induced land sliding, is not itself an **earthquake**, **we** cover, subject to "LOSSES EXCLUDED" item 5 and subject to all other terms and conditions of this policy, loss to covered property arising out of a seismically-induced landslide if that landslide 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. **Earthquake** does not mean or include tsunami or volcanic eruption.

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

10. **"Insured"** means **you** and the following **persons** if they are permanent residents of **your** household:

    a. **your** relatives, whether related by blood, marriage or adoption; and
    b. anyone under the age of 21 who is in the care or custody of **you** or of any of **your** relatives who are permanent residents of **your** household.

11. **"Limit of insurance"** means the most **we** will pay for covered loss arising from any **seismic event**.

12. **"Nuclear hazard"** means any nuclear reaction, radiation, or radioactive contamination, or any consequence of any of these.

13. **"Participating insurer"** means the insurance company that issued the **companion policy**, meets the legal requirements to offer residential earthquake coverage by participating in the **CEA**, and provides claims and policyholder services for this policy on behalf of the **CEA**.

14. **"Person"** means any human, association, organization, governmental entity, partnership, business trust, limited liability company, or corporation.

15. **"Rental unit"** means the rented apartment, house, mobile home, or other rented residential space where **you** reside, located at the address shown in the **DECLARATIONS**.

16. **"Replacement cost"** means the cost, without deduction for depreciation, of (i) new property identical to the damaged property or, (ii) if identical property is not obtainable, of new property of like quality and of comparable usefulness as the damaged property.

17. **"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**.

18. **"Sublimit"** means a dollar limit on a coverage for a specific type of property within a category of property that is subject to a higher total **limit of insurance**. Payment under a **sublimit** will reduce the amount available under the total **limit of insurance**.

19. **"Tectonic processes"** means natural adjustments of the earth's crust that are wholly in response to regional stress conditions caused by natural dynamic forces within the earth's interior, and not initiated, in whole or in any part, by any human activity.

COVERAGES

COVERAGE C: PERSONAL PROPERTY

Property Covered—Coverage C

Subject to the deductible and **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" and subject to all terms and conditions of this policy, **we** cover (1) personal property owned or used by an **insured** and located at the **rental unit**, and (2) at **your** request and subject to the **sublimit** of $2,500, personal property owned by others while that property is located at the **rental unit**.

Special Limits of Insurance—Coverage C

The **limits of insurance** shown below are **sublimits** of the policy's **limit of insurance** provided for "COVERAGE C: PERSONAL PROPERTY" and do not increase the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" shown in the **DECLARATIONS**. The **sublimit** for each numbered category, immediately below, is the total **limit of insurance** for all loss in that category. For property that falls into more than one category, the lowest applicable **sublimit** will apply. If any item of property falls both into one of the following **sublimits** and one of the categories of property listed under "Property Not Covered—Coverage C," then **we** do not cover that item of property.

1. $250 in the aggregate on all money, bank notes, coins and medals, including any of these that are part of a collection.

2. $250 in the aggregate on all securities, checks, cashier's checks, traveler's checks, money orders, and other negotiable instruments; accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, passports, and tickets.

3. $3,000 in the aggregate on all computers and other electronic data processing equipment, including storage media and software used with that equipment, whether or not it is **business property**. Storage media or software that cannot be replaced with other property of like kind and quality on the current consumer retail market is not covered.

4. $1,000 in the aggregate on all **business property** other than computers and other electronic data processing equipment, storage media, and software.

5. $3,000 in the aggregate on all jewelry, watches, furs, precious and semi-precious stones, but not more than $1,000 for any one article.

6. $3,000 in the aggregate on all **collectibles**, including but not limited to sports cards; **collectible** dolls, model trains, or toys; **collectible** postage stamps; **collectible** autographed items; memorabilia; and commemorative or otherwise **collectible** plates, spoons, or cups; regardless of whether any such item is a single item or part of a collection.

7. $3,000 in the aggregate on all beverages contained in bottles or in other glass, ceramic, or pottery containers, including but not limited to wine, port, liquor, beer, and all other alcoholic or non-alcoholic beverages.

Other Coverages—Coverage C

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

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

   a. 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.

   b. **Your** taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve **you** of **your** responsibilities outlined in "**Your** Duties After Loss" (CONDITIONS, Item 3).

2. Debris Removal. **We** will pay the reasonable expense **you** incur in removing from the **rental unit** the debris of property covered under "COVERAGE C: PERSONAL PROPERTY," including but not limited to the reasonable expense **you** incur for the transportation of such debris to landfills or disposal facilities and disposal of the debris at those facilities, or the transportation of such debris to suitable recycling facilities rather than landfills and disposal of the debris at those facilities. The **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" will be reduced by any amount **we** pay under this coverage, but in the event that **your** covered losses under "COVERAGE C: PERSONAL PROPERTY" exceed the combined **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" shown on the **DECLARATIONS** page of this policy, **we** will provide, as additional insurance, up to the lesser of (i) 5% of the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" or (ii) $1,000.

Property Not Covered—Coverage C

We do not cover:

1. Pets, birds, fish, livestock, or other animals.

2. Motor vehicles, riding lawn mowers, or any motorized land conveyance, including their parts or accessories while in or on the motor vehicle, lawn mower, or conveyance. This exclusion does not apply to motorized land conveyances not licensed for use on public roads that are designed to assist and are used by the handicapped, or to the parts and accessories of those conveyances.

3. Any electronic equipment that is designed for operation by the electrical system of a motor vehicle, motorized land conveyance, or a camp or home trailer while any of this equipment is in, on, or installed in a motor vehicle, motorized land conveyance, or a camp or home trailer, including but not limited to: computers, citizens band and other two-way mobile radios, satellite and cellular telephones, radio receivers, transceivers, and transmitters, scanners and scanning monitor receivers, radar detectors, tape or disc players and recorders, MP3 players, televisions, video players, recorders, and monitors, global positioning satellite (GPS) devices, personal digital assistants and other handheld devices, and any accessories, antennas, speakers, tapes, discs, cartridges, media, carrying cases, charging devices, batteries, or other devices and accessories used with that equipment.

4. Aircraft, including their parts and equipment.

5. Property that is not owned or used by an **insured,** including but not limited to the property of roomers, boarders and other tenants, except (a) the property owned by others that **we** cover at **your** request under Item 2 of "Property Covered—Coverage C," subject to the applicable **sublimit** of $2,500, and (b) the property of roomers and boarders related to any **insured**.

6. Valuable papers, records or data, including:

   a. books of account, drawings, card index systems and other records; and

   b. data stored on electronic data storage devices, including processing tapes, wires, records, discs, computer drives, portable storage devices or media, or other magnetic or optical media.

   We do, however, cover the cost of blank recording or storage media and of prerecorded computer programs that are available on the retail market, subject to the **sublimit** set forth in "Special Limits of Insurance—Coverage C," Item 3.

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

8. Breakable items, consisting of the following:

   a. Glassware, crystal, china, ceramic, pottery, and porcelain items created as table settings, serving ware, or otherwise intended for use in serving or consuming food or beverage, whether currently being used for that purpose or not; and,

   b. Figurines, vessels, vases, and other ornamental items made of crystal, china, pottery, ceramics, porcelain, glass, or marble.

9. Watercraft, including their furnishings, equipment, and inboard, outboard, or inboard-outboard motors.

10. Trailers.

11. Trees, shrubs, or plants, or their containers.

12. Swimming pools, spas, and hot tubs, including all of their components.

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

Deductible—Coverage C

We will pay no amount for any loss under "COVERAGE C: PERSONAL PROPERTY" until the amount of the loss exceeds the amount of the deductible for "COVERAGE C: PERSONAL PROPERTY" shown on the **DECLARATIONS** page. The deductible will be applied one time for each **seismic event**. Only losses that are covered under "COVERAGE C: PERSONAL PROPERTY," as limited by the application of any **sublimits** that apply to those losses, can be applied to meet this deductible requirement.

COVERAGE D: LOSS OF USE

Subject to the total **limit of insurance** set forth in the **DECLARATIONS** page for "COVERAGE D: LOSS OF USE," and subject to all the terms and conditions of this policy, **we** cover the following, not subject to any deductible.

1. Additional Living Expense. 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**.

2. Loss of Rent. If the part of the **rental unit** that **you** rent to others or that **you** actually hold for rental becomes unfit to live in 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, **we** cover the fair rental value of that part of the **rental unit** that is rented to others or that **you** actually held for rental prior to the loss, less any expenses that do not continue while the portion of the **rental unit** rented or held for rental is unfit to live in. Fair rental value means the average rental amount immediately before the **earthquake** in **your** rental market for a **rental unit** similar to the one covered under this coverage.

   We will pay for the shortest time reasonably needed to repair or replace the parts of the **rental unit** rented or held for rental that are unfit to live in. **Your** loss of rents due to cancellation of a lease or rental agreement is not covered.

3. If a civil authority prohibits **you** from occupying **your rental unit** because of direct damage to neighboring premises caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** cover the resulting Additional Living Expense or Loss of Rent, subject to the "COVERAGE D: LOSS OF USE" **limits of insurance**.

LOSSES EXCLUDED

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:

1. Fire or explosion.

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

   a. flood, precipitation (including rain snow, hail, or sleet), or surface water; waves, tsunami, or tidal water; rupture of a dam, levee, berm, or sea wall; overflow of a natural or man-made body of water; or spray from any of these; or

   b. water below the surface of the ground, whether natural or not, including water that exerts pressure on or seeps or leaks through a building, sidewalk, driveway, foundation, or other structure.

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

   (i) The release of water from water heaters, refrigerators, or water supply pipes within the **rental unit**;

   (ii) The displacement of water from an aquarium, drinking water container or dispenser, 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 **rental unit** location or the release of water or sewage from sewers or drains on or off the **rental unit** location.

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

3. Controlled or uncontrolled **nuclear hazard** or any act or condition incident to any **nuclear hazard**.

4. Pollution, including all loss, damage, costs, and expenses that arise out of or are caused by pollution or pollutants, and any cost or expense to test for, monitor, clean up, remove, contain, treat, detoxify, or neutralize pollutants. The terms "pollutants" and "pollution" mean any solid, liquid, gaseous, or thermal irritant or contaminant, including, but not limited to, smoke, vapor, soot, fumes, acids, alkalis, chemicals, asbestos, and waste. The term "waste" includes but is not limited to material to be recycled, reconditioned, or reclaimed.

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; <u>and</u>

   b. causes loss that manifests within one year after the **earthquake** that caused the loss.

6. **Fungi**, including but not limited to the cost to repair or replace property damaged by **fungi** or to test for, monitor, abate, mitigate, remove, dispose of or remediate **fungi**.

7. Theft, vandalism or other human conduct causing loss following an **earthquake**.

8. Power failure, meaning the failure of delivery of electrical power to the **rental unit**.

9. **Your** neglect to take all reasonable action to save and preserve covered property at the time of and after a covered loss.

10. Declared or undeclared war, acts of terrorism, insurrection, rebellion, revolution, warlike act by a military force or military personnel or any person, destruction or seizure or use for a military purpose, and any consequence of any of these. Discharge of a nuclear weapon will be deemed a warlike act even if accidental.

11. Intentional acts, meaning any loss arising out of any act committed:

    a. by **you** or at **your** direction, or at the direction of any **insured** or of any **person** named as an additional **insured**; and

    b. with the intent to cause, aggravate or increase a loss.

YOUR RIGHTS CONCERNING CLAIMS INVESTIGATION

The law provides certain rights and protections to policyholders who are involved in the presentation of a claim. Included among these are the following:

1. Specific rights to privacy under California and Federal law which may protect **you** during the claims process;

2. The right to have **your** claim handled in accordance with the California Insurance Code and Subchapter 7.5 of Chapter 5 of Title 10 of the California Code of Regulations, which impose fair claims handling procedures and requirements on insurers; and

3. The right to be represented by an attorney at **your** expense.

CONDITIONS

1. Insurable Interest and **Limit of Insurance**. Even if more than one **person** has an insurable interest in the property covered, **we** will not be liable:

    a. to **you** for an amount greater than **your** interest; nor

    b. for more than the applicable **limit of insurance**.

2. Concealment or Fraud. The entire policy will be void if, before or after a loss, any **insured** does any of the following:

    a. Intentionally conceals or misrepresents any material fact or circumstance;

    b. Engages in fraudulent conduct relating to this insurance; or

    c. Intentionally makes false statements relating to this insurance.

3. **Your** Duties After Loss. If a loss occurs to covered property, **you** must perform the following duties:

    a. Give written notice to the **participating insurer** without delay.

    b. Protect covered property from further damage. Make any emergency repairs that are necessary and reasonable to protect covered property from further damage. Keep records of all costs **you** incur to repair or replace covered property or to protect covered property from further damage.

c. Make and keep a list of all damaged or destroyed property, showing in detail the quantity, description, and amount of covered loss. Keep all bills, receipts, and related records that support **your** figures.

d. As often as reasonably required:

(i) Exhibit damaged property to the **participating insurer**;

(ii) Provide the **participating insurer** with the records and documents that are necessary to support **your** claim under the policy and which the **participating insurer** may request, including bills, receipts, canceled checks, and related records that support **your** figures, and permit the **participating insurer** to make copies; and

(iii) While not in the presence of any other **insured**, submit to examination under oath and sign a transcript of the examination.

e. Send the **participating insurer**, within 60 days of **our** or the **participating insurer's** request, **your** signed, sworn proof of loss that sets forth, to the best of **your** knowledge and belief the following:

(i) The time, date, and cause of loss;

(ii) Y**our** interest and the interest of all others in the property that sustained a loss, and evidence of all liens or encumbrances on the property;

(iii) A detailed description of all legal claims against the property that sustained a loss;

(iv) Evidence of other insurance that may cover the loss;

(v) The list of damaged or destroyed personal property covered under this policy;

(vi) Documents showing the extent of damage to the **rental unit** in support of any claim for additional living expense or fair rental value; and

(vii) All receipts and records that support any claim for additional living expense or fair rental value.

4. Loss Settlement. Covered property losses will be settled in accordance with the following:

a. **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.

b. **Our** liability for loss to any property insured under "COVERAGE C: PERSONAL PROPERTY" will not exceed the smallest of the following:

(i) The **replacement cost** at the time of loss;

(ii) 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)**.

c. In case of loss to a pair or set **we** can elect to do either of the following:

(i) Repair or replace any part to restore the pair or set to its value before the loss; or

(ii) Pay the difference between **replacement cost** of the pair or set before and after the loss.

5. Appraisal. If **you** and **we** fail to agree on the amount of loss, either of us may demand an appraisal of the loss. In this event, each party will choose a competent and disinterested appraiser within 20 days after receiving the written demand from the other. The two appraisers will choose a neutral and independent umpire. If they cannot agree on an umpire within 15 days, **you** or **we** may request that a judge of a California court of competent jurisdiction in the county where the **rental unit** is located appoint an umpire. The two appraisers will separately appraise the amount of loss under this policy. If the appraisers submit an agreed written report to **us**, the amount they agree on will be the amount of loss under this policy. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two of the three appraisers will set the amount of loss under this policy. Each party will (a) pay its own appraiser, and (b) bear the other expenses of the appraisal and of the umpire equally.

6. Other Insurance.

   a. If there is other insurance that covers earthquake loss to property covered under this policy, **we** will pay **our** share of the covered loss or damage. **Our** share is the proportion that the applicable **limit of insurance** under this policy bears to the combined **limits of insurance** of all policies that cover the same property.

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

7. Subrogation. **You** may waive in writing before a loss under this policy all **your** rights of recovery against any **person**. If **you** do not waive those rights, **we** may require an assignment of **your** rights of recovery for a loss to the extent that **we** make payment for that loss. If **we** seek an assignment, the **insured** must sign and deliver all related papers to **us** and cooperate with **us**.

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

9. **Our** Option to Repair or Replace Property. If **we** give **you** written notice within 30 days after **we** receive **your** proof of loss, **we** may repair or replace any part of the damaged property with like property

10. Loss Adjustment and Loss Payment. **We**, through the **participating insurer**, will adjust all losses with **you**. As to all claims **we** determine to be covered under this policy, **we** will pay **you** unless some other **person** is named in the policy or is legally entitled to receive payment. That portion of a claim that is not in dispute will be payable within 30 days after **we** receive **your** proof of loss. All other losses will be payable within 30 days after **we** receive **your** proof of loss and:

    a. **We** reach an agreement with **you**;

    b. There is an entry of a final judgment; or

    c. There is a filing of a final appraisal award with **us**.

11. No Benefit to Bailee. **We** will not recognize any assignment or grant any coverage that benefits a **person** that holds, stores, or moves property for a fee, regardless of any other provision of this policy, unless that **person** is named as an **insured** under this policy.

12. Payment. If **you** pay the initial premium for **your** first policy period by check, draft, or any remittance other than cash, **we** will credit **you** with that payment only if the check, draft, or remittance is honored on presentation. If **your** check, draft, or remittance is not honored on presentation, this policy is void from its inception. "Void from its inception" means that **we** will not be liable under this policy for any claims or damages that would otherwise have been covered had the check, draft, or remittance been honored on presentation and had the policy remained in effect.

13. Automatic Termination**.** If, before the end of the then current policy period of this policy, **we** or the **participating insurer** provide **you** with a renewal notice for **your** policy, that notice will be deemed **our** offer to renew **your** policy for an additional policy period. If **we** do not receive **your** required premium payment on or before the end of the then current policy period, **your** policy will terminate automatically at the expiration of the then current policy period. This means that **you** will have elected not to accept **our** offer to renew the policy, and no notice will be sent to **you**. **Your** failure to accept **our** offer to renew the policy is not a cancellation or non-renewal by **us**.

14. Cancellation.

    a. When the **companion policy** is canceled for any reason, this policy is canceled effective on the same date the **companion policy** cancellation takes effect, and any unearned premiums will be returned to **you** on a pro rata basis. This policy will not provide coverage if there is no **companion policy** in effect at the time of loss.

    b. **You** may cancel this policy at any time by returning it to the **participating insurer** or by notifying the **participating insurer** in writing of the date cancellation is to take effect. **You** may return the policy and submit the cancellation date to the agent of the **participating insurer**.

    c. **We** may cancel this policy for the reasons stated in this condition or for any other grounds permitted by law, by notifying **you** in writing of the date cancellation takes or took effect. The cancellation notice may be delivered to **you**, or mailed to **you** at **your** mailing address shown in the **DECLARATIONS**. Proof of mailing will be sufficient proof of notice.

        (i) When **you** have not paid the premium when due and payable, **we** may cancel at any time by notifying **you** at least 10 days before the cancellation takes effect.

        (ii) When this policy has been in effect for less than 60 days and is not a renewal with **us**, **we** may cancel the policy if the insured property does not meet the eligibility standards of the **CEA**, by notifying **you** at least 20 days before the date cancellation takes effect.

        (iii) When this policy has been in effect 60 or more days, or is a renewal with **us**, **we** may cancel at any time by notifying **you** at least 30 days before the date cancellation takes effect, based on the occurrence of one or more of the following:

            (A) **Your** conviction of a crime having as one of its necessary elements an act increasing any hazard insured against; or

            (B) **Our** discovery of fraud or material misrepresentation by either the **insured** or the **insured's** representative in obtaining the insurance, or by **you** or **your** representative in pursuing a claim under the policy; or

            (C) **Our** discovery of grossly negligent acts or omissions by the **insured** or his or her representative that have substantially increased any of the hazards insured against; or

(D) **Your** failure to pay an **earthquake** policy surcharge imposed and authorized by the **California Earthquake Authority**, in accordance with California Insurance Code section 10089.29, subdivision (d).

d. When this policy is cancelled, any premium paid for the period from the effective date of the cancellation to the expiration date will be refunded. When the policy is cancelled, the return premium will be pro rata.

e. If, when **we** cancel this policy, the return premium is not refunded with the notice of cancellation, **we** will refund it within 25 business days after the notice of cancellation is sent. If, when **you** cancel this policy, the return premium is not refunded when **you** return the policy to **us**, **we** will refund it within 25 business days after the date **we** receive **your** notice of cancellation.

15. Conditional Reinstatement. If **we** mail a cancellation notice because **you** did not pay required premium when due and **you** then tender payment of the premium by check, draft, or other remittance that is not honored on presentation, **your** policy will terminate on the date and time shown on the cancellation notice and any notice **we** issue that states that it waives the cancellation or reinstates the coverage is void. This means **we** will not be liable under this policy for claims or damages after the date and time stated on the cancellation notice.

16. Non-Renewal. **We** may elect not to renew this policy by delivering to **you** or mailing to **you** at **your** mailing address shown in the **DECLARATIONS**, written notice of non-renewal at least ~~45~~ 75 days before the expiration date of this policy. Proof of mailing will be sufficient proof of notice.

17. Waiver or Change of Policy Provisions. No waiver or change of a policy provision is valid unless it is in writing and signed by **us**. **Our** request for an appraisal or examination does not waive any of **our** rights.

18. Assignment. **Your** assignment of this policy will not be valid unless **we** give written consent.

19. Death. If **you** die during the policy term, each of the following persons will be deemed an **insured** with respect to the property insured under this policy:

    a. The legal representatives or person who by law succeeds to the ownership of the insured property, but only with respect to the property of the deceased covered under this policy at the time of death until the termination date of this policy; and

    b. With respect to the property covered under this policy at the time of death, the **person** that has proper temporary custody of the property until appointment and qualification of a legal representative.

20. Recovered Property. If **you** or **we** recover any property for which **we** have made payment under this policy, **you** or **we** will notify the other of the recovery. At **your** option, the property will be returned to or retained by **you** or it will become **our** property. If the recovered property is returned to or retained by **you**, the loss payment will be adjusted based on the amount of the payment **we** made for the recovered property.

21. Abandonment of Property. **We** need not accept any property abandoned by an **insured**.

22. Surcharge Clause. In the event of an **earthquake** or series of **earthquakes**, **we** can impose a surcharge, as permitted by law, up to 20% of **your** annual policy premium within any one year, in accordance with California Insurance Code section 10089.29, subdivision (b), paragraph (1).

23. Pro-rata or Installment Claims Payments. In accordance with California Insurance Code Section 10089.35, if, at any time, the available capital of the **California Earthquake Authority** is insufficient to meet anticipated losses and there are no additional funds from assessments, reinsurance, or private capital markets available to pay claims, the **California Earthquake Authority** may pay claims on a pro-rata basis from the remaining funds available, or claims may be paid on an installment basis, based on a plan approved by the California Insurance Commissioner. If this occurs, **you** may not be paid the full amount of **your** claim. If **we** submit a pro rata or installment plan to the Insurance Commissioner, deadlines in this policy that apply to **our** payment of **your** claim may, at **our** sole option, be extended by the length of time the Insurance Commissioner has the plan

under consideration; the deadlines will be reinstated and recomputed no later than the date an approved plan is in place. Also, with respect to **California Earthquake Authority** claims payments, California Insurance Code section 10089.25, subdivision (d), reads as follows: "The State of California shall have no liability for payment of claims in excess of funds available pursuant to this chapter. The State of California, and any of the funds of the State of California, shall have no obligations whatsoever for payment of claims or costs arising from this act, except as specifically provided in this act."

24. Changes to Policy Terms in the Event of an **Earthquake**. If an **earthquake** occurs during the policy period, and the **rental unit** identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the rights, at **our** option, to do either or both of the following:

    a. To refuse any request **you** make from the time of that **earthquake** until thirty days after the **earthquake** to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy or purchase additional coverages from **us**; and

    b. to inspect the **rental unit** and all insured property prior to granting any request **you** make from the time of that **earthquake** until the expiration of the term of this policy to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy or purchase additional coverages from **us**, and to deny **your** request to alter the terms of this policy if **our** inspection reveals the existence of any **earthquake**-related damage to the **rental unit** or to any insured property.

25. Renewal of Policy in the Event of an **Earthquake**. In the event an **earthquake** occurs during the policy period and the **rental unit** identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the following rights with respect to the renewal of this policy:

    a. If the expiration date of this policy is between the date of the **earthquake** and 30 days after the **earthquake**, **we** have the right, at **our** option, to refuse to renew this policy on terms different from those contained in this policy. This means that **we** have the right to refuse any request **you** make from the time of the **earthquake** until thirty days thereafter to change the limits of any of the coverages of this policy on renewal or purchase additional coverages from **us** on renewal.

    b. **We** have the right, at **our** option, to inspect the **rental unit** and all insured property prior to granting any request **you** make to renew this policy on terms different from those contained in this policy, including any request that **you** make on renewal to change the limits of any of the coverages of this policy or purchase additional coverages from **us**. **We** have the right to deny **your** request to alter the terms of this policy on renewal if **our** inspection reveals the existence of any **earthquake**-related damage to the **rental unit** or any insured property.

26. Liberalization Clause. If **we** make a change that broadens coverage under this edition of **our** policy without additional premium charge to **you**, that change will automatically apply to **your** insurance as of the date **we** implement the change, provided that this implementation date falls during or within 60 days before the policy period stated in the **DECLARATIONS**.

    This Liberalization Clause does not apply to changes implemented through **our** introduction of a subsequent edition of **our** policy.

CALIFORNIA EARTHQUAKE AUTHORITY
BASIC EARTHQUAKE POLICY—RENTERS

PLEASE READ YOUR POLICY

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IMPORTANT NOTICES

Many of the terms of this policy are substantially different from the terms of **your companion policy** and most other policies covering a **rental unit**. The following items, among others, are particularly unique to this policy. However, these are not the only terms that are different from the terms of **your companion policy** and other policies—there are many others. Therefore, **we** urge **you** to read the entire policy. The terms that appear in bold type appear frequently in this policy and are defined below under DEFINITIONS.

1. Deductible. No payment will be made for any loss to personal property until the amount of loss to property that is covered under "COVERAGE C: PERSONAL PROPERTY" exceeds the deductible shown on the **DECLARATIONS**. The deductible amount shown on the **DECLARATIONS** will not reduce the dollar amount of the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" stated on the **DECLARATIONS**; in other words, the amount **we** will pay will be the full amount by which **your** covered loss exceeds the deductible, up to the applicable **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" stated on the **DECLARATIONS**. "COVERAGE D: LOSS OF USE" is not subject to any deductible. Please read the deductible provision on page _____.

2. **Companion Policy** Requirement. This policy and California law require that, during the entire policy period of this **CEA** policy, **you** must keep a **companion policy** in force. That **companion policy** must provide fire insurance for the property that is the subject of this **California Earthquake Authority** policy. That **companion policy** must be issued by the same **participating insurer** that issued this **earthquake** policy—if no **companion policy** is in effect at the time of loss, this **CEA** policy is void and no payment will be made under this **CEA** policy.

3. Pro-rata or Installment Claims Payments**.** In accordance with California Insurance Code section 10089.35, if at any time the **California Earthquake Authority** Governing Board determines that the **CEA's** available capital may be exhausted and that no additional funds (from specified sources) will be available to the **CEA** to pay policyholder claims, the **CEA** may pay claims on a pro-rata basis or in installment payments, based on a plan presented to the California Insurance Commissioner. If this occurs, **you** might not be paid the full amount of **your** claim or **your** claim might be paid in installments, or both. Under no circumstances will the State of California be responsible for the payment of **your** claim. Please read the Pro-rata or Installment Claims Payments Clause on page ___.

4. Premium Surcharge if CEA Claim-Paying Capacity Is Exhausted**.** If an **earthquake,** or a series of **earthquakes,** exhausts the **California Earthquake Authority's** claim-paying capacity (as provided from specified sources), California Insurance Code section 10089.29, subdivision (b), paragraph (1), gives **us** the power to impose an annual surcharge of up to 20% of **your** annual policy premium. Please read the Surcharge Clause on page ____.

THE LANGUAGE OF THIS POLICY HAS BEEN
APPROVED BY THE CALIFORNIA INSURANCE COMMISSIONER

BASIC EARTHQUAKE POLICY—RENTERS

Please note that terms that appear frequently in this policy are defined below under DEFINITIONS and appear in bold type.

AGREEMENT

This policy is issued by the **California Earthquake Authority (CEA)**, a public instrumentality of the State of California established and authorized by law to transact insurance in California as necessary to sell policies of basic residential earthquake insurance.

1. Covered Losses. This policy insures for 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 to personal property described under "COVERAGE C: PERSONAL PROPERTY," subject to all of the terms, **limits of insurance**, and conditions of this policy. In addition, as provided in COVERAGE D, **we** insure for Loss of Use of the **rental unit** resulting from 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, subject to all of the terms, **limits of insurance**, and conditions of the policy.

2. Deductible. Except as otherwise explicitly stated in this policy, **we** will pay only when a covered loss to property covered under COVERAGE C: PERSONAL PROPERTY exceeds the deductible amount shown on the **DECLARATIONS** page. When a covered loss to property covered under COVERAGE C: PERSONAL PROPERTY exceeds the deductible amount shown on the **DECLARATIONS** page, **we** will pay, up to the **limit of insurance** for COVERAGE C: PERSONAL PROPERTY stated on the **DECLARATIONS** page, the amount by which the covered loss exceeds the deductible amount. The deductible will be applied one time for each **seismic event**. **We** will pay no amount for any loss under COVERAGE C: PERSONAL PROPERTY until the amount of the loss exceeds the amount of the deductible for COVERAGE C: PERSONAL PROPERTY shown on the **DECLARATIONS** page. For further information and what will be applied to meet each deductible, see "Deductible—Coverage C" on page _____.

3. Premium Payment. **We** will provide the insurance described in this policy in return for **your** payment of the premium and **your** compliance with all applicable provisions of this policy.

4. Policy Period. The policy period as shown on the **DECLARATIONS** page will begin and end at 12:01 a.m. Pacific Standard Time or Pacific Daylight Savings Time, whichever is in effect on the inception or termination date.

5. **Companion Policy. You** agree to keep in effect a **companion policy** written by the **participating insurer** that services this policy. If at the time of loss no **companion policy** is in effect, this **earthquake** policy is void and no payment will be made under this **earthquake** policy.

6. Policy Services. Policy services and claims adjusting will be provided by the **participating insurer**. All inquiries and correspondence regarding this policy should be directed to the **participating insurer**.

DEFINITIONS

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

1. **"Actual cash value"** means **replacement cost** less depreciation.

2. **"Business property"** means property pertaining to or intended for use in any (a) full-time or part-time trade, profession, or occupation, or (b) other activity intended for economic gain.

3. **"California Earthquake Authority"** or **"CEA"** means the entity that issued this policy. The **CEA** is an instrumentality of the State of California created and authorized by law to transact insurance in California as necessary to sell policies of basic residential **earthquake** insurance. The authorization appears in the California Insurance Code, beginning at section 10089.5.

4. "**Collectible**" or "**collectibles**" means an item or group of items of personal property, regardless of whether an individual item or part of a collection, the monetary worth of which is not primarily based on its utility or function, but rather, is primarily based on its value to a collector, including property that is kept for investment, has a real or perceived past or expected future increase in value because it would be desirable to collectors as part of a collection, or that has a monetary worth significantly greater than its intrinsic value because of its rarity or its demand among collectors.

5. **"Companion policy"** means the tenant's or renter's insurance policy that provides fire insurance coverage for the personal property contained within the **rental unit**, and that is issued by the same **participating insurer** that services this **CEA** policy.

6. "**DECLARATIONS**" or "**DECLARATIONS** page" means the single-page document that accompanies, and forms a part of, this **CEA** policy, and which lists certain basic information specific to this policy, including, but not limited to, the policy number, policy period, name and mailing address of the named insured, **rental unit** address, and the **limits of insurance**, deductible, and premium applicable to this policy. The following title appears at the top of the **DECLARATIONS** page:

   CALIFORNIA EARTHQUAKE AUTHORITY
   BASIC EARTHQUAKE POLICY—RENTERS
   DECLARATIONS

7. **"Domestic partner"** means a party to a two-person domestic relationship registered by the California Secretary of State through the filing of a Declaration of Domestic Partnership, pursuant to California Family Code section 298.5.

8. **"Earthquake"** means a vibration-generating rupture event caused by displacement within the earth's crust through release of strain associated with **tectonic processes** and includes effects such as ground shaking, liquefaction, and damaging amplification of ground motion. While land sliding, including seismically-induced land sliding, is not itself an **earthquake**, **we** cover, subject to "LOSSES EXCLUDED" item 5 and subject to all other terms and conditions of this policy, loss to covered property arising out of a seismically-induced landslide if that landslide 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. **Earthquake** does not mean or include tsunami or volcanic eruption.

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

10. **"Insured"** means **you** and the following **persons** if they are permanent residents of **your** household:

    a. **your** relatives, whether related by blood, marriage or adoption; <u>and</u>
    b. anyone under the age of 21 who is in the care or custody of **you** or of any of **your** relatives who are permanent residents of **your** household.

11. **"Limit of insurance"** means the most **we** will pay for covered loss arising from any **seismic event**.

12. **"Nuclear hazard"** means any nuclear reaction, radiation, or radioactive contamination, or any consequence of any of these.

13. **"Participating insurer"** means the insurance company that issued the **companion policy**, meets the legal requirements to offer residential earthquake coverage by participating in the **CEA**, and provides claims and policyholder services for this policy on behalf of the **CEA**.

14. **"Person"** means any human, association, organization, governmental entity, partnership, business trust, limited liability company, or corporation.

15. **"Rental unit"** means the rented apartment, house, mobile home, or other rented residential space where **you** reside, located at the address shown in the **DECLARATIONS**.

16. **"Replacement cost"** means the cost, without deduction for depreciation, of (i) new property identical to the damaged property or, (ii) if identical property is not obtainable, of new property of like quality and of comparable usefulness as the damaged property.

17. **"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**.

18. **"Sublimit"** means a dollar limit on a coverage for a specific type of property within a category of property that is subject to a higher total **limit of insurance**. Payment under a **sublimit** will reduce the amount available under the total **limit of insurance**.

19. **"Tectonic processes"** means natural adjustments of the earth's crust that are wholly in response to regional stress conditions caused by natural dynamic forces within the earth's interior, and not initiated, in whole or in any part, by any human activity.

COVERAGES

COVERAGE C: PERSONAL PROPERTY

Property Covered—Coverage C

Subject to the deductible and **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" and subject to all terms and conditions of this policy, **we** cover (1) personal property owned or used by an **insured** and located at the **rental unit**, and (2) at **your** request and subject to the **sublimit** of $2,500, personal property owned by others while that property is located at the **rental unit**.

Special Limits of Insurance—Coverage C

The **limits of insurance** shown below are **sublimits** of the policy's **limit of insurance** provided for "COVERAGE C: PERSONAL PROPERTY" and do not increase the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" shown in the **DECLARATIONS**. The **sublimit** for each numbered category, immediately below, is the total **limit of insurance** for all loss in that category. For property that falls into more than one category, the lowest applicable **sublimit** will apply. If any item of property falls both into one of the following **sublimits** and one of the categories of property listed under "Property Not Covered—Coverage C," then **we** do not cover that item of property.

1. $250 in the aggregate on all money, bank notes, coins and medals, including any of these that are part of a collection.

2. $250 in the aggregate on all securities, checks, cashier's checks, traveler's checks, money orders, and other negotiable instruments; accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, passports, and tickets.

3. $3,000 in the aggregate on all computers and other electronic data processing equipment, including storage media and software used with that equipment, whether or not it is **business property**. Storage media or software that cannot be replaced with other property of like kind and quality on the current consumer retail market is not covered.

4. $1,000 in the aggregate on all **business property** other than computers and other electronic data processing equipment, storage media, and software.

5. $3,000 in the aggregate on all jewelry, watches, furs, precious and semi-precious stones, but not more than $1,000 for any one article.

6. $3,000 in the aggregate on all **collectibles**, including but not limited to sports cards; **collectible** dolls, model trains, or toys; **collectible** postage stamps; **collectible** autographed items; memorabilia; and commemorative or otherwise **collectible** plates, spoons, or cups; regardless of whether any such item is a single item or part of a collection.

7. $3,000 in the aggregate on all beverages contained in bottles or in other glass, ceramic, or pottery containers, including but not limited to wine, port, liquor, beer, and all other alcoholic or non-alcoholic beverages.

Other Coverages—Coverage C

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

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

   a. 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.

   b. **Your** taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve **you** of **your** responsibilities outlined in "**Your** Duties After Loss" (CONDITIONS, Item 3).

2. Debris Removal. **We** will pay the reasonable expense **you** incur in removing from the **rental unit** the debris of property covered under "COVERAGE C: PERSONAL PROPERTY," including but not limited to the reasonable expense **you** incur for the transportation of such debris to landfills or disposal facilities and disposal of the debris at those facilities, or the transportation of such debris to suitable recycling facilities rather than landfills and disposal of the debris at those facilities. The **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" will be reduced by any amount **we** pay under this coverage, but in the event that **your** covered losses under "COVERAGE C: PERSONAL PROPERTY" exceed the combined **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" shown on the **DECLARATIONS** page of this policy, **we** will provide, as additional insurance, up to the lesser of (i) 5% of the **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" or (ii) $1,000.

Property Not Covered—Coverage C

We do not cover:

1. Pets, birds, fish, livestock, or other animals.

2. Motor vehicles, riding lawn mowers, or any motorized land conveyance, including their parts or accessories while in or on the motor vehicle, lawn mower, or conveyance. This exclusion does not apply to motorized land conveyances not licensed for use on public roads that are designed to assist and are used by the handicapped, or to the parts and accessories of those conveyances.

3. Any electronic equipment that is designed for operation by the electrical system of a motor vehicle, motorized land conveyance, or a camp or home trailer while any of this equipment is in, on, or installed in a motor vehicle, motorized land conveyance, or a camp or home trailer, including but not limited to: computers, citizens band and other two-way mobile radios, satellite and cellular telephones, radio receivers, transceivers, and transmitters, scanners and scanning monitor receivers, radar detectors, tape or disc players and recorders, MP3 players, televisions, video players, recorders, and monitors, global positioning satellite (GPS) devices, personal digital assistants and other handheld devices, and any accessories, antennas, speakers, tapes, discs, cartridges, media, carrying cases, charging devices, batteries, or other devices and accessories used with that equipment.

4. Aircraft, including their parts and equipment.

5. Property that is not owned or used by an **insured,** including but not limited to the property of roomers, boarders and other tenants, except (a) the property owned by others that **we** cover at **your** request under Item 2 of "Property Covered—Coverage C," subject to the applicable **sublimit** of $2,500, and (b) the property of roomers and boarders related to any **insured**.

6. Valuable papers, records or data, including:

   a. books of account, drawings, card index systems and other records; and

   b. data stored on electronic data storage devices, including processing tapes, wires, records, discs, computer drives, portable storage devices or media, or other magnetic or optical media.

   We do, however, cover the cost of blank recording or storage media and of prerecorded computer programs that are available on the retail market, subject to the **sublimit** set forth in "Special Limits of Insurance—Coverage C," Item 3.

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

8. Breakable items, consisting of the following:

   a. Glassware, crystal, china, ceramic, pottery, and porcelain items created as table settings, serving ware, or otherwise intended for use in serving or consuming food or beverage, whether currently being used for that purpose or not; and,

   b. Figurines, vessels, vases, and other ornamental items made of crystal, china, pottery, ceramics, porcelain, glass, or marble.

9. Watercraft, including their furnishings, equipment, and inboard, outboard, or inboard-outboard motors.

10. Trailers.

11. Trees, shrubs, or plants, or their containers.

12. Swimming pools, spas, and hot tubs, including all of their components.

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

Deductible—Coverage C

We will pay no amount for any loss under "COVERAGE C: PERSONAL PROPERTY" until the amount of the loss exceeds the amount of the deductible for "COVERAGE C: PERSONAL PROPERTY" shown on the **DECLARATIONS** page. The deductible will be applied one time for each **seismic event**. Only losses that are covered under "COVERAGE C: PERSONAL PROPERTY," as limited by the application of any **sublimits** that apply to those losses, can be applied to meet this deductible requirement.

COVERAGE D: LOSS OF USE

Subject to the total **limit of insurance** set forth in the **DECLARATIONS** page for "COVERAGE D: LOSS OF USE," and subject to all the terms and conditions of this policy, **we** cover the following, not subject to any deductible.

1. Additional Living Expense. 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**.

2. Loss of Rent. If the part of the **rental unit** that **you** rent to others or that **you** actually hold for rental becomes unfit to live in 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, **we** cover the fair rental value of that part of the **rental unit** that is rented to others or that **you** actually held for rental prior to the loss, less any expenses that do not continue while the portion of the **rental unit** rented or held for rental is unfit to live in. Fair rental value means the average rental amount immediately before the **earthquake** in **your** rental market for a **rental unit** similar to the one covered under this coverage.

   We will pay for the shortest time reasonably needed to repair or replace the parts of the **rental unit** rented or held for rental that are unfit to live in. **Your** loss of rents due to cancellation of a lease or rental agreement is not covered.

3. If a civil authority prohibits **you** from occupying **your rental unit** because of direct damage to neighboring premises caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** cover the resulting Additional Living Expense or Loss of Rent, subject to the "COVERAGE D: LOSS OF USE" **limits of insurance**.

LOSSES EXCLUDED

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:

1. Fire or explosion.

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

   a. flood, precipitation (including rain snow, hail, or sleet), or surface water; waves, tsunami, or tidal water; rupture of a dam, levee, berm, or sea wall; overflow of a natural or man-made body of water; or spray from any of these; or

   b. water below the surface of the ground, whether natural or not, including water that exerts pressure on or seeps or leaks through a building, sidewalk, driveway, foundation, or other structure.

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

   (i) The release of water from water heaters, refrigerators, or water supply pipes within the **rental unit**;

   (ii) The displacement of water from an aquarium, drinking water container or dispenser, 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 **rental unit** location or the release of water or sewage from sewers or drains on or off the **rental unit** location.

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

3. Controlled or uncontrolled **nuclear hazard** or any act or condition incident to any **nuclear hazard**.

4. Pollution, including all loss, damage, costs, and expenses that arise out of or are caused by pollution or pollutants, and any cost or expense to test for, monitor, clean up, remove, contain, treat, detoxify, or neutralize pollutants. The terms "pollutants" and "pollution" mean any solid, liquid, gaseous, or thermal irritant or contaminant, including, but not limited to, smoke, vapor, soot, fumes, acids, alkalis, chemicals, asbestos, and waste. The term "waste" includes but is not limited to material to be recycled, reconditioned, or reclaimed.

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; <u>and</u>

   b. causes loss that manifests within one year after the **earthquake** that caused the loss.

6. **Fungi**, including but not limited to the cost to repair or replace property damaged by **fungi** or to test for, monitor, abate, mitigate, remove, dispose of or remediate **fungi**.

7. Theft, vandalism or other human conduct causing loss following an **earthquake**.

8. Power failure, meaning the failure of delivery of electrical power to the **rental unit**.

9. **Your** neglect to take all reasonable action to save and preserve covered property at the time of and after a covered loss.

10. Declared or undeclared war, acts of terrorism, insurrection, rebellion, revolution, warlike act by a military force or military personnel or any person, destruction or seizure or use for a military purpose, and any consequence of any of these. Discharge of a nuclear weapon will be deemed a warlike act even if accidental.

11. Intentional acts, meaning any loss arising out of any act committed:

    a. by **you** or at **your** direction, or at the direction of any **insured** or of any **person** named as an additional **insured**; and

    b. with the intent to cause, aggravate or increase a loss.

YOUR RIGHTS CONCERNING CLAIMS INVESTIGATION

The law provides certain rights and protections to policyholders who are involved in the presentation of a claim. Included among these are the following:

1. Specific rights to privacy under California and Federal law which may protect **you** during the claims process;

2. The right to have **your** claim handled in accordance with the California Insurance Code and Subchapter 7.5 of Chapter 5 of Title 10 of the California Code of Regulations, which impose fair claims handling procedures and requirements on insurers; and

3. The right to be represented by an attorney at **your** expense.

CONDITIONS

1. Insurable Interest and **Limit of Insurance**. Even if more than one **person** has an insurable interest in the property covered, **we** will not be liable:

    a. to **you** for an amount greater than **your** interest; nor

    b. for more than the applicable **limit of insurance**.

2. Concealment or Fraud. The entire policy will be void if, before or after a loss, any **insured** does any of the following:

    a. Intentionally conceals or misrepresents any material fact or circumstance;

    b. Engages in fraudulent conduct relating to this insurance; or

    c. Intentionally makes false statements relating to this insurance.

3. **Your** Duties After Loss. If a loss occurs to covered property, **you** must perform the following duties:

    a. Give written notice to the **participating insurer** without delay.

b. Protect covered property from further damage. Make any emergency repairs that are necessary and reasonable to protect covered property from further damage. Keep records of all costs **you** incur to repair or replace covered property or to protect covered property from further damage.

c. Make and keep a list of all damaged or destroyed property, showing in detail the quantity, description, and amount of covered loss. Keep all bills, receipts, and related records that support **your** figures.

d. As often as reasonably required:

(i) Exhibit damaged property to the **participating insurer**;

(ii) Provide the **participating insurer** with the records and documents that are necessary to support **your** claim under the policy and which the **participating insurer** may request, including bills, receipts, canceled checks, and related records that support **your** figures, and permit the **participating insurer** to make copies; and

(iii) While not in the presence of any other **insured**, submit to examination under oath and sign a transcript of the examination.

e. Send the **participating insurer**, within 60 days of **our** or the **participating insurer's** request, **your** signed, sworn proof of loss that sets forth, to the best of **your** knowledge and belief the following:

(i) The time, date, and cause of loss;

(ii) Y**our** interest and the interest of all others in the property that sustained a loss, and evidence of all liens or encumbrances on the property;

(iii) A detailed description of all legal claims against the property that sustained a loss;

(iv) Evidence of other insurance that may cover the loss;

(v) The list of damaged or destroyed personal property covered under this policy;

(vi) Documents showing the extent of damage to the **rental unit** in support of any claim for additional living expense or fair rental value; and

(vii) All receipts and records that support any claim for additional living expense or fair rental value.

4. Loss Settlement. Covered property losses will be settled in accordance with the following:

a. **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.

b. **Our** liability for loss to any property insured under "COVERAGE C: PERSONAL PROPERTY" will not exceed the smallest of the following:

(i) The **replacement cost** at the time of loss;

(ii) 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)**.

c. In case of loss to a pair or set **we** can elect to do either of the following:

(i) Repair or replace any part to restore the pair or set to its value before the loss; or

(ii) Pay the difference between **replacement cost** of the pair or set before and after the loss.

5. Appraisal. If **you** and **we** fail to agree on the amount of loss, either of us may demand an appraisal of the loss. In this event, each party will choose a competent and disinterested appraiser within 20 days after receiving the written demand from the other. The two appraisers will choose a neutral and independent umpire. If they cannot agree on an umpire within 15 days, **you** or **we** may request that a judge of a California court of competent jurisdiction in the county where the **rental unit** is located appoint an umpire. The two appraisers will separately appraise the amount of loss under this policy. If the appraisers submit an agreed written report to **us**, the amount they agree on will be the amount of loss under this policy. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two of the three appraisers will set the amount of loss under this policy. Each party will (a) pay its own appraiser, and (b) bear the other expenses of the appraisal and of the umpire equally.

6. Other Insurance.

a. If there is other insurance that covers earthquake loss to property covered under this policy, **we** will pay **our** share of the covered loss or damage. **Our** share is the proportion that the applicable **limit of insurance** under this policy bears to the combined **limits of insurance** of all policies that cover the same property.

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

7. Subrogation. **You** may waive in writing before a loss under this policy all **your** rights of recovery against any **person**. If **you** do not waive those rights, **we** may require an assignment of **your** rights of recovery for a loss to the extent that **we** make payment for that loss. If **we** seek an assignment, the **insured** must sign and deliver all related papers to **us** and cooperate with **us**.

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

9. **Our** Option to Repair or Replace Property. If **we** give **you** written notice within 30 days after **we** receive **your** proof of loss, **we** may repair or replace any part of the damaged property with like property

10. Loss Adjustment and Loss Payment. **We**, through the **participating insurer**, will adjust all losses with **you**. As to all claims **we** determine to be covered under this policy, **we** will pay **you** unless some other **person** is named in the policy or is legally entitled to receive payment. That portion of a claim that is not in dispute will be payable within 30 days after **we** receive **your** proof of loss. All other losses will be payable within 30 days after **we** receive **your** proof of loss and:

a. **We** reach an agreement with **you**;

b. There is an entry of a final judgment; or

c. There is a filing of a final appraisal award with **us**.

11. No Benefit to Bailee. **We** will not recognize any assignment or grant any coverage that benefits a **person** that holds, stores, or moves property for a fee, regardless of any other provision of this policy, unless that **person** is named as an **insured** under this policy.

12. Payment. If **you** pay the initial premium for **your** first policy period by check, draft, or any remittance other than cash, **we** will credit **you** with that payment only if the check, draft, or remittance is honored on presentation. If **your** check, draft, or remittance is not honored on presentation, this policy is void from its inception. "Void from its inception" means that **we** will not be liable under this policy for any claims or damages that would otherwise have been covered had the check, draft, or remittance been honored on presentation and had the policy remained in effect.

13. Automatic Termination**.** If, before the end of the then current policy period of this policy, **we** or the **participating insurer** provide **you** with a renewal notice for **your** policy, that notice will be deemed **our** offer to renew **your** policy for an additional policy period. If **we** do not receive **your** required premium payment on or before the end of the then current policy period, **your** policy will terminate automatically at the expiration of the then current policy period. This means that **you** will have elected not to accept **our** offer to renew the policy, and no notice will be sent to **you**. **Your** failure to accept **our** offer to renew the policy is not a cancellation or non-renewal by **us**.

14. Cancellation.

    a. When the **companion policy** is canceled for any reason, this policy is canceled effective on the same date the **companion policy** cancellation takes effect, and any unearned premiums will be returned to **you** on a pro rata basis. This policy will not provide coverage if there is no **companion policy** in effect at the time of loss.

    b. **You** may cancel this policy at any time by returning it to the **participating insurer** or by notifying the **participating insurer** in writing of the date cancellation is to take effect. **You** may return the policy and submit the cancellation date to the agent of the **participating insurer**.

    c. **We** may cancel this policy for the reasons stated in this condition or for any other grounds permitted by law, by notifying **you** in writing of the date cancellation takes or took effect. The cancellation notice may be delivered to **you**, or mailed to **you** at **your** mailing address shown in the **DECLARATIONS**. Proof of mailing will be sufficient proof of notice.

        (i) When **you** have not paid the premium when due and payable, **we** may cancel at any time by notifying **you** at least 10 days before the cancellation takes effect.

        (ii) When this policy has been in effect for less than 60 days and is not a renewal with **us**, **we** may cancel the policy if the insured property does not meet the eligibility standards of the **CEA**, by notifying **you** at least 20 days before the date cancellation takes effect.

        (iii) When this policy has been in effect 60 or more days, or is a renewal with **us**, **we** may cancel at any time by notifying **you** at least 30 days before the date cancellation takes effect, based on the occurrence of one or more of the following:

            (A) **Your** conviction of a crime having as one of its necessary elements an act increasing any hazard insured against; or

            (B) **Our** discovery of fraud or material misrepresentation by either the **insured** or the **insured's** representative in obtaining the insurance, or by **you** or **your** representative in pursuing a claim under the policy; or

(C) **Our** discovery of grossly negligent acts or omissions by the **insured** or his or her representative that have substantially increased any of the hazards insured against; or

(D) **Your** failure to pay an **earthquake** policy surcharge imposed and authorized by the **California Earthquake Authority**, in accordance with California Insurance Code section 10089.29, subdivision (d).

d. When this policy is cancelled, any premium paid for the period from the effective date of the cancellation to the expiration date will be refunded. When the policy is cancelled, the return premium will be pro rata.

e. If, when **we** cancel this policy, the return premium is not refunded with the notice of cancellation, **we** will refund it within 25 business days after the notice of cancellation is sent. If, when **you** cancel this policy, the return premium is not refunded when **you** return the policy to **us**, **we** will refund it within 25 business days after the date **we** receive **your** notice of cancellation.

15. Conditional Reinstatement. If **we** mail a cancellation notice because **you** did not pay required premium when due and **you** then tender payment of the premium by check, draft, or other remittance that is not honored on presentation, **your** policy will terminate on the date and time shown on the cancellation notice and any notice **we** issue that states that it waives the cancellation or reinstates the coverage is void. This means **we** will not be liable under this policy for claims or damages after the date and time stated on the cancellation notice.

16. Non-Renewal. **We** may elect not to renew this policy by delivering to **you** or mailing to **you** at **your** mailing address shown in the **DECLARATIONS**, written notice of non-renewal at least 75 days before the expiration date of this policy. Proof of mailing will be sufficient proof of notice.

17. Waiver or Change of Policy Provisions. No waiver or change of a policy provision is valid unless it is in writing and signed by **us**. **Our** request for an appraisal or examination does not waive any of **our** rights.

18. Assignment. **Your** assignment of this policy will not be valid unless **we** give written consent.

19. Death. If **you** die during the policy term, each of the following persons will be deemed an **insured** with respect to the property insured under this policy:

    a. The legal representatives or person who by law succeeds to the ownership of the insured property, but only with respect to the property of the deceased covered under this policy at the time of death until the termination date of this policy; and

    b. With respect to the property covered under this policy at the time of death, the **person** that has proper temporary custody of the property until appointment and qualification of a legal representative.

20. Recovered Property. If **you** or **we** recover any property for which **we** have made payment under this policy, **you** or **we** will notify the other of the recovery. At **your** option, the property will be returned to or retained by **you** or it will become **our** property. If the recovered property is returned to or retained by **you**, the loss payment will be adjusted based on the amount of the payment **we** made for the recovered property.

21. Abandonment of Property. **We** need not accept any property abandoned by an **insured**.

22. Surcharge Clause. In the event of an **earthquake** or series of **earthquakes**, **we** can impose a surcharge, as permitted by law, up to 20% of **your** annual policy premium within any one year, in accordance with California Insurance Code section 10089.29, subdivision (b), paragraph (1).

23. Pro-rata or Installment Claims Payments. In accordance with California Insurance Code Section 10089.35, if, at any time, the available capital of the **California Earthquake Authority** is insufficient to meet anticipated losses and there are no additional funds from assessments, reinsurance, or private capital markets available to pay claims, the **California Earthquake Authority** may pay claims on a pro-rata basis from the remaining funds available, or claims may be paid on an installment basis, based on a plan approved by the California

Insurance Commissioner. If this occurs, **you** may not be paid the full amount of **your** claim. If **we** submit a pro rata or installment plan to the Insurance Commissioner, deadlines in this policy that apply to **our** payment of **your** claim may, at **our** sole option, be extended by the length of time the Insurance Commissioner has the plan under consideration; the deadlines will be reinstated and recomputed no later than the date an approved plan is in place. Also, with respect to **California Earthquake Authority** claims payments, California Insurance Code section 10089.25, subdivision (d), reads as follows: "The State of California shall have no liability for payment of claims in excess of funds available pursuant to this chapter. The State of California, and any of the funds of the State of California, shall have no obligations whatsoever for payment of claims or costs arising from this act, except as specifically provided in this act."

24. Changes to Policy Terms in the Event of an **Earthquake**. If an **earthquake** occurs during the policy period, and the **rental unit** identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the rights, at **our** option, to do either or both of the following:

    a. To refuse any request **you** make from the time of that **earthquake** until thirty days after the **earthquake** to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy or purchase additional coverages from **us**; and

    b. to inspect the **rental unit** and all insured property prior to granting any request **you** make from the time of that **earthquake** until the expiration of the term of this policy to alter the terms or coverages of this policy, including any request that **you** make to change the limits of any of the coverages of this policy or purchase additional coverages from **us**, and to deny **your** request to alter the terms of this policy if **our** inspection reveals the existence of any **earthquake**-related damage to the **rental unit** or to any insured property.

25. Renewal of Policy in the Event of an **Earthquake**. In the event an **earthquake** occurs during the policy period and the **rental unit** identified in the **DECLARATIONS** page is located in a United States Postal Service ZIP Code that lies, in whole or in part, within a Modified Mercalli Intensity (MMI) Scale value of V (5) or greater with respect to that **earthquake**, as determined by the U.S. Geological Survey (USGS), **we** have the following rights with respect to the renewal of this policy:

    a. If the expiration date of this policy is between the date of the **earthquake** and 30 days after the **earthquake**, **we** have the right, at **our** option, to refuse to renew this policy on terms different from those contained in this policy. This means that **we** have the right to refuse any request **you** make from the time of the **earthquake** until thirty days thereafter to change the limits of any of the coverages of this policy on renewal or purchase additional coverages from **us** on renewal.

    b. **We** have the right, at **our** option, to inspect the **rental unit** and all insured property prior to granting any request **you** make to renew this policy on terms different from those contained in this policy, including any request that **you** make on renewal to change the limits of any of the coverages of this policy or purchase additional coverages from **us**. **We** have the right to deny **your** request to alter the terms of this policy on renewal if **our** inspection reveals the existence of any **earthquake**-related damage to the **rental unit** or any insured property.

26. Liberalization Clause. If **we** make a change that broadens coverage under this edition of **our** policy without additional premium charge to **you**, that change will automatically apply to **your** insurance as of the date **we** implement the change, provided that this implementation date falls during or within 60 days before the policy period stated in the **DECLARATIONS**.

    This Liberalization Clause does not apply to changes implemented through **our** introduction of a subsequent edition of **our** policy.

CLAIM MANUAL

CALIFORNIA EARTHQUAKE AUTHORITY

APPROVED BY THE INSURANCE COMMISSIONER, 0~~5~~X/0X~~6~~/20~~19~~XX

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INTRODUCTION

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

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

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

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

THE ROLE OF THE PARTICIPATING INSURANCE COMPANY

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

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

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

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

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

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

A. GENERAL CEA CLAIMS INFORMATION

1. CEA Claim Director – Duties and Responsibilities

The CEA has a Claim Director whose duties include:

a) Maintaining and communicating CEA procedures for handling CEA claims;
b) Ensuring the claim data sent from PIs to the CEA is accurate;
c) Following up for accurate reserves;
d) Approving claim reimbursement payment requests from PIs;
e) Answering claims-related questions from PIs;
f) Assisting Participating Insurers with earthquake claims training;
g) Monitoring Participating Insurers' earthquake claims response procedures;
h) Traveling to the site of the earthquake as needed;
i) Chairing the CEA Claims Coverage Committee regarding policy and coverage interpretations (See section A10, page 20); and
j) Initiating and coordinating reinspections and claim file reviews after an earthquake (See section A12, page 22).

2. Participating Insurer Claim Liaison – Duties and Responsibilities

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

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

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

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

a) California Earthquake Claims Accreditation. A CEA Claim Liaison must be California Earthquake Claims accredited. The earthquake accreditation process is described in the California Code of Regulations, Title 10, Chapter 5, Subchapter 7.5.1 - Insurance Adjuster Training for Evaluating Earthquake Damage. https://govt.westlaw.com/calregs/Browse/Home/California/CaliforniaCodeofRegulations?guid=IC89C3E10D49211DEBC02831C6D6C108E&originationContext=documenttoc&transitionType=Default&contextData=(sc.Default)

b) CEA Claim Manual. A CEA Claim Liaison must be familiar with the CEA Claim Manual (available on the CEA website www.EarthquakeAuthority.com.)

c) CEA Insurance Policies and Coverage. CEA Claim Liaisons must understand CEA insurance policies and how policy coverages function. Online CEA-coverage training is available on the CEA website at: www.EarthquakeAuthority.com.

d) CEA Policy Deductibles. CEA Claim Liaisons must understand how to calculate CEA insurance-policy deductibles. CEA recommends training on the CEA policy-deductible calculation by practicing using the CEA's online CEA Deductible Calculator, an Excel worksheet found on the adjuster page of the CEA website. (NOTE: A copy of the deductible calculation, made using this Excel deductible calculator, must be placed in every CEA claim file containing the documentary evidence of how the adjuster scoped and estimated earthquake damage and adjusted the CEA claim.)

e) Reserves. Reporting claim reserves accurately is imperative, to permit the CEA to calculate its total, potential claim-payout. Participating Insurers must report all new CEA earthquake claims to the CEA, whether or not the Participating Insurer expects the claim to exceed the deductible. If the claim is expected to be under the deductible, it should be reported with a "zero dollars" reserve (or the lowest reserve amount allowed by the Participating Insurer's claim system).

f) Payment Authority. A CEA Claim Liaison has full authority to pay a CEA earthquake claim up to the CEA policy limit. The CEA Claim Director is available for consultation.

g) CUREE Guidelines. Following an earthquake, each Participating Insurer and its claim personnel must be familiar with, and have a plan for the appropriate use of, the *General Guidelines for the Assessment and Repair of Earthquake Damage in Residential Woodframe Buildings*, published by the Consortium of Universities for Research in Earthquake Engineering ("CUREE"). The document is available at http://www.cureedocs.org

h) Engineers. Participating Insurers must prepare and keep updated an approved list of engineers that can be used after an earthquake. Engineers used to assist in evaluating CEA earthquake claims must be professionally familiar with and use the CUREE *Guidelines*, including *Guidelines* Chapter 9: guidance on what to include in an engineering report that assesses earthquake damage.

i) Independent adjusting companies. If needed, Participating Insurers should secure necessary claim-adjusting companies with catastrophe-claim expertise and assure any independent adjusters handling CEA claims are California Earthquake Claims accredited.

j) Be aware of the occurrence of earthquakes. Register to receive official notifications of earthquakes on cell phones and tablets: https://earthquake.usgs.gov/ens/

k) Daily reporting requirements. Some earthquake events may require a certain period of interim manual reporting immediately following an event, until data and systems are in-sync. In these cases, the CEA will request that the CEA Claim Liaison report

daily claim numbers to the CEA by email sent to ceaclaims@calquake.com. (The CEA estimates the usual duration of the interim reporting at 15 days.) The CEA requires the following information be reported at the end of each working day:

1. Date of the report;
2. Name of Participating Insurer;
3. Name of contact person at Participating Insurer (email and phone number);
4. Total number of claims, and the status of each (open or closed), received from the earthquake (the total number of claims, not a tally by coverage);
5. Of the total number of claims, the number closed;
6. The current total dollar amount of all open reserves; and
7. The current total dollar amount of all paid CEA claims, to date.

l) Attend annual CEA claim-manager conference. Annual training is offered to all CEA Claim Liaisons and includes training on CEA policies and claim procedures, as well as other pertinent CEA-related topics.

m) Annual CEA claim-response plan (cat plan). CEA Claim Liaisons must complete an annual claim-response questionnaire at year-end.

Duties of a CEA Claim Liaison

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

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

i. **Claims where the damages are not covered by the earthquake policy in force.** When an insured attempts to make a claim under a CEA earthquake insurance policy, and a Participating Insurer makes no payment because the loss is not covered by a 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 provision(s) on which the decision is based. The Participating Insurer must send a copy (by email) of the denial letter to the CEA's Claim Director for review, and approval as to form, before sending the letter to the insured. (See Section E23, page 72, for more guidance on denial letters, and see Attachment 6 for sample language.)

ii. **Any legal action filed on a CEA claim; any notice or knowledge of any legal action against a Participating Insurer on a CEA claim; and any legal action where the name California Earthquake Authority or CEA appears.**
A Participating Insurer must immediately notify the CEA Claim Director if it obtains any formal or informal knowledge of the initiation of any legal actions described in the heading of this paragraph. In such cases, the Participating Insurer must immediately provide copies of all documents received by or served on the Participating Insurer to the CEA's Claim Director. No Participating Insurer is authorized to accept service of legal process on the CEA's behalf.

iii. **Department of Insurance complaints or requests for assistance.** If a Participating Insurer receives notice of any policyholder or consumer complaint, or policyholder or consumer request for assistance, made to the California Department of Insurance (CDI) concerning the Participating Insurer's handling of or involvement in any CEA-related matter, the Participating Insurer must immediately provide a copy of the Department of Insurance complaint and any supporting or related documentation to the CEA's Claim Director, and follow up with a telephone call to 916.661.7101 to ensure the documentation was received. The Participating Insurer may provide the appropriate response to the CDI without the CEA's prior approval of the response, but the Participating Insurer must send the CEA's Claim Director a copy of the response that was sent to the policyholder and the CDI. Until the complaint or other issue brought to the CDI's attention is finally resolved, the Participating Insurer must provide to the CEA's Claim Director by email a copy of all complaint-related correspondence to or from the CDI.

iv. **Taking claims to appraisal or Department of Insurance mediation.** Participating Insurers must:

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

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

3. Adjuster Training Requirements

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

The CEA does not specify the claim-handling forms a Participating Insurer must use. Each company may use any appropriate property claim-handling form or forms that it uses for non-earthquake property claims.

Notwithstanding the foregoing, the under-deductible denial letter, addressed in section E23, page 71, must be used in the form directed by the CEA.

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

a) Training on the CEA Policy

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

b) Fair Claims Settlement Practices Regulations: Training

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

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

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

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

Fair Claims Regulations Section 2695.6 requires annual certification of written claim-handling standards and training of all claim representatives used by the Participating Insurer; all persons who handle CEA claims are covered by the certification requirement. The CEA will regard the Participating Insurer's claim-related Certifications as its own; the earning and provision of the Annual Certifications are

required to be delivered each year, no later than February 1st, to the CEA and are subject to audit by the CDI.

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

c) Insurance Adjuster Training for Evaluating Earthquake Damage

The CEA requires each Participating Insurer that handles CEA claims complies 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.*

d) Unique Issues when Handling Earthquake Damage – CUREE Guidelines

Participating Insurers are encouraged to use the CUREE Guidelines EDA-02 (http://www.cureedocs.org) as a source of training material that can be used to train claim representatives on the unique issues in evaluating earthquake damage to residential structures. Some examples of information available:

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

4. Types of CEA Policies

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

a) Basic Earthquake Insurance Policy – Homeowners – Form BEQ-3B (01-2019 edition) (form applicable to new and renewal business incepting July 1, 2019 and thereafter)
This policy insures owners of dwellings (site-built homes), manufactured homes, and mobilehomes, and provides these coverages:

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

is the same as the Coverage A limit of insurance listed on the Declarations page of the Participating Insurer's companion homeowner/fire policy.
Dwelling deductible options are 5%, 10%, 15%, 20%, or 25% of the CSL.

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

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

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

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

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

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

4. Coverage for Exterior Masonry Veneer (CEA 03A (01/2016)): This endorsement deletes the policy exclusion for exterior masonry veneer and provides coverage for exterior masonry veneer in an amount up to the Coverage A & B CSL stated on the Declarations page. NOTE: This optional coverage is not available for manufactured homes or mobilehomes.

5. Coverage for Breakables (CEA 04A (01/2016)): This endorsement deletes the policy exclusion for breakable items and provides coverage for breakable items up to the Coverage C: Personal Property limit of insurance stated on the Declarations page.

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

b) Basic Earthquake Insurance Policy – <u>Homeowners Choice</u> – BEQ-3C (01-2019 edition) (form applicable to new and renewal business incepting July 1, 2019 and thereafter)

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

1. Dwelling: The limit of insurance for Coverage A: Dwelling and Coverage B: Extensions to Dwelling have a combined single limit (CSL) in the CEA

Homeowners Choice policy, as listed on the policy's Declarations page (BEQ-3C DP (01-2019 edition)), that is the same as the Coverage A limit of insurance listed on the Declarations page of the Participating Insurer's companion homeowner/fire policy.
Deductible options are 5%, 10%, 15%, 20%, or 25% of the CSL.

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

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

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

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

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

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

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

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

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

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

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

5. Coverage for Exterior Masonry Veneer (CEA 03A (01/2016)): This optional endorsement deletes the policy exclusion for exterior masonry veneer and provides coverage for exterior masonry veneer, up to the Coverage A & B CSL Dwelling and Extensions to Dwelling limit of insurance stated on the Declarations page. NOTE: This optional coverage is not available for manufactured homes or mobilehomes.

6. Coverage for Breakables (CEA 04A (01/2016)): This optional endorsement deletes the policy exclusion for breakable items and provides coverage for breakable items up to the Coverage C: Personal Property limit of insurance stated on the Declarations page.

c) Basic Earthquake Insurance Policy - Renters - Form BEQ-4B (01-2019 edition) (form applicable to new and renewal business incepting July 1, 2019 and thereafter)

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

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

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

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

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

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

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

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

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

d) Basic Earthquake Policy - Common Interest Development - Form BEQ-6B (01-2019 edition) (form applicable to new and renewal business incepting July 1, 2019 and thereafter)

In California, a "common interest development" can be a community apartment project, a condominium project, a planned development, or a stock cooperative, all as defined in California Civil Code sections 4100-4125. Since people commonly

equate “common interest development” with a “condominium/condo,” this Manual uses the term “condominium” or “condo” interchangeably with “common interest development.”

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

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

1. Option One – Coverage A: Building Property

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

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

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

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

   With this option, the policyholder will have coverage for both Coverage C and Coverage D, available in the following amounts:

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

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

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

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

3. Option Three – Coverage E: Loss Assessment

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

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

4. Coverage for Breakables (CEA 04A (01/2016)): This optional endorsement deletes the policy exclusion for breakable items and provides coverage for breakable items, up to the Coverage C: Personal Property limit of insurance

stated on the policy's Declarations page (BEQ-6B DP (01-2019 edition)).

5. Reporting Claims to the CEA

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

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

6. Claim Representatives and Handling Claims to Conclusion

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

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

California Insurance Code section 10082.3 pertains to a related issue:

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

7. Companion Policy Required

CEA policies are sold and issued solely through Participating Insurers.

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

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

8. Claim Reserving

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

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

9. Calculating Deductibles for CEA Claims

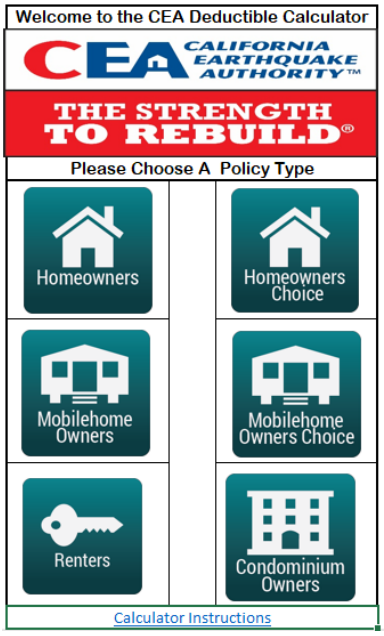
CEA policy deductibles—their structure and amount—may differ substantially from those provided by standard fire insurance policies. To assist in calculating deductibles, the CEA offers an Excel Deductible Calculator that is accessed via the CEA website at www.earthquakeauthority.com.

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

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

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

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



It is important that the adjuster selects the correct icon before entering claim data. The top section of the spreadsheet is used to enter policyholder and coverage information. The coverage, limit, and deductible options are selected using drop-down menus, to help avoid errors.

Policy Information			
Insured Name (Last, First, Middle Initial)		Claim Number	
Adjuster Name (Last, First, Middle Initial)		Policy Number	

Policy Coverage Information			
Coverage	**Coverage Limit**	**Deductible %:**	**Deductible $**
Coverage C - Personal Property	$ 5,000	15%	$ 750
Breakables Coverage	No	See Personal Property	See Personal Property
Coverage D - Loss of Use	$ 1,500	No deductible.	No deductible.

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

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

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

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

10. Policy and Coverage Interpretations

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

a) The Participating Insurer should first attempt to resolve policy and claim coverage questions by consulting this Claim Manual and by using the expertise of its senior claim professionals and claim management.

b) Policy coverage questions that remain unresolved should be referred to the CEA on the CEA Coverage Review Form. —The Participating Insurer must provide a narrative report under each of the applicable headings. Attachment 3 to this Claim Manual comprises an example of a blank Coverage Review Form, as well as a (sample) completed form.

c) The Coverage Review Form should be submitted to the CEA Claim Director with a copy of all claim-file materials necessary for a proper review of the coverage issue. Participating Insurers must use overnight courier service or mail, or must email documents as attachments, to send files to the CEA for review.

d) If important to explain or understand the coverage question, the file must include photographs of damage, documentation of amount of loss, transcribed statements of interested parties, a policy declarations page, policy endorsements, related paper or electronic correspondence, and copies of notes, including electronic notes. Incomplete files can delay claim determinations, and delayed claims can result in regulatory or legal scrutiny.

e) Upon receiving a coverage question from a Participating Insurer, the CEA Claim Coverage Committee reviews the question, and the CEA Claim Director then notifies the Participating Insurer of the CEA's coverage decision. Decisions of general interest or general applicability across all CEA claims will be distributed to all Participating Insurers.

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

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

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

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

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

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

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

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

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

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

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

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

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

12. Reinspections and Claim File Reviews

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

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

1. The CEA expects Participating Insurers to have their own claim-related quality assurance programs, including a program for field reinspections of claims and reviews or audits of claim files. These programs should be documented and described in the earthquake-response plan each Participating Insurer submits to the CEA annually. (See section B2, page 25, for information regarding the Earthquake Response Plan.)

2. Reinspections: It is often important to reinspect claims early in the claim-handling process to enable the viewing and evaluation of the damage before repairs are

completed. A Participating Insurer must always obtain the policyholder's advance permission to conduct an on-premises reinspection.

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

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

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

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

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

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

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

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

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

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

c) Claim-File Review Elements

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

1. Promptness of first contact;
2. Development of initial information;
3. Timely and thorough completion of the scope of damage (listing of damage);
4. Use of CUREE inspection checklist on claims that were inspected;
5. Repair estimate of damages;
6. Use of CEA Excel Deductible Calculator that has an associated repair or replacement estimate or scope;
7. Statements from the policyholder, if warranted;
8. Reserve calculations and reserve adequacy;
9. Coverage information and how it applies to the claim;
10. Effective use of a diary to permit and support timely claims handling;
11. Timeliness of communication with insured regarding claim status;
12. Alertness to fraud and prompt notice given to appropriate parties;
13. Appropriate use of engineers or other experts;
14. Completeness of documentation of the amount of loss [Statement of Loss];
15. Timeliness of claim payments;
16. Quality of written adjuster or claim-related communications to the policyholder;
17. Proper CEA approval of denial letter (as to form) if claim was denied;
18. Compliance with the CEA Claim Manual;
19. Compliance with California Fair Claims Practices Regulations;
20. Earthquake claim handling accreditation of adjuster(s) (independent or company);
21. Periodic guidance on open files by Claim Management;
22. Effectiveness of Participating Insurer's reinspection program and claim-file reviews.

13. Overlapping or Coexistent Insurance Coverage

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

Pay attention to the Other Insurance wording in the CEA policy. This is discussed in more detail in the Condominium section D2c (page 52) of this Manual.

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

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

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

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

B. PRE-EARTHQUAKE DISASTER RESPONSE PREPARATION

1. Pre-Earthquake Planning - General

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

2. Participating Insurer Earthquake Response Plan

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

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

a) Processes to assure that staff and independent adjusters are trained before they are needed for earthquake catastrophe-claim-handling duty. Participating Insurers are responsible for ensuring that their employed claim representatives, and all independent adjusters hired or contracted, are properly trained to handle residential

earthquake claims in California. (See section A3 for adjuster training.)

b) Procedures for the first 48 hours of earthquake-catastrophe response:
   1. Processes for accepting new earthquake claims;
   2. Plans for deploying properly trained and accredited initial-response adjusters;
   3. Plans for claim management, including the ability to determine affected policies-in-force;
   4. Resources available: buildings, cars, computers, and other needed equipment; and
   5. Logistical coordination for the response.

c) Procedures for handling first reports of CEA claims and other phone-related support programs, such as, without limitation, available national catastrophe call centers.

d) Procedures for long-term earthquake catastrophe response:
   1. Plans for a sufficient number of properly trained and accredited earthquake adjusters;
   2. Plans for the long–term management of CEA earthquake claims;
   3. Resources available: buildings, cars, computers, independent adjusters, and other required resources;
   4. Logistics: detailed descriptions of how response activities will be coordinated.

e) Procedures for how experts (including engineers) will be used and details on pre-earthquake arrangements for these services.

C. POST-EARTHQUAKE RESPONSE

1. CEA Claim Director

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

2. Participating Insurer Catastrophe Claim Managers

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

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

e) Discussing particular aspects and structural elements being encountered on claims in the area.

3. Claim Counts

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

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

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

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

4. Catastrophe Offices

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

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

5. CEA Event Code and Date of Loss

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

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

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

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

The CEA will communicate the Event Code to all Participating Insurers as soon as possible following the earthquake's initial seismic activity.

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

6. New Claims Reported to the CEA

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

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

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

7. Pro Rata or Installment Claims Payments

Once an earthquake occurs, the CEA estimates probable losses based on in-force coverages and licensed or contracted earthquake-loss models. The CEA will then

compare its preliminary overall loss-reserve estimate to the CEA's claim-paying capacity. In the ordinary case, when claim-paying capacity is clearly sufficient to handle expected loss, the Claim Payment Ratio ("CPR") will be, or be declared as, 100%, and claims are to be paid in full, without discount or pro rata calculation.

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

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

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

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

8. Media Communications

a) Following an Earthquake. After an earthquake, the CEA will maintain communications with the Participating Insurers in order to provide the public with helpful, accurate, and timely information. Participating Insurers must work cooperatively with the CEA's Chief Communications Officer and communications and external affairs staff on matters of communication with the news media or outreach to the general public. The telephone numbers to use to establish contact with CEA are 916.661.5586 or 877.797.4300.

b) No Public Comment on Specific Claims.

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

Generally, the CEA and the Participating Insurer are authorized and permitted to discuss a claim only with the CEA policyholder who is the claimant. Any

questions or requests for exceptions to this directive must be transmitted immediately to the CEA Claim Director.

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

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

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

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

D. CEA POLICY INFORMATION

1. BASIC EARTHQUAKE INSURANCE POLICIES: HOMEOWNERS and HOMEOWNERS CHOICE

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

The CEA has two homeowner forms:

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

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

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

The separately purchased coverage-feature in a Homeowners Choice policy—and resulting different coverage limits and deductible percentages—means that the claim

representative must be vigilant when confirming coverage, limits, and deductible amounts.

a) Introduction to the CEA Homeowners Policies

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

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

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

b) Covered Losses

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

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

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

[360 hours equals 15 days.]

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

POLICY TYPE	DEDUCTIBLE
Homeowners Homeowner/Manufactured Home (Mobilehome) (BEQ-3B)	Adjuster must first determine if the CEA policy written/purchased is the standard Homeowners form.
Dwelling (Coverage A and Coverage B)	The policyholder selects/purchases deductible level: 5% to 25% of the Coverage A&B Combined

	Single Limit (CSL) of insurance. The first $1,500 of emergency repairs is paid with no deductible.
Personal Property (Coverage C)	Nothing is paid for personal property damage until the dwelling deductible is met by covered damage to Coverage A&B property.
Loss of Use (Coverage D)	No deductible. Loss of Use can be paid if it was caused by a covered cause of loss.

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

c) Deductibles

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

The deductible will be applied one time for each seismic event.
The deductible structure varies depending on the type of homeowner policy chosen:

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

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

d) Loss Settlement is at Replacement Cost

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

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

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

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

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

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

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

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

Unlike some Participating Insurers' companion policies, the CEA Homeowners earthquake policies do not require actual repair or replacement in order for a claimant to collect the replacement cost under Coverage A: Dwelling, Coverage B: Extensions to Dwelling, or Coverage C: Personal Property. (Note, however, if the property has already

been repaired or replaced at the time payment is made, the amount payable is limited to the amount actually spent on the repair/replacement.)

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

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

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

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

e) Types of Building Property Insured – Dwelling Defined

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

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

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

a foundation that is continuous with or contiguous to the foundation of the residential structure.

It is important to understand this definition because it is one factor that must be used to evaluate coverage. The claim representative is responsible for determining if the structure in question meets the requirements of a "Dwelling" as defined above. For example, if policyholder John Doe lives in a residential single-family home with a garage, his CEA policy covers the garage only if the facts show the garage:

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

f) Property Covered - Coverage A

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

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

The CEA Homeowners policy states:

*… **we** cover:*

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

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

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

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

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

The CEA policy defines "chimney" as follows:

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

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

1. Because the chimney definition does not include the hearth, mantel, firebox, or the foundation that supports the chimney, claim representatives must not include the cost of these items in the estimate of chimney damage. Damage to these items, if any, should be included in the Dwelling estimate.

2. The $10,000 chimney sublimit covers all chimneys at the Dwelling. In other words, the $10,000 sublimit is not applied to each chimney, but is the total limit of insurance coverage for all chimney repair costs, no matter how many chimneys are damaged.

3. The chimney settlement provisions include three different payment options, including one option to cover the cost of replacing damaged chimneys with a non-masonry, earthquake resistant chimney. The least costly of the options will be paid for covered losses. Condition 5-G states in part:

   *To repair or replace a **chimney**, **we** will not pay more than the least of the following amounts:*
   *(i) The **sublimit** of $10,000 that applies to **chimneys**;*
   *(ii) The cost of replacement of a masonry **chimney** or **chimneys** with a non-masonry, earthquake-resistant **chimney** or **chimneys**; or*
   *(iii) The necessary amount actually spent to repair the damaged **chimney** or **chimneys**.*

4. A policyholder can also include in a chimney claim the cost to detach and reset a non-damaged satellite dish or antenna during, or to facilitate, earthquake-related chimney repairs (even though these items are not separately covered under the sublimit).

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

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

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

The policy provides the following **sublimit**:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PROPERTY NOT COVERED—COVERAGE A AND COVERAGE B

***We** do not cover*: . . .

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

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

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

4. *To or from the dwelling* –means the policy covers regular pedestrian entry to and exit from the home to either a public sidewalk or a private or public street next to the home.

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

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

The CEA policy covers:

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

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

l) Loss Assessment – Coverage B: Extensions to Dwelling

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

Property Covered—Coverage B,
Item 2: Walkways, driveways, decks and patios…
Item 3: Bulkheads, piers, retaining walls, and masonry fences.

The policy provides:

*4. If the **residence premises** is part of a **common interest development** and that **common interest development** is governed by an **association of owners**, then **we** cover **your** share of **loss assessments** that are legally and properly made against **you** by the **association of owners**, but only to the extent the **loss assessment** is made for the purpose of effecting the repair or replacement of property covered under Items 2 and 3, above, of this "Property*

Covered—Coverage B" section. This coverage for ***loss assessments*** *is provided as a $10,000* ***sublimit*** *of the combined single* ***limit of insurance*** *for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING," and the amount of coverage available under the combined single* ***limit of insurance*** *for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" will be reduced by any amount* ***we*** *pay under this coverage for* ***loss assessments****.*

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

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

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

m) Property Not Covered: Coverage A and Coverage B

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

n) Property Not Covered: Land

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

o) Property Not Covered: Awnings and Patio Coverings

The policy does not cover:

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

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

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

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

p) Antennas, Satellite Dishes, Towers, and Brackets

The policy excludes:

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

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

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

The policy coverage reads in part:

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

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

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

r) Property Not Covered: Exterior Masonry Veneer

The CEA Homeowners policies do not cover:

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

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

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

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

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

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

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

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

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

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

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

t) Property Not Covered: Garages and Outbuildings

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

u) Property Not Covered: Landscaping

The CEA policy does not cover damage to:

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

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

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

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

w) Dwelling Glass - Loss Settlement

Conditions:

5. *Loss Settlement: Coverages A and B.*

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

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

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

x) Coverage C - Personal Property

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

y) Coverage C - Personal Property Subject to a Sublimit

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

1. *$250 in the aggregate on all money, bank notes, coins and medals, including any of these that are part of a collection.*

2. *$250 in the aggregate on all securities, checks, cashier's checks, traveler's checks, money orders, and other negotiable instruments; accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, passports, and tickets.*

3. *$3,000 in the aggregate on all computers and other electronic data processing equipment, including storage media and software used with that equipment, whether or not it is **business property**. Storage media or software that cannot be replaced with other property of like kind and quality on the current consumer retail market is not covered.*

4. *$1,000 in the aggregate on all **business property** other than computers and other electronic data processing equipment, storage media and software.*

5. *$3,000 in the aggregate on all jewelry, watches, furs, precious and semi-precious stones, but not more than $1,000 for any one article.*

6. *$3,000 in the aggregate on all **collectibles**, including but not limited to sports cards; **collectible** dolls, model trains, or toys; **collectible** postage stamps; **collectible** autographed items; memorabilia; and commemorative or otherwise **collectible** plates, spoons, or cups; regardless of whether any such item is a single item or part of a collection.*

7. *$3,000 in the aggregate on all beverages contained in bottles or in other glass, ceramic, or pottery containers, including but not limited to wine, port, liquor, beer, and all other alcoholic or non-alcoholic beverages.*

z) Coverage C - Personal Property Not Covered

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

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

We *do not cover:*
…

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

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

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

aa) Coverage D - Loss of Use

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

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

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

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

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

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

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

If there is a question of coverage, use Attachment 5 with any advance payment.

bb) Other Coverages: Emergency Repairs

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

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

1. *Emergency Repairs. If covered damage occurs to covered property and such emergency measures are made necessary as the result of an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** will pay the following portion of the cost **you** incur for reasonable and necessary emergency measures **you** take (1) to protect against further damage to covered property, or (2) if a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the DECLARATIONS page of this policy and the **dwelling** is otherwise habitable, to remove from covered property in the **dwelling** the residue of broken glass or to repair or replace covered broken windows in the **dwelling** or other covered structural glass that is part of the **dwelling**. This Emergency Repairs coverage provides coverage up to a **sublimit** of 5% of the policy **limit of insurance** for the type of property being protected. The applicable total **limit of insurance** for the type of property being protected will be reduced by any amount **we** pay for this coverage, but **we** will never pay more for emergency repairs than 5% of the policy **limit of insurance** for the type of property being protected.*

    a. *The first $1,500 of covered costs **you** incur for such reasonable and necessary emergency measures is not subject to the application of any deductible. Costs **you** incur for such emergency measures in excess of $1,500 are subject to the application of the deductible that applies to the type of covered property being protected, which means that until **you** satisfy the applicable deductible amount, you will not be paid for any such costs **you** incur above $1,500.*

*b. **Your** taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve **you** of **your** responsibilities outlined in "**Your** Duties After Loss (CONDITIONS, Item no. 3).*

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

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

cc) Other Coverages: Building Code Upgrade

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

OTHER COVERAGES

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

1….

2. Building Code Upgrades.

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

*only up to the **limit of insurance** for "OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the **DECLARATIONS** page.*

*If a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the DECLARATIONS page of this policy and there is a covered loss to property covered under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" in excess of the applicable deductible and **you** repair that covered property, then subject to the **limit of insurance** for "OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the DECLARATIONS page, **we** cover the cost of reconstruction to bring that property up to local residential building code standards in effect on the date of the **earthquake** that caused the loss, but only so much of the reconstruction costs attributable to the requirements of securing governmental approval of the reconstruction permit process for repair of that covered property.*

*Although no payment will be made to **you** under this coverage unless **you** repair that covered property, the full amount of loss covered under this coverage, up to the **limit of insurance** for "OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the DECLARATIONS page, will be applied to meet the deductible, as set forth in Item 2 of "COVERAGE A: DWELLING AND COVERAGE B: EXTENSIONS TO DWELLING, Computation of Deductible – Coverage A and Coverage B."*

When evaluating Building Code Upgrade coverage, remember:

1. Use the cost of the building code upgrade in the deductible calculation.
2. The covered property must actually be repaired or replaced, and the cost incurred, before payment is made for Building Code Upgrade coverage. There is a limited exception to this rule – CEA Homeowners policies permit pre-payment of code upgrade costs only if it is clear, in the claim representative's professional judgment:
    - the property is going to be repaired or replaced;
    - the code upgrade cost is known (or it is known that code upgrade costs will exceed the Building Code Upgrades coverage limit); and
    - making pre-payment will complete the claim process.
3. Building Code Upgrade coverage is additional insurance to the Coverages A and B CSL.
4. Building Code Upgrade coverage covers the cost to bring the covered property up to local residential building code standards in effect on the date of the earthquake that caused the loss.
5. The coverage pays only for the Building Code Upgrade costs required to secure a reconstruction permit for repair or replacement of the covered property.

5.6. If the dwelling is rebuilt or replaced at another location other than the insured location (such as by the construction of a new home different location or purchase of an existing home at another location) the claim payment should include an amount for Building Code Upgrades coverage equal to what the building code upgrades would have been had the dwelling been repaired or replaced at the insured location shown on the declaration.

dd) Other Coverages: Land Stabilization

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

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

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

Land is excluded from the definition of "Dwelling," but note:

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

ee) Other Coverages: Energy Efficiency and Environmental Safety Upgrades

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

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

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

*If a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the DECLARATIONS page of this policy and there is a covered loss to property covered under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" in excess of the applicable deductible, **we** will pay **your** cost to repair or replace that property with material that meets the following standards regarding environmental safety and energy efficiency.*
*This coverage will apply to the added costs **you** incur to repair or replace that property with material that meets those standards as compared to the **replacement cost** of that property with material that does not meet those standards. This coverage is provided as a $25,000 **sublimit** of the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING," and the combined*

*single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" will be reduced by any amount **we** pay under this coverage.*

*The most **we** will pay for the replacement or upgrade of any item of covered property is 200% of its **replacement cost** using material that does not meet the following standards regarding environmental safety and energy efficiency.*

Losses covered under this coverage are not applied to meet the combined deductible for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING."

a. *Energy Efficiency Upgrades: **We** will pay the reasonable added costs **you** incur to replace damaged covered property with the following energy-efficient property:*

   i. *Electronic Equipment – Energy Star Replacement. If there is covered loss to electronic equipment, including but not limited to equipment for heating, ventilation, and air conditioning (HVAC) systems, that is part of the **dwelling** and that is covered under "COVERAGE A: DWELLING," and that electronic equipment must be replaced rather than repaired, then **we** will pay the reasonable expenses **you** incur to replace damaged or destroyed electronic equipment with equipment of otherwise equivalent quality and function that has been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.*

   ii. *Window, Door, Roofing, and Insulation Energy Upgrades. If there a loss to the **dwelling** that requires the repair or replacement of roofing or insulation material, air sealing, windows, doors, or skylights, then **we** will pay the reasonable expenses **you** incur to replace those damaged or destroyed materials with materials of otherwise equivalent quality and function that have been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.*

   iii. *Plumbing Fixture Upgrades. If there a loss to the **dwelling** that requires the repair or replacement of plumbing fixtures, then **we** will pay the reasonable expenses **you** incur to replace those fixtures with energy and water efficient fixtures, including automatic faucet sensors, faucet and shower head flow restrictors, dual flush toilets, and localized water heaters, using plumbing fixtures of otherwise equivalent quality and function provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of the U.S. Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines.*

b. *Environmental Safety Upgrades. **We** will pay reasonable added costs **you** incur to repair or replace the damaged or destroyed property covered under "COVERAGE A: DWELLING" with the following environmentally-upgraded property, provided that the upgraded property meets the requirements of the Leadership in Energy and*

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

*i. Interior Finish Materials Upgrades. If there is a covered loss to the **dwelling** that requires the repair or replacement of interior finish materials, then **we** will pay the reasonable expenses **you** incur to replace those materials with materials of otherwise equivalent quality and function that are low in volatile organic compounds (VOC), sustainably developed, rapidly renewable, or comprised of recycled materials. This coverage applies to interior paints, architectural coatings, primers under coatings, adhesives and sealants, low emissions carpet and floor coverings, including adhesive to affix them to the floor, and permanently installed composite wood fixtures including counters, cabinets and partitions, where available, Forest Stewardship Council certified wood for millwork, ceilings, siding, and framing, and bamboo flooring.*

*ii. Elimination of Ozone-Depleting Substances Upgrades. If there is a covered loss to the **dwelling** that requires the repair or replacement of systems containing such items, then **we** will pay the reasonable expenses **you** incur to replace chlorofluorocarbon refrigerants (CFC) or hydro-chlorofluorocarbon (HCFC) or Halon refrigerants or fire extinguishing agents with environmentally-upgraded replacements.*

*iii. Flush Out of Reconstructed Space. If necessitated by the repair or replacement of covered loss to the **dwelling**, **we** will pay the reasonable and necessary costs to flush out the reconstructed space with 100% outside air and new filtration media following completion of the repair or reconstruction process.*

ff) Losses Excluded

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

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

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

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

gg) Losses Excluded: Fire and Explosion

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

If part of the home is damaged by a covered earthquake and part of the home is damaged by a fire, a separate claim representative must be assigned to each claim.

Both claim representatives must, to the extent possible, coordinate their inspections; with the goals of minimizing inconvenience to the policyholder due to multiple inspections from different adjusters, and ensuring the two representatives see the same damage at the same time to better determine the proper allocation of damage to the appropriate policy.

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

hh) Losses Excluded: Water Damage

The policy reads in part:

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

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

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

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

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

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

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

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

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

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

ii) Losses Excluded: Asbestos and Other Pollutants

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

Because this exclusion applies to personal property, the policy does not cover asbestos removal, including the cost of testing, if the loss is to items listed under Coverage C. There is not coverage for damage to any personal property contaminated by asbestos, including furniture, furnishings, and clothing.

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

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

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

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

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

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

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

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

Following is a brief summary of the coverages, exclusions, and limitations provided by the CEA condominium policy. This policy has many of the same provisions found in the CEA Homeowners policy, with some unique features.

Always review the specific policy in force at the time of the claim to confirm the policy type, coverages, limits, deductible amounts, and exclusions. This Manual is not a substitute for reading the policy. Claim representatives must also review the condominium association master policy, and the association governing documents, when evaluating a condominium loss.

a) Policy Definitions

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

b) Adjusting Condominium Claims – Coordination

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

c) Other Earthquake Coverage

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

8. Other Insurance.

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

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

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

d) Duties After a Loss

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

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

e) Overview of the Declarations Page and Coverage Options

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

Coverage A: BUILDING PROPERTY
Coverage C: PERSONAL PROPERTY together with Coverage D: LOSS OF USE
Coverage E: LOSS ASSESSMENT

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

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

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

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

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

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

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

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

f) Losses Excluded

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

g) Deductibles

One difference between the CEA Condominium policy and CEA Homeowners policies is how deductibles are handled. Unlike the Homeowners policies, in the Condominium policy, each of the policy coverages has its own separate deductible (except for Loss of Use, which does not have a deductible). Only loss to property covered under a specific coverage counts against the deductible for that coverage.

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

h) Building Property - Coverage A

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

A single-family residence usually has one owner and stands separate from other structures. In contrast, a condominium project is a collection of separate dwelling units together with property owned jointly by many owners. Property owned jointly may include the structure in which the individual units are located, common walkways, pools,

and other common property. Often, the association of owners has obtained a policy of insurance, referred to as an "association master policy," which may insure against the perils of fire, earthquake, or both.

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

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

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

We *cover:*

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

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

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

i) Emergency Repairs – Coverage A

The cost of Emergency Repairs under Coverage A: Building Property will only be paid if damage exceeds the Coverage A deductible. Emergency Repairs coverage provides coverage up to a <u>sublimit</u> of $1,500 of the policy limit. (Do not confuse this with the

$1,500 that can be paid on a CEA Homeowners policy before the Coverage A: Dwelling policy deductible is met.)

j) Debris Removal – Coverage A

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

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

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

k) Loss Settlement – Coverage A

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

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

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

l) Personal Property – Coverage C

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

Condominium owner policyholders may purchase optional coverage for breakable items by adding a Coverage for Breakables (CEA 04A 01-2016) endorsement to the Personal

Property coverage. The endorsement provides coverage for the "Breakable items" listed in the policy, up to the Coverage C limit. Personal Property sub-limits stated in the policy continue to apply. If purchased, the endorsement is listed on the Declarations page.

m) Emergency Repairs – Coverage C

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

Other Coverage—Coverage C

We *provide the following other coverage:*

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

1. *This Emergency Repairs coverage provides coverage up to a* ***sublimit*** *of the lesser of (i) 5% of the policy* ***limit of insurance*** *for "COVERAGE C: PERSONAL PROPERTY" or (ii) $1,000. The applicable total* ***limit of insurance*** *for the "COVERAGE C: PERSONAL PROPERTY" will be reduced by any amount* ***we*** *pay for this coverage.*

2. ***Your*** *taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve* ***you*** *of* ***your*** *responsibilities outlined in "****Your*** *Duties After Loss" (CONDITIONS, Item no. 3).*

n) Loss of Use – Coverage D

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

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

o) Loss Assessment – Coverage E

A loss assessment is a demand by an association of owners, requiring the dwelling unit owner to pay for damage to commonly-owned property. A loss assessment may be covered, but only to the extent that the assessment relates to the repair or replacement of

covered earthquake-damaged association property (covered under Coverage E). For example, damage to swimming pools is included in the list of "Losses Not Covered" under Coverage E, so if the association assesses a CEA policyholder for a share of the damaged pool repair costs, the CEA policy does not pay for any part of that loss assessment.

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

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

*a. Requirement One: **You** have a legal obligation to pay the amounts assessed against **you** by the **association of owners**, and the assessment is properly and legally made as a result of a loss that is directly caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period;*

b. Requirement Two: The assessment is not made as a result of a loss specified in "Losses Not Covered—Coverage E"; and

*c. Requirement Three: The assessment is made as a result of a loss that is to property owned by one or any combination of the following three categories: (i) all members of the **association of owners** collectively, (ii) the **association of owner**s, or (iii) **you**.*

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

Examples:

- There is no association master policy to cover earthquake damage, and each condominium owner is assessed $10,000 to fix the roof of the complex. If the CEA condominium loss assessment deductible is met, the assessments for earthquake-damaged roof repairs could be a covered loss under the insured's CEA policy.

- Same facts as above, but the loss assessment for $10,000 is for landscaping repairs. Even if the CEA condominium loss assessment deductible is met, this assessment would not be covered under the insured's CEA policy.

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

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

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

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

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

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

*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."*

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

q) Building Code Upgrades – Coverage A and Coverage E

Under LOSSES EXCLUDED, the policy provides the following:

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

r) Ingress and Egress

The condominium policy specifies, under:

Property Not Covered—Coverage A

***We** do not cover:*

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

And under Coverage E, Loss Assessment, it reads:

LOSSES NOT COVERED—COVERAGE E

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

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

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

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

3. BASIC EARTHQUAKE POLICY – RENTERS

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

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

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

a) Personal Property – Deductible – Renters Policy

The CEA Renters policy provides for the following deductibles:

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

b) Loss of Use – Renters Policy

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

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

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

c) Policy Exclusions – Renters Policy

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

E. CLAIMS INVESTIGATION PROCEDURES

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

1. A Companion Policy Must Be in Force

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

2. California Fair Claims Settlement Practices Regulations and Other Laws

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

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

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

3. Claim File Documentation

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

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

4. Complete Investigation

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

All CEA claim files must include the CUREE Guidelines General Damage Earthquake Inspection Checklist found in the CUREE EDA2 (Earthquake Damage Assessment) document, available on the Web site at http://www.cureedocs.org. This checklist is used by a claim representative during the initial inspection of the home. Use of the CUREE inspection checklist ensures consistent and complete inspections by all the CEA participating insurance companies. The checklist must be used by both company and independent adjusters.

When a claim representative is investigating a claim and there is evidence of earthquake damage in the attic or crawlspace, or the home has suffered structural earthquake damage, the claim representative must inspect the home's attic and crawlspace (if they are safely accessible). In these cases, use the attic and/or crawlspace inspection checklists contained within document EDA2 of the CUREE Guidelines, available at www.cureedocs.org. The CUREE inspection checklists can also be requested from the CEA Claim Director.

While most inspections will be done by a claim representative, CEA understands the claim representative may have an engineer, contractor, etc., conduct an inspection of the

home. Include in the claim file the results of these inspections. Always use appropriate personal safety measures during inspections.

5. Keep the Policyholder Informed

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

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

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

6. Timely Adjusting - SBA and FEMA Requirements

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

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

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

7. Proof of Loss

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

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

8. Emergency Repairs

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

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

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

a) The first $1,500 of Emergency Repairs is paid without a deductible;
b) Covered Emergency Repairs must not exceed the policy sublimit of 5% of the applicable limit of insurance for the covered property (Coverages A & B or Coverage C);
c) Emergency Repairs in excess of $1,500 — but only up to the 5% Emergency Repairs sublimit — are subject to the deductible and used in its calculation. Use the CEA Excel Deductible Calculator to help keep track of this sublimit.

Condominium – Emergency Repairs

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

Renters – Emergency Repairs

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

9. Scope of Loss and Estimates

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

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

Claim representatives may need to reevaluate an estimate, if notified that the actual costs of repairs differ from the costs listed on the original estimate. Any additional earthquake damage found after repairs have begun must also be evaluated for coverage.

Engineers or experts should be used when appropriate. (See section E10, below.)

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

10. Use of Engineers or Experts

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

However, earthquake damage can manifest itself in a variety of forms, from minor cracking of interior sheetrock, to major failure of the foundation system. An engineer should be used when the damage appears to be structural in nature. The services of an expert will assist in the analysis of the cause, extent of loss, and the proper way to repair the damage. The claim representative must understand the distinctions between the various expert fields, and how they can be best used during the claim investigation. One source of earthquake engineering information is the CUREE "General Guidelines for the Assessment and Repair of Earthquake Damage in Residential Woodframe Buildings." www.cureedocs.org.) Look for the EDA2 document.

a) When to Retain an Engineer or Expert

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

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

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

b) What Kind of Engineer to Select

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

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

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

c) Locating Qualified Engineers

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

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

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

d) Written Contract Specifying the Scope of Services

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

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

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

e) Payment of Expert Fees

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

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

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

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

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

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

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

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

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

Most concrete work, especially house and garage floor slabs, develop small cracks over time. This is considered normal, and generally does not impair the structural function of the concrete. The cost to repair old cracks in the concrete that existed prior to the earthquake is not covered; new damage due to the earthquake, which might include expansions of old cracks, is covered.

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

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

13. Reasonably Uniform Appearance of Repairs

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

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

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

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

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

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

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

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

15. Overhead and Profit

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

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

16. Double Coverage

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

17. Suspected Fraudulent Claims

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

Refer suspected fraudulent claims to the Participating Insurer's Special Investigation Unit (SIU). Request a Proof of Loss, as stated in the policy conditions. Claim representatives must be trained to recognize insurance fraud. Document in the claim file evidence of teamwork between SIU and the claims handler in resolving the issues in question.

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

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

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

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

claim indemnity payment. The claim file must be documented to support the decision made by the claim representative.

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

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

19. Subrogation

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

The Participating Insurer is responsible for the subrogation process.

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

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

20. Salvage

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

21. Loss Settlement Disputes

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

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

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

22. Coverage Disputes

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

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

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

a) Claims under the deductible:

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

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

If an insured makes a claim and a Participating Insurer makes no payment because the damage is not covered by the policy in force, the Participating Insurer must inform the policyholder in writing that the claim is being denied, **and the letter must quote the policy provisions on which the decision is based**. The CEA has not provided a sample letter for this situation, but some of the wording found in Attachment 6 may be useful. Participating Insurers must email a copy of the denial letter to the CEA Claim Director for review and approval as to form, before mailing it to the insured. (See Section A29 i).)

c) Claims with a combination of both above situations

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

Regarding homeowner claims, a denial letter must:

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

Denial letters under all policies should:

- inform the insured of his or her right to obtain further inspections and to obtain new estimates, if necessary;
- explain to the insured that Loss of Use coverage has no deductible, and the insured may apply for Loss of Use payments later if a covered loss makes the dwelling unfit to live in and it needs to be vacated during repairs (this is true even if the Coverage A and B damages are under the deductible);
- invite the insured to submit any documents showing the loss exceeds the deductible;
- advise the insured of the one-year (two -years if loss is related to a state of emergency, as defined in subdivision (b) of section 8558 of the California Government Code) requirement to bring legal action, and quote the language from the policy; and
- include the required wording regarding how to contact the California Department of Insurance.

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

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

24. Usage of the Name "California Earthquake Authority" in Letters

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

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

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

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

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

For example:

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

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

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

For example: Sincerely,

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

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

Claims settlement checks: If the payment check includes a field to name the company on whose behalf the payment is being issued, use "California Earthquake Authority."
CEA return address: Do not use the CEA 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]."

25. Claim Payment Ratio

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

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

26. Media Inquiries

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

Discuss a claim only with the CEA policyholder.

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

Attachment 1. Coverage Chart – Homeowners vs. Homeowners Choice

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

Attachment 2. Coverage Chart – Common Interest Development, Renters

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

Attachment 3. Example of CEA Coverage Review Form

Your Name: Jane Claims Manager XXX Insurance Company		Contact phone number: 123-456-7890	
Your claim representatives Name: John Q. Adjuster	Date of Loss: 9/03/16	Coverage Limit:	Coverage Deductibles:
Policy #: 123-456-789	Policy Period: 02/07/16 – 02/07/17	A 200,000	A 15% 30,000
Insured: David and Liz Insured		C 5000	C N/A
Property Address: 123 Main Street		D 1500	 N/A
City, St, Zip Any town, CA 12345		Code: 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	

Description of loss: The Insured's home was damaged by an earthquake on 9/03/2016. The house is of two-story woodframe construction with a perimeter concrete foundation. There is also a guesthouse (one story) of similar construction that includes a bedroom, bath, kitchen, and a two-car garage. The two structures are built end-to-end, north to south, with a breezeway connecting the north-end of the house and the south end of the guesthouse. The breezeway shares a roofline with the guesthouse. The roof is connected to the north-end wall of the house. A wall on the west side of the breezeway connects to both the house and guesthouse, enclosing the west side of the breezeway. The breezeway is of woodframe construction on its own perimeter foundation. The foundation abuts the foundations of the house on the south side and the guesthouse on the north.

Coverage question: Is the guesthouse a dwelling as defined by the policy and if so, can it be considered under COVERAGE A: 'DWELLING'? 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.

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 *must* 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.

Our recommendation: As such, the guesthouse would appear to fall under "COVERAGE A: 'DWELLING' 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.

Submitted by: Jane Q. Manager	Date: 10/03/16	

Coverage Review Form - California Earthquake Authority

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

Attachment 4. Testing Authorization Agreement

Testing Authorization Agreement

Claim Number: _____ Date of Loss: _____

Name: _____ Date of Agreement: _____
(Policyholder)
Address: _____

City: _____ State: ___ Zip: _____

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

1. _____[Name of Participating Insurer]_____ ("the Insurer"), a Participating Insurer of the California Earthquake Authority ("the CEA"), and I [we] disagree (i) as to whether my [our] home has sustained covered earthquake damage over the deductible amount of my [our] insurance policy issued by the CEA, and (ii) as to the need for further testing to determine the extent or cause of damage to my [our] home. The Insurer contends that additional testing will not establish the existence of covered earthquake damage over the amount of the deductible, and I [we] believe that additional testing will establish that my [our] home sustained covered earthquake damage over the amount of the deductible.

2. The Insurer has advised me [us] that, pursuant to the terms of my [our] insurance policy, the Insurer will not authorize any additional testing as part of the claims adjusting process unless I [we] agree that, in the event additional testing is performed and that testing fails to establish the existence of covered earthquake damage over the amount of the deductible of the insurance policy issued by the CEA, I [we] will pay for the cost of conducting that testing, including the cost of repairing any damage to my [our] property caused by any destructive testing that is conducted.

3. I [we] therefore request the Insurer to authorize the following testing:
_____
_____
_____[DESCRIPTION OF TESTING REQUESTED BY POLICYHOLDER] _____

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

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

   CEA Participating Insurer: _____

Attachment 5. Advanced Payment Agreement

Advanced Payment Agreement

Name
Address
City, State

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

Dear _____,

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

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

1) This advance shall not be considered as any admission that payment is due under any portion of the policy;

2) If we determine that payment is not required under the terms and conditions of the policy, you will repay the advance;

3) In making this advance, we reserve all rights and do not waive any terms, conditions or requirements under the policy, nor any rights we have; and

4) Other than as agreed in this letter, you reserve your rights as well.

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

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

Sincerely,

XXXXXXXXXXX

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

_____
[Insured]

Attachment 6. CEA Under-Deductible Letter

Sample Wording for Under Deductible Denial Letter on a Homeowners Policy

Dear XXXXXX,

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

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

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

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

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

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

CONDITIONS

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

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

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

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

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

Attachment 7. Sample Property Loss Notice

Property Loss Notice – Report of New Earthquake Claim

To: _____ Fax # _____
(Name of Insurance Company) (Insurance company claim reporting Fax telephone number)
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
(Circle one)

Caller's Name: _____

Your phone number in case we get disconnected: (_____) _____- _____ext. _____

The name of your insurance company: _____

Your policy number: _____ Effective Date: _____

Policy Type: HO Condo Renters Mobilehome - Date damage occurred: _____
(Circle one)

Your Agent's Name: _____ Agent's Phone # (_____) _____

Are you the Insured: Yes No a. If not, what is your relationship to the insured: _____
(Circle one) If Yes, go to c. If No, answer a & b.)

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: _____
(It is important that you verify the insured's name, telephone # & policy number.) (Complete only if they request, i.e. Spanish)

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: _____

CLAIM MANUAL

CALIFORNIA EARTHQUAKE AUTHORITY

APPROVED BY THE INSURANCE COMMISSIONER, 0X/0X/20XX

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INTRODUCTION

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

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

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

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

THE ROLE OF THE PARTICIPATING INSURANCE COMPANY

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

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

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

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

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

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

A. GENERAL CEA CLAIMS INFORMATION

1. CEA Claim Director – Duties and Responsibilities

The CEA has a Claim Director whose duties include:

a) Maintaining and communicating CEA procedures for handling CEA claims;
b) Ensuring the claim data sent from PIs to the CEA is accurate;
c) Following up for accurate reserves;
d) Approving claim reimbursement payment requests from PIs;
e) Answering claims-related questions from PIs;
f) Assisting Participating Insurers with earthquake claims training;
g) Monitoring Participating Insurers' earthquake claims response procedures;
h) Traveling to the site of the earthquake as needed;
i) Chairing the CEA Claims Coverage Committee regarding policy and coverage interpretations (See section A10, page 20); and
j) Initiating and coordinating reinspections and claim file reviews after an earthquake (See section A12, page 22).

2. Participating Insurer Claim Liaison – Duties and Responsibilities

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

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

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

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

a) California Earthquake Claims Accreditation. A CEA Claim Liaison must be California Earthquake Claims accredited. The earthquake accreditation process is described in the California Code of Regulations, Title 10, Chapter 5, Subchapter 7.5.1 - Insurance Adjuster Training for Evaluating Earthquake Damage. https://govt.westlaw.com/calregs/Browse/Home/California/CaliforniaCodeofRegulations?guid=IC89C3E10D49211DEBC02831C6D6C108E&originationContext=documenttoc&transitionType=Default&contextData=(sc.Default)

b) CEA Claim Manual. A CEA Claim Liaison must be familiar with the CEA Claim Manual (available on the CEA website www.EarthquakeAuthority.com.)

c) CEA Insurance Policies and Coverage. CEA Claim Liaisons must understand CEA insurance policies and how policy coverages function. Online CEA-coverage training is available on the CEA website at: www.EarthquakeAuthority.com.

d) CEA Policy Deductibles. CEA Claim Liaisons must understand how to calculate CEA insurance-policy deductibles. CEA recommends training on the CEA policy-deductible calculation by practicing using the CEA's online CEA Deductible Calculator, an Excel worksheet found on the adjuster page of the CEA website. (NOTE: A copy of the deductible calculation, made using this Excel deductible calculator, must be placed in every CEA claim file containing the documentary evidence of how the adjuster scoped and estimated earthquake damage and adjusted the CEA claim.)

e) Reserves. Reporting claim reserves accurately is imperative, to permit the CEA to calculate its total, potential claim-payout. Participating Insurers must report all new CEA earthquake claims to the CEA, whether or not the Participating Insurer expects the claim to exceed the deductible. If the claim is expected to be under the deductible, it should be reported with a "zero dollars" reserve (or the lowest reserve amount allowed by the Participating Insurer's claim system).

f) Payment Authority. A CEA Claim Liaison has full authority to pay a CEA earthquake claim up to the CEA policy limit. The CEA Claim Director is available for consultation.

g) CUREE Guidelines. Following an earthquake, each Participating Insurer and its claim personnel must be familiar with, and have a plan for the appropriate use of, the *General Guidelines for the Assessment and Repair of Earthquake Damage in Residential Woodframe Buildings*, published by the Consortium of Universities for Research in Earthquake Engineering ("CUREE"). The document is available at http://www.cureedocs.org

h) Engineers. Participating Insurers must prepare and keep updated an approved list of engineers that can be used after an earthquake. Engineers used to assist in evaluating CEA earthquake claims must be professionally familiar with and use the CUREE *Guidelines*, including *Guidelines* Chapter 9: guidance on what to include in an engineering report that assesses earthquake damage.

i) Independent adjusting companies. If needed, Participating Insurers should secure necessary claim-adjusting companies with catastrophe-claim expertise and assure any independent adjusters handling CEA claims are California Earthquake Claims accredited.

j) Be aware of the occurrence of earthquakes. Register to receive official notifications of earthquakes on cell phones and tablets: https://earthquake.usgs.gov/ens/

k) Daily reporting requirements. Some earthquake events may require a certain period of interim manual reporting immediately following an event, until data and systems are in-sync. In these cases, the CEA will request that the CEA Claim Liaison report

daily claim numbers to the CEA by email sent to ceaclaims@calquake.com. (The CEA estimates the usual duration of the interim reporting at 15 days.) The CEA requires the following information be reported at the end of each working day:

1. Date of the report;
2. Name of Participating Insurer;
3. Name of contact person at Participating Insurer (email and phone number);
4. Total number of claims, and the status of each (open or closed), received from the earthquake (the total number of claims, not a tally by coverage);
5. Of the total number of claims, the number closed;
6. The current total dollar amount of all open reserves; and
7. The current total dollar amount of all paid CEA claims, to date.

l) Attend annual CEA claim-manager conference. Annual training is offered to all CEA Claim Liaisons and includes training on CEA policies and claim procedures, as well as other pertinent CEA-related topics.

m) Annual CEA claim-response plan (cat plan). CEA Claim Liaisons must complete an annual claim-response questionnaire at year-end.

Duties of a CEA Claim Liaison

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

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

i. **Claims where the damages are not covered by the earthquake policy in force.** When an insured attempts to make a claim under a CEA earthquake insurance policy, and a Participating Insurer makes no payment because the loss is not covered by a 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 provision(s) on which the decision is based. The Participating Insurer must send a copy (by email) of the denial letter to the CEA's Claim Director for review, and approval as to form, before sending the letter to the insured. (See Section E23, page 72, for more guidance on denial letters, and see Attachment 6 for sample language.)

ii. **Any legal action filed on a CEA claim; any notice or knowledge of any legal action against a Participating Insurer on a CEA claim; and any legal action where the name California Earthquake Authority or CEA appears.**
A Participating Insurer must immediately notify the CEA Claim Director if it obtains any formal or informal knowledge of the initiation of any legal actions described in the heading of this paragraph. In such cases, the Participating Insurer must immediately provide copies of all documents received by or served on the Participating Insurer to the CEA's Claim Director. No Participating Insurer is authorized to accept service of legal process on the CEA's behalf.

iii. **Department of Insurance complaints or requests for assistance.** If a Participating Insurer receives notice of any policyholder or consumer complaint, or policyholder or consumer request for assistance, made to the California Department of Insurance (CDI) concerning the Participating Insurer's handling of or involvement in any CEA-related matter, the Participating Insurer must immediately provide a copy of the Department of Insurance complaint and any supporting or related documentation to the CEA's Claim Director, and follow up with a telephone call to 916.661.7101 to ensure the documentation was received. The Participating Insurer may provide the appropriate response to the CDI without the CEA's prior approval of the response, but the Participating Insurer must send the CEA's Claim Director a copy of the response that was sent to the policyholder and the CDI. Until the complaint or other issue brought to the CDI's attention is finally resolved, the Participating Insurer must provide to the CEA's Claim Director by email a copy of all complaint-related correspondence to or from the CDI.

iv. **Taking claims to appraisal or Department of Insurance mediation.** Participating Insurers must:

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

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

3. Adjuster Training Requirements

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

The CEA does not specify the claim-handling forms a Participating Insurer must use. Each company may use any appropriate property claim-handling form or forms that it uses for non-earthquake property claims.

Notwithstanding the foregoing, the under-deductible denial letter, addressed in section E23, page 71, must be used in the form directed by the CEA.

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

a) Training on the CEA Policy

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

b) Fair Claims Settlement Practices Regulations: Training

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

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

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

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

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

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

c) Insurance Adjuster Training for Evaluating Earthquake Damage

The CEA requires each Participating Insurer that handles CEA claims complies 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.*

d) Unique Issues when Handling Earthquake Damage – CUREE Guidelines

Participating Insurers are encouraged to use the CUREE Guidelines EDA-02 (http://www.cureedocs.org) as a source of training material that can be used to train claim representatives on the unique issues in evaluating earthquake damage to residential structures. Some examples of information available:

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

4. Types of CEA Policies

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

a) Basic Earthquake Insurance Policy – Homeowners – Form BEQ-3B (01-2019 edition) (form applicable to new and renewal business incepting July 1, 2019 and thereafter)
This policy insures owners of dwellings (site-built homes), manufactured homes, and mobilehomes, and provides these coverages:

1. Dwelling: The limit of insurance for Coverage A: Dwelling and Coverage B: Extensions to Dwelling have a combined single limit (CSL) in the CEA policy, as listed on the policy's Declarations page (BEQ-3B DP (01-2019 edition)) that is the same as the Coverage A limit of insurance listed on the Declarations page of the Participating Insurer's companion homeowner/fire policy.
   Dwelling deductible options are 5%, 10%, 15%, 20%, or 25% of the CSL.

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

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

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

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

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

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

4. Coverage for Exterior Masonry Veneer (CEA 03A (01/2016)): This endorsement deletes the policy exclusion for exterior masonry veneer and provides coverage for exterior masonry veneer in an amount up to the Coverage A & B CSL stated on the Declarations page. NOTE: This optional coverage is not available for manufactured homes or mobilehomes.

5. Coverage for Breakables (CEA 04A (01/2016)): This endorsement deletes the policy exclusion for breakable items and provides coverage for breakable items up to the Coverage C: Personal Property limit of insurance stated on the Declarations page.

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

b) Basic Earthquake Insurance Policy – <u>Homeowners Choice</u> – BEQ-3C (01-2019 edition) (form applicable to new and renewal business incepting July 1, 2019 and thereafter)

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

1. Dwelling: The limit of insurance for Coverage A: Dwelling and Coverage B: Extensions to Dwelling have a combined single limit (CSL) in the CEA Homeowners Choice policy, as listed on the policy's Declarations page (BEQ-3C DP (01-2019 edition)), that is the same as the Coverage A limit of insurance listed on the Declarations page of the Participating Insurer's companion homeowner/fire policy.
   Deductible options are 5%, 10%, 15%, 20%, or 25% of the CSL.

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

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

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

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

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

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

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

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

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

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

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

5. Coverage for Exterior Masonry Veneer (CEA 03A (01/2016)): This optional endorsement deletes the policy exclusion for exterior masonry veneer and provides coverage for exterior masonry veneer, up to the Coverage A & B CSL Dwelling and Extensions to Dwelling limit of insurance stated on the Declarations page. NOTE: This optional coverage is not available for manufactured homes or mobilehomes.

6. Coverage for Breakables (CEA 04A (01/2016)): This optional endorsement deletes the policy exclusion for breakable items and provides coverage for breakable items up to the Coverage C: Personal Property limit of insurance stated on the Declarations page.

c) Basic Earthquake Insurance Policy - Renters - Form BEQ-4B (01-2019 edition) (form applicable to new and renewal business incepting July 1, 2019 and thereafter)

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

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

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

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

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

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

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

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

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

d) Basic Earthquake Policy - Common Interest Development - Form BEQ-6B (01-2019 edition) (form applicable to new and renewal business incepting July 1, 2019 and thereafter)

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

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

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

1. Option One – Coverage A: Building Property

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

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

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

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

   With this option, the policyholder will have coverage for both Coverage C and Coverage D, available in the following amounts:

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

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

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

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

3. Option Three – Coverage E: Loss Assessment

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

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

4. Coverage for Breakables (CEA 04A (01/2016)): This optional endorsement deletes the policy exclusion for breakable items and provides coverage for breakable items, up to the Coverage C: Personal Property limit of insurance stated on the policy's Declarations page (BEQ-6B DP (01-2019 edition)).

5. Reporting Claims to the CEA

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

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

6. Claim Representatives and Handling Claims to Conclusion

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

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

California Insurance Code section 10082.3 pertains to a related issue:

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

7. Companion Policy Required

CEA policies are sold and issued solely through Participating Insurers.

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

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

8. Claim Reserving

The aggregated reserves on reported claims provide the CEA's first estimate of severity of an earthquake and the CEA's ultimate, aggregate insured exposure for the event. A claim representative must quickly and efficiently set a reserve that represents his/her best estimate of a claim's ultimate cost. Reserved amounts should be adjusted as soon as new

information is learned that would affect the ultimate claim cost. When there is a legitimate question of coverage, the reserve should be set at the estimated value of damage, minus the deductible amount, until the coverage question is resolved.

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

9. Calculating Deductibles for CEA Claims

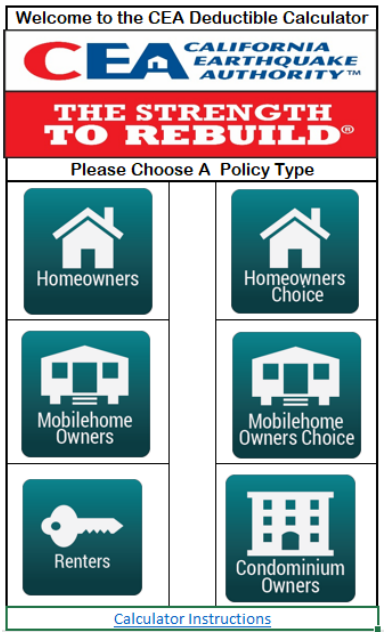
CEA policy deductibles—their structure and amount—may differ substantially from those provided by standard fire insurance policies. To assist in calculating deductibles, the CEA offers an Excel Deductible Calculator that is accessed via the CEA website at www.earthquakeauthority.com.

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

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

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

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



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

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

Policy Information			
Insured Name (Last, First, Middle Initial)		Claim Number	
Adjuster Name (Last, First, Middle Initial)		Policy Number	

Policy Coverage Information			
Coverage	**Coverage Limit**	**Deductible %:**	**Deductible $**
Coverage C - Personal Property	$ 5,000	15%	$ 750
Breakables Coverage	No	See Personal Property	See Personal Property
Coverage D - Loss of Use	$ 1,500	No deductible.	No deductible.

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

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

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

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

10. Policy and Coverage Interpretations

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

a) The Participating Insurer should first attempt to resolve policy and claim coverage questions by consulting this Claim Manual and by using the expertise of its senior claim professionals and claim management.

b) Policy coverage questions that remain unresolved should be referred to the CEA on the CEA Coverage Review Form. —The Participating Insurer must provide a narrative report under each of the applicable headings. Attachment 3 to this Claim Manual comprises an example of a blank Coverage Review Form, as well as a (sample) completed form.

c) The Coverage Review Form should be submitted to the CEA Claim Director with a copy of all claim-file materials necessary for a proper review of the coverage issue. Participating Insurers must use overnight courier service or mail, or must email documents as attachments, to send files to the CEA for review.

d) If important to explain or understand the coverage question, the file must include photographs of damage, documentation of amount of loss, transcribed statements of interested parties, a policy declarations page, policy endorsements, related paper or electronic correspondence, and copies of notes, including electronic notes. Incomplete files can delay claim determinations, and delayed claims can result in regulatory or legal scrutiny.

e) Upon receiving a coverage question from a Participating Insurer, the CEA Claim Coverage Committee reviews the question, and the CEA Claim Director then notifies the Participating Insurer of the CEA's coverage decision. Decisions of general interest or general applicability across all CEA claims will be distributed to all Participating Insurers.

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

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

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

In order to help achieve the CEA's crucial goal of claim-handling consistency across all Participating Insurers, no Participating Insurer should submit a question regarding a CEA claim or CEA policy/coverage interpretation to its own counsel for legal review or legal opinion before submitting the question to the CEA in the manner described immediately above; the CEA's express written consent must be obtained before a Participating Insurer

is authorized to seek a non-CEA-sourced legal opinion on the question. In some circumstances, the CEA may have already issued a coverage opinion pertaining to the topic in question and may be able to share the conclusions of that opinion with the Participating Insurer.

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

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

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

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

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

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

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

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

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

12. Reinspections and Claim File Reviews

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

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

1. The CEA expects Participating Insurers to have their own claim-related quality assurance programs, including a program for field reinspections of claims and reviews or audits of claim files. These programs should be documented and described in the earthquake-response plan each Participating Insurer submits to the CEA annually. (See section B2, page 25, for information regarding the Earthquake Response Plan.)

2. Reinspections: It is often important to reinspect claims early in the claim-handling process to enable the viewing and evaluation of the damage before repairs are completed. A Participating Insurer must always obtain the policyholder's advance permission to conduct an on-premises reinspection.

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

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

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

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

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

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

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

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

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

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

c) Claim-File Review Elements

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

1. Promptness of first contact;
2. Development of initial information;
3. Timely and thorough completion of the scope of damage (listing of damage);
4. Use of CUREE inspection checklist on claims that were inspected;
5. Repair estimate of damages;
6. Use of CEA Excel Deductible Calculator that has an associated repair or replacement estimate or scope;
7. Statements from the policyholder, if warranted;
8. Reserve calculations and reserve adequacy;
9. Coverage information and how it applies to the claim;
10. Effective use of a diary to permit and support timely claims handling;

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

13. Overlapping or Coexistent Insurance Coverage

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

Pay attention to the Other Insurance wording in the CEA policy. This is discussed in more detail in the Condominium section D2c (page 52) of this Manual.

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

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

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

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

B. PRE-EARTHQUAKE DISASTER RESPONSE PREPARATION

1. Pre-Earthquake Planning - General

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

2. Participating Insurer Earthquake Response Plan

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

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

a) Processes to assure that staff and independent adjusters are trained before they are needed for earthquake catastrophe-claim-handling duty. Participating Insurers are responsible for ensuring that their employed claim representatives, and all independent adjusters hired or contracted, are properly trained to handle residential earthquake claims in California. (See section A3 for adjuster training.)

b) Procedures for the first 48 hours of earthquake-catastrophe response:
   1. Processes for accepting new earthquake claims;
   2. Plans for deploying properly trained and accredited initial-response adjusters;
   3. Plans for claim management, including the ability to determine affected policies-in-force;
   4. Resources available: buildings, cars, computers, and other needed equipment; and
   5. Logistical coordination for the response.

c) Procedures for handling first reports of CEA claims and other phone-related support programs, such as, without limitation, available national catastrophe call centers.

d) Procedures for long-term earthquake catastrophe response:
   1. Plans for a sufficient number of properly trained and accredited earthquake adjusters;
   2. Plans for the long–term management of CEA earthquake claims;
   3. Resources available: buildings, cars, computers, independent adjusters, and other required resources;
   4. Logistics: detailed descriptions of how response activities will be coordinated.

e) Procedures for how experts (including engineers) will be used and details on pre-earthquake arrangements for these services.

C. POST-EARTHQUAKE RESPONSE

1. CEA Claim Director

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

2. Participating Insurer Catastrophe Claim Managers

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

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

3. Claim Counts

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

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

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

a) Date of the report;
b) Name of Participating Insurer;
c) Name of Participating Insurer's contact person, including email and phone number;

d) Total number of claims and status (open, closed) received as a result of the earthquake (total claims, not a tally by coverage);
e) Out of the total number of claims, how many are closed;
f) The current total dollar amount of all open reserves;
g) The current total dollar amount of all paid CEA claims, to date.

4. Catastrophe Offices

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

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

5. CEA Event Code and Date of Loss

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

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

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

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

The CEA will communicate the Event Code to all Participating Insurers as soon as possible following the earthquake's initial seismic activity.

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

6. New Claims Reported to the CEA

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

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

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

7. Pro Rata or Installment Claims Payments

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

But in the case of a severe earthquake, or the case of several significant earthquakes over a short period, the law provides that under stated conditions, the CEA would be authorized to pay policyholder claims on a pro rata basis or in installments. In such circumstances, it is possible the CEA could declare a CPR of less than 100%.

If and when a CPR is declared by the CEA, the CPR determines what percentage of the claim is to be paid to the insured by the Participating Insurer. <u>Participating Insurers can assume the CPR is 100% unless the CEA announces otherwise</u>.

Note that the CEA may adjust the CPR during the claim-handling period arising after an earthquake, based on actual paid-claim amounts and the resources available to the CEA for claim payment. If the CEA adjusts the CPR upward, it will notify all Participating Insurers, and paid claims must be recalculated and additional payment forwarded to the insured, according to general procedures and information provided by the CEA.

Although the service and adjusting portion of a claim does not change the way Participating Insurers handle and service policyholder claims, payment to the insured and data transmission to the CEA will be adjusted based on the CPR. Upon the declaration of a CPR, the CEA will provide immediate written claim- and transmission-handling instructions to all Participating Insurers.

8. Media Communications

a) Following an Earthquake. After an earthquake, the CEA will maintain communications with the Participating Insurers in order to provide the public with helpful, accurate, and timely information. Participating Insurers must work cooperatively with the CEA's Chief Communications Officer and communications and external affairs staff on matters of communication with the news media or outreach to the general public. The telephone numbers to use to establish contact with CEA are 916.661.5586 or 877.797.4300.

b) No Public Comment on Specific Claims.

Although the CEA, supported by its Participating Insurers, has policies and procedures in place to support the payment of valid claims, neither the CEA nor any Participating Insurer is authorized or permitted by law to offer public comment on any aspect of a specific claim.

Generally, the CEA and the Participating Insurer are authorized and permitted to discuss a claim only with the CEA policyholder who is the claimant. Any questions or requests for exceptions to this directive must be transmitted immediately to the CEA Claim Director.

This protection of our policyholders from unwarranted release of information is the CEA's practice, not only because the CEA respects and wishes to protect the policyholder's privacy, but also because California's insurance-privacy laws prohibit insurance providers from publicly discussing details about a policyholder or their claim.

c) CEA name, logo, trademarks: rules on usage.

The CEA maintains express and detailed guidelines on how the CEA name, logo(s), and trademarks must be depicted, if used by a Participating Insurer. All advertising and public outreach a Participating Insurer might engage in must be consistent with CEA guidelines, which have been provided to each Participating Insurer.

Copies of these guidelines are also available from the office of the CEA's Chief Communications Officer.

D. CEA POLICY INFORMATION

1. BASIC EARTHQUAKE INSURANCE POLICIES: HOMEOWNERS and HOMEOWNERS CHOICE

A CEA homeowners policy insures one-to-four-unit residential dwelling structures and manufactured homes and mobilehomes.

The CEA has two homeowner forms:

- Homeowners (Form BEQ-3B).
- Homeowners Choice (Form BEQ-3C).

(Wording appearing in italics in this Claim Manual is quoted directly from the policy. Words appearing in **boldface type** also appear in boldface in the policy—the boldface type means that the word or term is expressly defined in the CEA insurance policy.)

This section applies to both the standard Homeowners and Homeowners Choice policies. The main distinction between the Homeowners and the Homeowners Choice policies is that the Homeowners Choice policy's three coverage options can be purchased separately: that is, Coverage A & B CSL: DWELLING is required on a Homeowners Choice policy, but Coverage C: Personal Property and Coverage D: Loss of Use are optional coverages in a Homeowners Choice policy, and provide coverage only if purchased.

The separately purchased coverage-feature in a Homeowners Choice policy—and resulting different coverage limits and deductible percentages—means that the claim representative must be vigilant when confirming coverage, limits, and deductible amounts.

a) Introduction to the CEA Homeowners Policies

Both CEA Homeowners earthquake policies have a combined single limit for Coverage A: DWELLING and Coverage B: EXTENSIONS TO DWELLING. That CSL will match the amount of the Coverage A limit in the companion policy. Adjusters may find they need to explain this feature to the insured, because it is different from a typical fire-policy structure.

CEA policies have a helpful table of contents, which makes the policy easier to read and understand.

All claim representatives adjusting CEA claims must thoroughly read the specific policy in force at the time of the loss to determine the appropriate coverages, limits, and exclusions. Reviewing this Claim Manual is not a substitute for reading and understanding the policy itself.

b) Covered Losses

The CEA policy is a specified-peril policy. It insures against only one peril:

*…accidental, direct physical loss from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period...*

*"**Seismic event**" means one or more **earthquakes** that occur within a 360-hour period. The **seismic event** commences upon the initial **earthquake**, and all **earthquakes** or*

*aftershocks that occur within the 360 hours immediately following the initial **earthquake** are considered for purposes of this policy to be part of the same **seismic event**.*

[360 hours equals 15 days.]

Be sure to read the complete policy definitions for "**earthquake**," "**seismic event**," and "**tectonic process**."

For a claim to be covered by a CEA policy, the **earthquake** and the **seismic event** both must have commenced during the CEA policy period.

POLICY TYPE	DEDUCTIBLE
Homeowners Homeowner/Manufactured Home (Mobilehome) (BEQ-3B)	Adjuster must first determine if the CEA policy written/purchased is the standard Homeowners form.
Dwelling (Coverage A and Coverage B)	The policyholder selects/purchases deductible level: 5% to 25% of the Coverage A&B Combined Single Limit (CSL) of insurance. The first $1,500 of emergency repairs is paid with no deductible.
Personal Property (Coverage C)	Nothing is paid for personal property damage until the dwelling deductible is met by covered damage to Coverage A&B property.
Loss of Use (Coverage D)	No deductible. Loss of Use can be paid if it was caused by a covered cause of loss.

c) Deductibles

There are specific policy requirements and restrictions that relate to CEA deductibles, and there are coverages to which the deductible may not apply. Therefore, it is important to read the Deductible clause in the policy to determine which damage can be applied to the deductible (and in what amount), and which damage cannot be applied.

The deductible will be applied one time for each seismic event.
The deductible structure varies depending on the type of homeowner policy chosen:

POLICY TYPE	DEDUCTIBLE
Homeowners Choice Homeowners/Manufactured Home (Mobilehome) (BEQ-3C)	The adjuster must first determine if the CEA policy written/purchased is the Homeowners Choice form.

Dwelling (Coverage A and Coverage B)	The policy holder selects/purchases deductible level: 5% to 25% of the Coverage A&B Combined Single Limit (CSL) of insurance. The first $1,500 of emergency repairs is paid with no deductible.
Personal Property (Coverage C) Optional coverage in a Choice policy	If coverage purchased, policy holder selects/purchases deductible level for personal property: 5% to 25% of the personal property coverage limit selected. (Coverage C deductible is waived if the Coverage A deductible is met.) (Coverage C deductible percentage must be less than or equal to the Coverage A deductible percentage.
Loss of Use (Coverage D) Optional coverage in a Choice policy	No deductible. If coverage purchased, Loss of Use can be paid if it was caused by a covered cause of loss.

In a Homeowners Choice policy, Coverage C and Coverage D can be purchased separately, with different coverage limits of insurance and a separate personal property deductible. This flexibility requires the claim representative to be vigilant in claim handling. **Always check the Declarations page to confirm the coverage, limits, and deductible amounts.**

d) Loss Settlement is at Replacement Cost

With limited exceptions, both CEA Homeowners earthquake forms provide a replacement cost policy for real property, as well as most personal property.

The Loss Settlement condition of the Homeowners policy for Coverages A and B (Condition 5) specifies that, once dwelling losses exceed the CSL deductible, settlement

a. …will not exceed the smallest of the following:

*(i) the **replacement cost** at the time of loss;*
(ii) if the damaged property has been actually repaired or replaced, the amount actually and necessarily spent to repair or replace the damaged property; <u>or</u>
*(iii) the applicable **limit of insurance** or any applicable **sublimit(s)**.*

*b. If the **dwelling** is rebuilt or replaced at another location, **we** will settle a loss to the property at an amount no more than the **replacement cost** of the covered loss to the property at the original **residence premises** location, up to the applicable **limit of insurance**. For these purposes, the construction of a new home at another location may be deemed to be the rebuilding of the **dwelling** at another location, and the purchase of an existing home at another location may be deemed to be the replacement of the **dwelling** at another location.*

Although most personal property is also settled at replacement cost, certain limited categories of personal property are settled at actual cash value, as described in Condition 6 of the Homeowners policy:

We *will settle losses to covered property described under Coverage C: PERSONAL PROPERTY . . . at* ***replacement cost****, except that we will settle losses to property in items (i), (ii), and (iii) of this paragraph, below, at* ***actual cash value*** *only.*

(i) Property which by its inherent nature cannot be replaced;
(ii) Property not maintained in good or workable condition; or
(iii) Property that is outdated or obsolete, or property not useful for its intended purpose.

Unlike some Participating Insurers' companion policies, the CEA Homeowners earthquake policies do not require actual repair or replacement in order for a claimant to collect the replacement cost under Coverage A: Dwelling, Coverage B: Extensions to Dwelling, or Coverage C: Personal Property. (Note, however, if the property has already been repaired or replaced at the time payment is made, the amount payable is limited to the amount actually spent on the repair/replacement.)

Losses covered under "Other Coverages - Building Code Upgrades" are generally not subject to this rule, however. As a general matter, these losses may be paid only if the covered property is actually repaired or replaced and the upgrade cost is thus actually incurred. The CEA Homeowners policies do permit pre-payment of code upgrade costs if, in the claim representative's professional judgment, it is clear:

- the property is going to be repaired or replaced; and
- the code upgrade cost is known (or it is known that code upgrade cost will exceed the Building Code Upgrades coverage limit); and
- making pre-payment will complete the claim process

Payment of losses under "Other Coverages - Building Code Upgrades" is treated somewhat differently if the dwelling is replaced at another location other than the insured location. (The policy provides that the construction of a new home at another location may be deemed to be the rebuilding of the dwelling at that other location, and the purchase of an existing home at another location may be deemed to be the replacement of the dwelling at that other location.) In these circumstances, consistent with Insurance Code section 2051.5(c) the claim payment should include an amount for Building Code Upgrades coverage calculated in accordance with the following policy provision:

If the ***dwelling*** *is rebuilt or replaced at a location other than the* ***residence premises*** *location shown on the* ***DECLARATIONS*** *page,* ***we*** *will pay no more under this coverage for building code upgrades than what the reasonable and necessary costs of such building code upgrades would have been had the* ***dwelling*** *been repaired or replaced at the* ***residence premises*** *location shown on the* ***DECLARATIONS*** *page, but only up to the* ***limit of insurance*** *for "OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the* ***DECLARATIONS*** *page.*

e) Types of Building Property Insured – Dwelling Defined

Business and commercial buildings are never insured by the CEA policy.

CEA Homeowners policies cover the residence located at the address shown in the Declarations. The covered residence can be a one-, two-, three-, or four-unit dwelling, or a manufactured home or mobile home. "**Dwelling**" is specifically defined in the DEFINITIONS section of the policy, which provides:

*"**Dwelling**," means the residential structure or mobile home at the location described in the DECLARATIONS. **Dwelling** does not include land, whether or not beneath the residential structure or mobile home, even if required for support. **Dwelling** does not include any structure other than the residential structure or mobile home unless the structure (1) shares a common wall or a continuous roof line with the residential structure or mobile home or (2) is attached to the residential structure or mobile home by a foundation that is continuous with or contiguous to the foundation of the residential structure.*

It is important to understand this definition because it is one factor that must be used to evaluate coverage. The claim representative is responsible for determining if the structure in question meets the requirements of a "Dwelling" as defined above. For example, if policyholder John Doe lives in a residential single-family home with a garage, his CEA policy covers the garage only if the facts show the garage:

- shares a common wall or a continuous roof line with the home; or
- is attached to the home by either a continuous foundation or a contiguous (touching) foundation.

f) Property Covered - Coverage A

CEA policies specifically describe the **dwellings** and related property covered under Coverage A: Dwelling. In addition, Debris Removal coverage as it relates to dwelling repairs is found in item 3 of this section.

The CEA policy provision regarding Debris Removal is like that found in most residential fire policies and is used when a claimant's total covered losses exceed the policy limits. In cases where a claimant can document extra expenses for debris removal over and above the policy limit, an additional 5% of the CSL for Coverages A and B can be paid.

The CEA Homeowners policy states:

*… **we** cover:*

*3. The reasonable expense **you** incur in removing from the **residence premises** the debris of that damaged property covered under "COVERAGE A: DWELLING," including but not limited to the reasonable expense **you** incur for the transportation of such debris to landfills or disposal facilities and disposal of the debris at those facilities, or the*

transportation of such debris to suitable recycling facilities rather than landfills and disposal of the debris at those facilities. The combined single ***limit of insurance*** *for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" will be reduced by any amount* ***we*** *pay under this coverage, but in the event that* ***your*** *covered losses under COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" exceed the combined single* ***limit of insurance*** *for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" shown on the DECLARATIONS page of this policy,* ***we*** *will provide, as additional insurance, up to 5% of that combined single* ***limit of insurance*** *for the aggregate of the expenses* ***you*** *incur in removing from the* ***residence premises*** *the debris of (a) property covered under "COVERAGE A: DWELLING," as provided for in this paragraph, and (b) property covered under "COVERAGE B: EXTENSIONS TO DWELLING," as provided for under Item 5 of "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered—Coverage B."*

g) Chimneys – Coverage A: $10,000 Special Limit of Insurance

CEA Homeowners and Homeowners Choice policies cover chimney damage up to a $10,000 sublimit, applicable to all damaged chimneys at the Dwelling, regardless of number. Coverage A: Dwelling, Special limit of Insurance – Coverage A, reads in part:

The **sublimit** of *$10,000 for loss or damage to any and all* ***chimney(s)*** *attached to or part of the* ***dwelling****, regardless of the number of* ***chimneys*** *covered. This* ***sublimit*** *of $10,000 in coverage for loss or damage to* ***chimneys*** *will be reduced by any amount that* ***we*** *pay under "OTHER COVERAGES," Item 1, "Emergency Repairs," for Emergency Repairs to* ***chimneys*** *and by any amount that* ***we*** *pay under "Property Covered – Coverage A," Item 3 for the removal of the debris of* ***chimneys****.*

Recall that under Coverage A, up to $1,500 of Emergency Repairs can be paid without applying the Coverage A policy deductible. Emergency Repairs made to a chimney result in an equal reduction of the $10,000 chimney sublimit.

The CEA policy defines "chimney" as follows:

*"****Chimney"*** *means the flue or vent and the building code-required structure that surrounds the flue or vent, including exterior chimney facings, from the firebox to the outside of that structure.* ***Chimney*** *does not include a hearth, a mantel, the firebox where combustion takes place, or the foundation that supports the* ***chimney****.*

There are four important things to remember when evaluating chimney damage:

1. Because the chimney definition does not include the hearth, mantel, firebox, or the foundation that supports the chimney, claim representatives must not include the cost of these items in the estimate of chimney damage. Damage to these items, if any, should be included in the Dwelling estimate.

2. The $10,000 chimney sublimit covers all chimneys at the Dwelling. In other words, the $10,000 sublimit is not applied to each chimney, but is the total limit of insurance coverage for all chimney repair costs, no matter how many chimneys are damaged.

3. The chimney settlement provisions include three different payment options, including one option to cover the cost of replacing damaged chimneys with a non-masonry, earthquake resistant chimney. The least costly of the options will be paid for covered losses. Condition 5-G states in part:

   *To repair or replace a **chimney**, **we** will not pay more than the least of the following amounts:*
   *(i) The **sublimit** of $10,000 that applies to **chimneys**;*
   *(ii) The cost of replacement of a masonry **chimney** or **chimneys** with a non-masonry, earthquake-resistant **chimney** or **chimneys**; or*
   *(iii) The necessary amount actually spent to repair the damaged **chimney** or **chimneys**.*

4. A policyholder can also include in a chimney claim the cost to detach and reset a non-damaged satellite dish or antenna during, or to facilitate, earthquake-related chimney repairs (even though these items are not separately covered under the sublimit).

h) Fungi – Coverage A: $5,000 Special Limit of Insurance

The policy has a **sublimit** for damage from fungi, including earthquake-related fungi damage. The policy defines "**fungi**" as follows:

*14. "**Fungi**" means all types of fungus, including but not limited to mildew and mold, and all of their resulting spores and by-products, including mycotoxins and allergens, but not including cultivated edible mushrooms or other cultivated **fungi** intended for human consumption.*

The policy provides the following **sublimit**:

*2. $5,000 for all loss or damage to the **dwelling** or to wall-to-wall carpeting attached to the **dwelling** caused by **fungi** the presence of which directly results from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, including, but not limited to, the cost to repair damage from **fungi** or to test for, monitor, abate, mitigate, remove, dispose of or remediate **fungi**.*

*This **sublimit** of $5,000 in coverage for loss or damage caused by **fungi** will be reduced by any amount that **we** pay under "OTHER COVERAGES," Item 1, "Emergency Repairs," for Emergency Repairs resulting from **fungi**. Except for the coverage specifically provided for in this **sublimit**, this policy does not provide coverage for any loss that is caused directly or indirectly by, or that in any way results from, is contributed to by, or is aggravated by **fungi**.*

Note: payment to a claimant for Emergency Repairs resulting from fungi will result in an equal reduction to the $5,000 fungi sublimit.

i) Equipment and Utility Service Structures - Coverage B: Extensions to Dwelling

Both CEA Homeowners policies cover equipment and utility service structures for electric, telephone, natural or bottled gas, heating, oil, water, septic, and sanitary sewage systems. To be covered, these items must be owned by the insured, located on the residence premises, and affect the habitability of the dwelling.

To determine coverage, the claim representative must be able to answer "yes" to all of the following four questions:

1. Does the insured own the item?
2. Is the damaged item one of the types of items listed in the policy?
3. Is the item physically located on the insured's premises?
4. Does the item affect the habitability of the dwelling?

If the answer to one or more of these questions is "no," then there is no coverage under Coverage B.

j) Walkways, Driveways, Decks, Patio Slabs - Coverage B: Extensions to Dwelling

The CEA policy allows payment only for damage to the ingress and egress portions of walkways, driveways, decks, and patio slabs. This coverage is found in COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," item 2, walkways, driveways, decks, and patios, which reads in part:

2. *Walkways, driveways, decks, or patios on the **residence premises** that are necessary for and regularly used for either (1) pedestrian ingress to or egress from the **dwelling** by any **insured** or (2) ingress to and egress from the **dwelling** by any non-ambulatory **insured**, but **we** cover only that portion of each covered walkway, driveway, deck, or patio that is reasonably necessary for ingress to and egress from **dwellings** by pedestrian or non-ambulatory **insured**.*

   *Any portion of an otherwise-covered walkway, driveway, deck, or patio that is not reasonably necessary for and regularly used for pedestrian ingress to or egress from the **dwelling** by any **insured** or ingress to and egress from the **dwelling** by any non-ambulatory **insured**, and any walkway, driveway, deck, or patio not regularly used for any such purposes, is not covered.*

Remember that walkways, driveways, decks, and patio slabs are excluded from coverage under a CEA policy, except for the limited coverage described above.

The policy language excluding walkways, driveways, decks, and patios reads:

PROPERTY NOT COVERED—COVERAGE A AND COVERAGE B

***We** do not cover: . . .*

10. Except as provided under "COVERAGE B: EXTENSIONS TO DWELLING, Property Covered," item 2, walkways, driveways, decks, and patios.

The intent of this coverage is to allow for safe pedestrian passage to and from the dwelling. The scope of coverage is best understood by breaking down the coverage language:

1. *That portion* – only the relevant *portion* of the property is covered. Claim representatives are advised to consult the local city or county building codes for guidance in determining what "portion" of the property is considered necessary for safe ingress and egress.
2. *Necessary for and regularly used* –means a) needed to enter or leave the dwelling, and (b) routinely used by pedestrians. The claim representative must decide, after a meaningful discussion with the policyholder, whether a claimed walking surface is "necessary" and "regularly used."
3. *Pedestrian* – indicates a person walking; coverage also includes ingress and egress from the dwelling by a non-ambulatory insured. Ingress and egress necessary for motor vehicles is not covered.
4. *To or from the dwelling* –means the policy covers regular pedestrian entry to and exit from the home to either a public sidewalk or a private or public street next to the home.

Questions about what portion of the walkway, driveway, or patio should be repaired or replaced must be addressed on an individual basis, according to the facts of the loss and the coverage available. The claim file must include a detailed drawing of the ingress and egress allowed, as well as documentation of how the claim representative determined dimensions and amounts paid. Coverage B walkway, driveway, deck, and patio losses are settled at replacement cost, for materials of like kind and quality. (See the definition of "replacement cost" in the policy.)

k) Bulkheads, Piers, and Retaining Walls - Coverage B: Extensions to Dwelling

The CEA policy covers:

. . . those bulkheads, piers, and retaining walls on the ***residence premises*** *that are integral to the stability of the* ***dwelling****. Except as provided for in "OTHER COVERAGES," item 4, the cost of repairing, replacing or stabilizing the land under or around these devices is not covered.*

The coverage applies only to property located on the residence premises and in which the named insured holds an insurable interest. If any portion of a bulkhead, pier, or retaining wall is not entirely located on the residence premises, the claim representative must fully investigate, and base coverage on, the extent of the policyholder's insurable interest.

l) Loss Assessment – Coverage B: Extensions to Dwelling

The CEA Homeowners policies include some coverage for loss assessment if the home is part of common interest development which is governed by an association of homeowners. If the home meets these criteria, there is $10,000 of coverage for assessments made to affect the repair or replacement of property described in:

Property Covered—Coverage B,
Item 2: Walkways, driveways, decks and patios…
Item 3: Bulkheads, piers, retaining walls, and masonry fences.

The policy provides:

*4. If the **residence premises** is part of a **common interest development** and that **common interest development** is governed by an **association of owners**, then **we** cover **your** share of **loss assessments** that are legally and properly made against **you** by the **association of owners**, but only to the extent the **loss assessment** is made for the purpose of effecting the repair or replacement of property covered under Items 2 and 3, above, of this "Property Covered—Coverage B" section. This coverage for **loss assessments** is provided as a $10,000 **sublimit** of the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING," and the amount of coverage available under the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" will be reduced by any amount **we** pay under this coverage for **loss assessments**.*

Note the coverage applies only to that portion of loss assessments made for repair or replacement of the property described in Items 2 and 3, above. If assessments are designated for other purposes, payment will be made on a percentage basis, as described in the policy:

*If a **loss assessment** is made as a result of a combination of (a) assessments made to effect the repair or replacement of property covered under Items 2 and 3 of this "Property Covered—Coverage B" section and (b) assessments made for effecting other repairs or for other purposes, then **we** will pay only a pro rata portion of the **loss assessment** equal to that percentage of the entire assessment that is made to effect the repair or replacement of property covered under Items 2 and 3 of this "Property Covered—Coverage B" section, subject to the $10,000 **sublimit**.*

The claim representative must provide in the claim file documentation of his/her coverage evaluation, including a copy of the loss assessment and any specific wording from the homeowner association CC&Rs relevant to a decision to pay the claimed loss.

m) Property Not Covered: Coverage A and Coverage B

The CEA Homeowners policies do not cover certain items of real property. Following are some examples of property not covered, but it is important to read the entire CEA policy for a complete list of exclusions.

n) Property Not Covered: Land

Carefully review Items 1 and 2 of this section of the policy pertaining to land exclusions. Always remember, in a CEA policy, some limited land coverage is provided under the Coverage A $10,000 sublimit.

o) Property Not Covered: Awnings and Patio Coverings

The policy does not cover:

3. A*wnings and patio coverings, or their support structures. For purposes of this exclusion, carports are not awnings or patio coverings.*

All structures comprising the patio covering, including posts supporting the covering, are excluded. Awnings and patio coverings are not covered, even if permanently attached to the dwelling.

But, if an awning is used as a carport, it is covered if it meets the requirements of a "Dwelling" as defined in the Homeowners policy.

A patio slab is not part of a covered loss, except for any portion of it that is necessary for ingress or egress as described in the policy.

p) Antennas, Satellite Dishes, Towers, and Brackets

The policy excludes:

antennas and satellite dishes and any towers, brackets or attachments that support or secure them …

But remember, if it is necessary to detach and reset a non-damaged antenna or satellite dish, and brackets or attachments, during or to facilitate covered earthquake-related chimney or roof repairs, a policyholder can include that cost as part of the chimney or Dwelling claim.

q) Property Not Covered: Decorative or Artistic Features of the Dwelling.

The policy coverage reads in part:

We *do not cover:*
…
5. Any decorative or artistic features of the property, including the items of property specifically listed in this exclusion and any items of property, whether or not specifically listed in this exclusion, that are artisan-crafted or that are unique and cannot be replaced with a commercially-made, identical replacement that would be readily available for purchase in the open market. Such decorative or artistic features include, but are not limited to, works of art, murals, stained or leaded glass, mirrors, chandeliers, mosaics, statuary or sculpture, carvings, inlays, reliefs, fountains, aquariums, and their systems. If at the time of loss any decorative or artistic feature is serving a utilitarian purpose, the cost to repair or replace the decorative or artistic feature is not covered to the extent the cost of repair or replacement exceeds the cost of replacing it with a non-decorative, non-artistic functional replacement.

The claim representative should identify any artisan-crafted features of the home during the initial assessment of the damage and discuss any excluded items with the insured. The claim representative should also identify any artisan-crafted items with a utilitarian purpose and use the equivalent quality of other non-artistic items in the home to determine an appropriate cost to cover the artisan-crafted item's functional replacement. Since the determination is based on the claim representative's professional judgment, the claim file must include clear documentation reflecting a reasoned justification for the amount allowed.

A claim representative who is unsure if an item rises to the level of being "artisan-crafted" should involve his/her company CEA Liaison in the evaluation. The CEA Liaison can consult with CEA, if necessary.

r) Property Not Covered: Exterior Masonry Veneer

The CEA Homeowners policies do not cover:

Exterior masonry veneer. For purposes of this exclusion, stucco and exterior ***chimney*** *facings are not exterior masonry veneers.*

The terms "masonry" and "veneer" refer to a <u>nonstructural</u> facing of brick, concrete, stone, tile, or other similar material attached to a backing for the purpose of ornamentation.

It is important to determine if the brick on a home is part of the <u>structure</u> of the dwelling, and not simply masonry veneer. If any structural part of the home is constructed of a masonry material (such as brick) then that part of the home is covered under the CEA policy.

Policyholders may purchase optional coverage for masonry veneer through the Coverage for Exterior Masonry Veneer endorsement (CEA 03A 01-2016). Addition of the endorsement will appear on the policy Declarations page. This optional endorsement includes masonry veneer coverage up to the policy limit for Coverage A. The Exterior Masonry Veneer endorsement reads in part:

THIS ENDORSEMENT AMENDS YOUR POLICY BY DELETING THE FOLLOWING PROVISION OF YOUR POLICY IN ITS ENTIRETY*:*

Item 6 of "Property Not Covered – Coverage A and Coverage B," which reads as follows, is hereby deleted:

6. Exterior masonry veneer. For purposes of this exclusion, stucco and exterior ***chimney*** *facings are not exterior masonry veneers.*

Your *policy will be deemed to omit the provision quoted above; which means that* ***your*** *policy will provide coverage for exterior masonry veneer in accordance with all other terms and conditions of the policy.*

Remember, if the policyholder has not purchased the Coverage for Exterior Masonry Veneer (CEA 03A 01-2016) endorsement, and the masonry veneer on the home is damaged or falls off, there is no coverage for that loss, and therefore, no requirement to pay for repair or replacement.

s) Plaster - Limited to the Cost of Sheetrock or Drywall

The policy does not cover plaster, unless the cost to repair or replace it is equal to or less than the value of an equivalent replacement with sheetrock or drywall. The CEA policy will cover plaster repairs only if the cost is less than repair or replacement with sheetrock or drywall.

t) Property Not Covered: Garages and Outbuildings

Detached garages and outbuildings are not covered unless the structure in question meets the requirements of a "Dwelling" as defined in the Homeowners policy. The definition of "Dwelling" includes structures that share a common wall or continuous roof line with the residential structure or mobilehome, or are attached by a foundation that is continuous or contiguous to the foundation of the dwelling. If a garage or outbuilding meets this definition, then it is covered under the Coverage A: Dwelling policy limit.

u) Property Not Covered: Landscaping

The CEA policy does not cover damage to:

Landscaping, trees, shrubs, lawns, or plants, even if damaged by necessary repairs to covered property.

If it is necessary to remove a landscape element in order to access a structure for repairs, the cost of the removal can be included in the claim, but the cost to replace the landscaping element is not covered by the CEA policy.

v) Property Not Covered: Swimming Pools, Spas, and Hot Tubs

The policy does not cover swimming pools, spas, or hot tubs and all of their components, whether they are personal property or part of the dwelling. Tile or other material linking or attaching the pool, spa, or hot tub to a deck or to the dwelling is not covered.

w) Dwelling Glass - Loss Settlement

Conditions:

5. *Loss Settlement: Coverages A and B.*

   *f. **We** will replace covered glass with safety glazing material when required by ordinance or law.*

This applies when paying for broken building window glass, and building codes require that it be replaced with safety glass. The increased cost falls under the policy Building Code Upgrade coverage.

Note: the companion homeowner's policy may have coverage for broken dwelling glass. If there is double coverage, see the provisions in the policy regarding Other Insurance.

x) Coverage C - Personal Property

Coverage C: Personal Property is included as part of the standard Homeowners policy, but is an optional coverage offered to Homeowners Choice policyholders. Remember, deductibles apply differently to personal property, depending on the type of policy the insured has chosen (See Section 9 – Calculating Deductibles for CEA Claims). **Always review the Declarations page to confirm the policy type, coverage, limits, and deductible amounts.**

y) Coverage C - Personal Property Subject to a Sublimit

The CEA policy covers certain types of personal property, but only up to the applicable **sublimit**:

1. *$250 in the aggregate on all money, bank notes, coins and medals, including any of these that are part of a collection.*

2. *$250 in the aggregate on all securities, checks, cashier's checks, traveler's checks, money orders, and other negotiable instruments; accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, passports, and tickets.*

3. *$3,000 in the aggregate on all computers and other electronic data processing equipment, including storage media and software used with that equipment, whether or not it is **business property**. Storage media or software that cannot be replaced with other property of like kind and quality on the current consumer retail market is not covered.*

4. *$1,000 in the aggregate on all **business property** other than computers and other electronic data processing equipment, storage media and software.*

5. *$3,000 in the aggregate on all jewelry, watches, furs, precious and semi-precious stones, but not more than $1,000 for any one article.*

6. *$3,000 in the aggregate on all **collectibles**, including but not limited to sports cards; **collectible** dolls, model trains, or toys; **collectible** postage stamps; **collectible** autographed items; memorabilia; and commemorative or otherwise **collectible** plates, spoons, or cups; regardless of whether any such item is a single item or part of a collection.*

7. *$3,000 in the aggregate on all beverages contained in bottles or in other glass, ceramic, or pottery containers, including but not limited to wine, port, liquor, beer, and all other alcoholic or non-alcoholic beverages.*

z) Coverage C - Personal Property Not Covered

Read the CEA policy for a complete list of personal property that is not covered.

Artwork and breakables are among the more common items damaged in an earthquake. These items are not covered by the CEA policy:

We *do not cover:*
…

7. Artwork, including but not limited to paintings, drawings, or etchings; framing; sculpture or statues, photographs; and handmade, loom-crafted, and other non-machine-made tapestries and rugs.

8. *Breakable items, consisting of the following:*
   a. *Glassware, crystal, china, ceramic, pottery, and porcelain items created as table settings, serving ware, or otherwise intended for use in serving or consuming food or beverage, whether currently being used for that purpose or not; and,*
   b. *Figurines, vessels, vases, and other ornamental items made of crystal, china, pottery, ceramics, porcelain, glass, or marble.*

Policyholders may purchase optional coverage for breakable items by adding a Coverage for Breakables (CEA 04A 01-2016) endorsement. The endorsement provides coverage for the "Breakable items" listed above, up to the Coverage C limit. Personal Property sub-limits stated in the policy continue to apply. If purchased, the endorsement is listed on the Declarations page.

aa) Coverage D - Loss of Use

Coverage D: Loss of Use coverage is included as part of the standard Homeowners policy but is optional under the Homeowners Choice policy. Both policies offer the policyholder a choice of coverage limits, up to a maximum of $100,000. **Always review the Declarations page to confirm the policy type, coverage, limits, and deductible amounts.** Coverage D provides, in part:

If a civil authority prohibits ***you*** *from occupying* ***your dwelling*** *because of direct damage to the residence premises or other premises, caused by an* ***earthquake*** *…* ***we*** *cover the resulting Additional Living Expense or Loss of Rent, subject to the "COVERAGE D: LOSS OF USE"* ***limits of insurance****.*

If the insured must vacate the home after an earthquake either because a covered loss makes the home unfit to live in, or due to earthquake damage to other property such as nearby roads or bridges, Loss of Use coverage will cover:

- the increase in the insured's living expenses actually incurred; or
- if any part of the dwelling was rented to others or held for rental, the fair rental value (less any expenses that do not continue).

The claim file must contain documentation to support all payments for Loss of Use (i.e., expenses and lost rent). If any part of the dwelling was rented to others or held for rental, and a covered loss makes it unfit to live in, the fair rental value (less any expenses that do not continue) is covered.

Loss of Use coverage is not subject to any deductible. Even if the dwelling losses are less than the policy deductible, Loss of Use coverage is available to policyholders who must vacate their homes because of damage caused by an earthquake.

After the occurrence of an earthquake, there is no maximum period during which covered Loss of Use expenses must be incurred. Loss of Use coverage applies even if the insured is not required to vacate the dwelling until months after the earthquake (such as, for example, when repairs to the property cannot be started until a substantial period after the earthquake due to a shortage of contractors available to perform the work.)

If there is a question of coverage, use Attachment 5 with any advance payment.

bb) Other Coverages: Emergency Repairs

In the standard Homeowners and Homeowners Choice policies, the first $1,500 of emergency repairs is not subject to a deductible. (Note: this provision is not available in renters or condominium policies.) The Other Coverages portion of the CEA policy states:

The following other coverages are provided subject to all terms and conditions of this policy. ...

1. *Emergency Repairs. If covered damage occurs to covered property and such emergency measures are made necessary as the result of an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, **we** will pay the following portion of the cost **you** incur for reasonable and necessary emergency measures **you** take (1) to protect against further damage to covered property, or (2) if a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the DECLARATIONS page of this policy and the **dwelling** is otherwise habitable, to remove from covered property in the **dwelling** the residue of broken glass or to repair or replace covered broken windows in the **dwelling** or other covered structural glass that is part of the **dwelling**. This Emergency Repairs coverage provides coverage up to a **sublimit** of 5% of the policy **limit of insurance** for the type of property being protected. The applicable total **limit of insurance** for the type of property being protected will be reduced by any amount **we** pay for this coverage, but **we** will never pay more for emergency repairs than 5% of the policy **limit of insurance** for the type of property being protected.*

    a. *The first $1,500 of covered costs **you** incur for such reasonable and necessary emergency measures is not subject to the application of any deductible. Costs **you** incur for such emergency measures in excess of $1,500 are subject to the application of the deductible that applies to the type of covered property being*

*protected, which means that until **you** satisfy the applicable deductible amount, you will not be paid for any such costs **you** incur above $1,500.*

b. ***Your** taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve **you** of **your** responsibilities outlined in "**Your** Duties After Loss (CONDITIONS, Item no. 3).*

This means the claim representative must pay for covered emergency repairs up to $1,500 without applying a deductible; the remainder of covered emergency repairs is subject to the applicable Coverage A: Dwelling deductible.

Because emergency repairs may not exceed the policy sublimit of 5% of Coverage A & B CSL, the representative must diligently track all emergency repairs loss payments. The CEA Excel Deductible Calculator is the best tool for this purpose.

cc) Other Coverages: Building Code Upgrade

Building Code Upgrade coverage in the amount of $10,000, $20,000, or $30,000, is provided as additional insurance in a CEA Homeowners policy. The coverage from the Homeowners Choice policy reads in part:

OTHER COVERAGES

The following other coverages are provided subject to all terms and conditions of this policy:

1….

2. Building Code Upgrades.
*If there is a covered loss to property covered under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" and **you** repair or replace that covered property, then subject to the **limit of insurance** for "OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the **DECLARATIONS** page, **we** cover the cost of reconstruction or replacement to bring that property up to local residential building code standards in effect at the **residence premises** location on the date of the **earthquake** that caused the loss, but only so much of the reconstruction or replacement costs attributable to the requirements of securing governmental approval of the construction permit process for repair or replacement of that covered property. Although no payment will be made to **you** under this coverage for building code upgrades unless **you** repair or replace that covered property, the full amount of loss covered under this coverage for building code upgrades, up to the **limit of insurance** for "OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the **DECLARATIONS** page, will be applied to meet the deductible, as set forth in Item 2b of the "DEDUCTIBLE CLAUSE." If the **dwelling** is rebuilt or replaced at a location other than the **residence premises** location shown on the **DECLARATIONS** page, **we** will pay no more under this coverage for building code upgrades than what the reasonable and necessary costs of such building code upgrades would have been had the **dwelling** been repaired or replaced at the **residence premises** location shown on the **DECLARATIONS** page, but*

*only up to the **limit of insurance** for "OTHER COVERAGES: BUILDING CODE UPGRADES" shown on the **DECLARATIONS** page.*

When evaluating Building Code Upgrade coverage, remember:

1. Use the cost of the building code upgrade in the deductible calculation.
2. The covered property must actually be repaired or replaced, and the cost incurred, before payment is made for Building Code Upgrade coverage. There is a limited exception to this rule – CEA Homeowners policies permit pre-payment of code upgrade costs only if it is clear, in the claim representative's professional judgment:
    - the property is going to be repaired or replaced;
    - the code upgrade cost is known (or it is known that code upgrade costs will exceed the Building Code Upgrades coverage limit); and
    - making pre-payment will complete the claim process.
3. Building Code Upgrade coverage is additional insurance to the Coverages A and B CSL.
4. Building Code Upgrade coverage covers the cost to bring the covered property up to local residential building code standards in effect <u>on the date of the earthquake</u> that caused the loss.
5. The coverage pays only for the Building Code Upgrade costs required to secure a reconstruction permit for repair or replacement of the covered property.
6. If the dwelling is rebuilt or replaced at another location other than the insured location (such as by the construction of a new home different location or purchase of an existing home at another location) the claim payment should include an amount for Building Code Upgrades coverage equal to what the building code upgrades would have been had the dwelling been repaired or replaced at the insured location shown on the declaration.

dd) Other Coverages: Land Stabilization

The CEA policy covers up to $10,000 of the cost to replace, rebuild, stabilize, or otherwise restore, land owned by the insured necessary to support the dwelling. The need for stabilization must be:

- a direct result of damage to land by a covered earthquake; and
- necessary for the habitability of the dwelling.

Land Stabilization coverage is provided as a $10,000 sublimit of the Coverages A and B CSL. There is <u>no</u> other coverage for land in the CEA policy.

Land is excluded from the definition of "Dwelling," but note:

- the cost of engineering work necessary to determine the need for land stabilization is included in Land Stabilization sublimit; and
- movement of land necessary to accommodate a foundation repair is covered under Coverage A: Dwelling, and is <u>not</u> subject to the Land Stabilization sublimit.

ee) Other Coverages: Energy Efficiency and Environmental Safety Upgrades

Energy Efficiency and Environmental Safety Upgrades claims should be scoped and estimated for repair or replacement with "like kind and quality" items, to determine the dollar amount to be used in the deductible calculation.

If the policyholder elects to use energy efficient and/or environmental safety items during the actual repair/replacement process, the policy provides additional coverage of up to 200% of the cost of any one item being replaced with an energy efficient/environmentally safe equivalent. The total is subject to the $25,000 policy sublimit for this coverage. Claim representatives should notify the policyholder of this additional coverage as early in the repair/replacement process as possible.

Carefully review the Energy and Environmental Safety Upgrades sections of the CEA policy, and apply the policy language exactly as it reads. Do not expand this coverage beyond what is provided.

*If a combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" is shown on the DECLARATIONS page of this policy and there is a covered loss to property covered under "COVERAGE A: DWELLING" or "COVERAGE B: EXTENSIONS TO DWELLING" in excess of the applicable deductible, **we** will pay **your** cost to repair or replace that property with material that meets the following standards regarding environmental safety and energy efficiency.*
*This coverage will apply to the added costs **you** incur to repair or replace that property with material that meets those standards as compared to the **replacement cost** of that property with material that does not meet those standards. This coverage is provided as a $25,000 **sublimit** of the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING," and the combined single **limit of insurance** for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING" will be reduced by any amount **we** pay under this coverage.*

*The most **we** will pay for the replacement or upgrade of any item of covered property is 200% of its **replacement cost** using material that does not meet the following standards regarding environmental safety and energy efficiency.*

Losses covered under this coverage are not applied to meet the combined deductible for "COVERAGE A: DWELLING" and "COVERAGE B: EXTENSIONS TO DWELLING."

*a. <u>Energy Efficiency Upgrades</u>: **We** will pay the reasonable added costs **you** incur to replace damaged covered property with the following energy-efficient property:*

*i. <u>Electronic Equipment – Energy Star Replacement</u>. If there is covered loss to electronic equipment, including but not limited to equipment for heating, ventilation, and air conditioning (HVAC) systems, that is part of the **dwelling** and that is covered under "COVERAGE A: DWELLING," and that electronic equipment must be replaced rather than repaired, then **we** will pay the reasonable expenses **you** incur to replace damaged or destroyed electronic equipment with*

equipment of otherwise equivalent quality and function that has been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.

ii. *Window, Door, Roofing, and Insulation Energy Upgrades. If there a loss to the* ***dwelling*** *that requires the repair or replacement of roofing or insulation material, air sealing, windows, doors, or skylights, then* ***we*** *will pay the reasonable expenses* ***you*** *incur to replace those damaged or destroyed materials with materials of otherwise equivalent quality and function that have been identified by the United States Government Department of Energy, Environmental Protection Agency as "Energy Star" qualified.*

iii. *Plumbing Fixture Upgrades. If there a loss to the* ***dwelling*** *that requires the repair or replacement of plumbing fixtures, then* ***we*** *will pay the reasonable expenses* ***you*** *incur to replace those fixtures with energy and water efficient fixtures, including automatic faucet sensors, faucet and shower head flow restrictors, dual flush toilets, and localized water heaters, using plumbing fixtures of otherwise equivalent quality and function provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of the U.S. Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines.*

b. *Environmental Safety Upgrades.* ***We*** *will pay reasonable added costs* ***you*** *incur to repair or replace the damaged or destroyed property covered under "COVERAGE A: DWELLING" with the following environmentally-upgraded property, provided that the upgraded property meets the requirements of the Leadership in Energy and Environmental Design (LEED) for Homes Green Building Rating System of the U.S. Green Building Council or meets the requirements of the National Association of Home Builders Green Building Guidelines:*

i. *Interior Finish Materials Upgrades. If there is a covered loss to the* ***dwelling*** *that requires the repair or replacement of interior finish materials, then* ***we*** *will pay the reasonable expenses* ***you*** *incur to replace those materials with materials of otherwise equivalent quality and function that are low in volatile organic compounds (VOC), sustainably developed, rapidly renewable, or comprised of recycled materials. This coverage applies to interior paints, architectural coatings, primers under coatings, adhesives and sealants, low emissions carpet and floor coverings, including adhesive to affix them to the floor, and permanently installed composite wood fixtures including counters, cabinets and partitions, where available, Forest Stewardship Council certified wood for millwork, ceilings, siding, and framing, and bamboo flooring.*

ii. *Elimination of Ozone-Depleting Substances Upgrades. If there is a covered loss to the* ***dwelling*** *that requires the repair or replacement of systems containing such items, then* ***we*** *will pay the reasonable expenses* ***you*** *incur to replace chlorofluorocarbon refrigerants (CFC) or hydro-chlorofluorocarbon (HCFC) or Halon refrigerants or fire extinguishing agents with environmentally-upgraded replacements.*

*iii. <u>Flush Out of Reconstructed Space</u>. If necessitated by the repair or replacement of covered loss to the **dwelling**, **we** will pay the reasonable and necessary costs to flush out the reconstructed space with 100% outside air and new filtration media following completion of the repair or reconstruction process.*

ff) Losses Excluded

The CEA policy only covers the specified peril of earthquake. The LOSSES EXCLUDED section of the policy provides:

> ***We** do not insure for any loss that is not directly caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period.*
>
> *Without limiting the above, even if a loss directly or indirectly is caused by, is contributed to by, results from, or is aggravated by an **earthquake**, **we** do not insure for any loss that is caused directly or indirectly by, or that in any way results from, is contributed to by, or is aggravated by, any of the following:*

The policy then lists a number of specifically-excluded perils, the most significant of which are discussed below. Claim representatives must read the policy to become familiar with the complete list of exclusions.

gg) Losses Excluded: Fire and Explosion

The policy does not cover losses resulting from fire or explosion, including fires resulting from such things as broken gas lines, exposed wiring, or other factors directly resulting from an earthquake. Any claims for losses resulting from fire must be made under the policyholder's residential fire insurance policy, not under the CEA policy.

If part of the home is damaged by a covered earthquake and part of the home is damaged by a fire, a separate claim representative must be assigned to each claim.

Both claim representatives must, to the extent possible, coordinate their inspections; with the goals of minimizing inconvenience to the policyholder due to multiple inspections from different adjusters, and ensuring the two representatives see the same damage at the same time to better determine the proper allocation of damage to the appropriate policy.

NOTE: Notify the CEA immediately, by e-mail to the CEA Claim Director, about any CEA claim opened on a fire-damaged home, where the CEA claim has a claim reserve of greater than zero (or whichever other minimum reserve amount the Participating Insurer uses to open a CEA claim). The CEA may elect to arrange inspections on these claims to review allocation of damages.

hh) Losses Excluded: Water Damage

The policy reads in part:

*… **we** do not insure for any loss that is caused directly or indirectly by …*

2. *Water damage, including but not limited to damage resulting from:*

    a) *Flood, precipitation (including but not limited to rain, snow, hail, or sleet), or surface water; waves, tsunami, or tidal water; rupture of a dam, levee, berm, or sea wall; overflow of a natural or man-made body of water; or spray from any of these; or*
    b) *Water below the surface of the ground, whether natural or not, including water that exerts pressure on or seeps or leaks through a building, sidewalk, driveway, foundation, or other structure.*

*This water damage exclusion, however, does not exclude loss that results from water damage to covered property that is a result of any of the following directly resulting from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period:*

*The release of water from water heaters, refrigerators, or water supply pipes within the **dwelling**;*

The displacement of water from an aquarium, drinking water container or dispenser, or swimming pool, decorative pool, spa, or hot tub; or

*The release of water from municipal or other water supply lines on or off the **residence premises** or the release of water or sewage from sewers or drains on or off the **residence premises**; or*

*Precipitation (including rain, snow, hail, or sleet) entering a building through an opening in a roof or wall, if the opening is the direct result of damage from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period.*

Although the above exclusions are straight-forward, the claim representative should bear in mind:

- damage resulting from certain specified earthquake-related water factors is covered – review the policy language above;
- earthquake-related flooding is not covered (e.g., if an earthquake breaks an uphill dam);
- damage caused by a tsunami is not covered; and
- the policy provides coverage for damage resulting from water entering the home through an opening caused by an earthquake.

ii) Losses Excluded: Asbestos and Other Pollutants

The policy contains a detailed pollution and pollutants exclusion that applies to groundwater, land, and personal property.

Because this exclusion applies to personal property, the policy does not cover asbestos removal, including the cost of testing, if the loss is to items listed under Coverage C. There is not coverage for damage to any personal property contaminated by asbestos, including furniture, furnishings, and clothing.

Asbestos removal (including the cost of testing), and other earthquake-caused pollution damage to the dwelling, is covered when the expense is necessary to repair or replace damaged items of real property covered under Coverages A or B.

jj) Losses Excluded: Non-Earthquake Earth Movement and Land Sliding

The policy does not cover any loss caused directly or indirectly by non-earthquake related earth movement, including: *Earth movement, settling of land, land sliding, subsidence, mudflows, or earth sinking, rising or shifting . . .*

There is an exception to this exclusion—the CEA policy does cover the loss if such earth movement, settling of land, land sliding, subsidence, mudflow, or earth sinking, rising, or shifting:

a. *is induced by, and would not have occurred in the absence of, an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period; and*
b. *causes loss that manifests within one year after the **earthquake** that caused the loss.*

For example, if an earthquake is determined to have caused a landslide that occurred six months after the earthquake, the damage caused to the dwelling resulting from the landslide might be covered. However, if a landslide occurs or the resulting loss manifests any time after the first anniversary of the earthquake, the damage is not covered under the CEA policy.

2. BASIC EARTHQUAKE POLICY - COMMON INTEREST DEVELOPMENT – CONDO POLICY

In California, a "common interest development" can be a community apartment project, a condominium project, a planned development, or a stock cooperative, all defined in California Civil Code sections 4100-4125. Since the term "common interest development" is most typically applied to condominiums, for ease of reference the term "condominium" will be used throughout the remainder of this Manual.

Following is a brief summary of the coverages, exclusions, and limitations provided by the CEA condominium policy. This policy has many of the same provisions found in the CEA Homeowners policy, with some unique features.

Always review the specific policy in force at the time of the claim to confirm the policy type, coverages, limits, deductible amounts, and exclusions. This Manual is not a substitute for reading the policy. Claim representatives must also review the condominium association master policy, and the association governing documents, when evaluating a condominium loss.

a) Policy Definitions

Most of the key definitions found in the Homeowners policy are also found in the Condominium policy. However, some additional definitions are unique to this policy, including: "association governing documents," "association master policy," "association of owners," "common interest development," and "dwelling unit." Claim representatives should read and become familiar with these definitions.

b) Adjusting Condominium Claims – Coordination

Participating Insurers must identify the number of policies they have issued within a given condominium complex. To the extent possible, claims from policyholders within the same complex should be assigned to the same claim representative and supervised by the same individual.

c) Other Earthquake Coverage

If a loss to property that would otherwise be covered under Coverage A: BUILDING PROPERTY is covered under an association master policy, refer to the "Other Insurance" clause in the CEA policy:

8. Other Insurance.

*a. If there is other insurance, not including the **association master policy**, that covers **earthquake** loss to the **dwelling unit** or other property covered under this policy, **we** will pay **our** share of the covered loss or damage. **Our** share is the proportion that the applicable **limit of insurance** under this policy bears to the combined **limits of insurance** of all policies that cover the same property.*

*b. If there is other insurance that does not cover the peril of **earthquake** but that otherwise provides coverage for the same loss or damage for which **you** submit a claim under this policy, **we** will pay only for the amount of covered loss or damage in excess of the amount due from that other insurance, but **we** will not pay more than the applicable limit of insurance.*

Part b., above, means the associated earthquake coverage is primary.

d) Duties After a Loss

The insured's duties after a loss are largely the same as those found in the Homeowners policy. In addition, the condominium policyholder must:

*If requested, provide the **participating insurer** with copies of all **association governing documents**.*

e) Overview of the Declarations Page and Coverage Options

In contrast to the CEA Homeowners policies, the CEA Condominium policy provides for three coverage groups that can be purchased together or separately, in any combination:

Coverage A: BUILDING PROPERTY
Coverage C: PERSONAL PROPERTY together with Coverage D: LOSS OF USE
Coverage E: LOSS ASSESSMENT

Coverage A: Building Property can be purchased alone or in combination with other coverages. If Coverage A is selected, the policyholder selects a limit of either $25,000, $50,000, $75,000, or $100,000. Building Code Upgrade coverage of $10,000 additional insurance is included with Coverage A.

- Coverage A offers deductible options of 5%, 10%, 15%, 20%, and 25%.

Coverage C: Personal Property, and Coverage D: Loss of Use, can be purchased together or in combination with other coverages. Coverages C and D include coverage with limits available in the following amounts:

- Coverage C: $5,000, $25,000, $50,000, $75,000 $100,000, $150,000, or $200,000;
- Coverage D: $1,500, $10,000, $15,000, $25,000, $50,000, $75,000, or $100,000;

The CEA Condominium policy has personal property deductible options of 5%, 10%, 15%, 20%, and 25%. Loss of Use does not have a deductible.

Coverage E: Loss Assessment can be purchased alone or in combination with other coverages. The limits available are $25,000, $50,000, $75,000, or $100,000.

- The CEA Condominium policy has loss assessment deductible options of 5%, 10%, 15%, 20%, and 25%.

Because these coverages can be purchased separately, with different options for coverage limits and deductibles, the claim representative must be vigilant in claim handling. **Always check the Declarations page to confirm the coverage, limits, and deductible amounts.**

f) Losses Excluded

Losses excluded are the same as those found in the – standard CEA Homeowners policy.

g) Deductibles

One difference between the CEA Condominium policy and CEA Homeowners policies is how deductibles are handled. Unlike the Homeowners policies, in the Condominium policy, each of the policy coverages has its own separate deductible (except for Loss of

Use, which does not have a deductible). Only loss to property covered under a specific coverage counts against the deductible for that coverage.

Remember: claim representatives must use the CEA Excel Deductible Calculator found on the CEA Web site for all claims where covered damage has been estimated, whether the claim is expected to exceed the deductible or not.

h) Building Property - Coverage A

Coverage A is optional in the Condominium policy, so it is important to carefully review the Declarations page to determine whether the policyholder purchased Coverage A.

A single-family residence usually has one owner and stands separate from other structures. In contrast, a condominium project is a collection of separate dwelling units together with property owned jointly by many owners. Property owned jointly may include the structure in which the individual units are located, common walkways, pools, and other common property. Often, the association of owners has obtained a policy of insurance, referred to as an "association master policy," which may insure against the perils of fire, earthquake, or both.

In order to determine whether the property is covered under Coverage A: Building Property, claim representatives must review:

a) the association governing documents, to determine whether the insured has the obligation to repair or maintain the property; and
b) the association master policy, to determine whether it covers the property for the risk of earthquake.

There are two basic categories of property covered under Coverage A: Building Property. The first category of property is covered regardless of the policyholder's individual maintenance obligations under the association governing documents:

We *cover:*

1. *The following property:*
   a. *Built-in appliances, fixtures, alterations, and improvements that are part of the structure in which the* ***dwelling unit*** *is located and are contained within the* ***dwelling unit****;*
   b. *Wall-to-wall interior carpeting attached to the* ***dwelling unit****;*
   c. *Items of real property, other than* ***chimneys****, that pertain exclusively to the* ***dwelling unit.***

The second category of property is only covered if the insured has an obligation to maintain the property under the association governing documents:

2. *The following property, but <u>only</u> to the extent that* ***you*** *are obligated to repair or maintain the property under the terms of the* ***association governing documents****:*

a. *Plumbing pipes and utility service structures and equipment that are enclosed within the walls, ceiling, or floor of the **dwelling unit**, extending to the exterior surface of the perimeter walls of the **dwelling unit**;*
b. *Equipment and utility service structures for electric, telephone, natural or bottled gas, heating, oil, water, septic, and sanitary sewage systems that (1) are located outside of the perimeter walls of the **dwelling unit** but within the **common interest development** and (2) directly affect the habitability of the **dwelling unit**;*
c. ***Chimneys** that are attached to or part of the **dwelling unit,** up to a **sublimit** of $10,000, regardless of the number of **chimneys** covered.*

i) Emergency Repairs – Coverage A

The cost of Emergency Repairs under Coverage A: Building Property will only be paid if damage exceeds the Coverage A deductible. Emergency Repairs coverage provides coverage up to a sublimit of $1,500 of the policy limit. (Do not confuse this with the $1,500 that can be paid on a CEA Homeowners policy before the Coverage A: Dwelling policy deductible is met.)

j) Debris Removal – Coverage A

Coverage A includes coverage for debris removal. The policy also allows for an additional payment for debris removal of up to 5% of the Coverage A limit of insurance, in cases of a total loss (covered losses exceed the policy limit):

*Debris Removal. **We** will pay the reasonable expense **you** incur in removing from the **common interest development** the debris of damaged property covered under "COVERAGE A: BUILDING PROPERTY," including but not limited to the reasonable expense **you** incur for the transportation of such debris to landfills or disposal facilities and disposal of the debris at those facilities, or the transportation of such debris to suitable recycling facilities rather than landfills and disposal of the debris at those facilities.*

*The **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" will be reduced by any amount **we** pay under this coverage, but in the event that **your** covered losses under "COVERAGE A: BUILDING PROPERTY" exceed the combined **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" shown on the DECLARATIONS page of this policy, **we** will provide, as additional insurance, up to 5% of that **limit of insurance** for "COVERAGE A: BUILDING PROPERTY" for this debris removal coverage.*

k) Loss Settlement – Coverage A

Loss settlement under Coverage A: Building Property of a CEA Condominium policy is substantially similar to loss settlement under Coverages A and B of the –CEA Homeowners policies.

Remember: due to the unique nature of both common and individual property ownership found in common interest developments, the claim representative must determine:

- the extent of the insured's insurable interest and responsibility to insure the property; and
- whether the CEA policyholder's loss is covered or collectible under an association master policy (in which case, refer to the "Other Insurance" provision of the CEA policy).

l) Personal Property – Coverage C

The adjusting process is substantially the same under the Homeowners, Renters, and Condominium policies, except for the application of the deductible. Coverage C is an optional coverage in the Condominium policy, so it is important to carefully review the Declarations page to determine whether the policyholder has purchased Coverage C, and if so, the coverage and deductible amounts.

Condominium owner policyholders may purchase optional coverage for breakable items by adding a Coverage for Breakables (CEA 04A 01-2016) endorsement to the Personal Property coverage. The endorsement provides coverage for the "Breakable items" listed in the policy, up to the Coverage C limit. Personal Property sub-limits stated in the policy continue to apply. If purchased, the endorsement is listed on the Declarations page.

m) Emergency Repairs – Coverage C

The cost of emergency measures undertaken to protect damaged personal property from further damage is included as a Coverage C **sublimit** and are paid only if damage to personal property exceeds the Coverage C deductible. The policy provides, in part:

Other Coverage—Coverage C

We *provide the following other coverage:*

*Emergency Repairs. If covered damage occurs to property covered under "COVERAGE C: PERSONAL PROPERTY," **we** will pay the cost **you** incur for reasonable and necessary emergency measures **you** take to protect against further damage to that property.*

1. *This Emergency Repairs coverage provides coverage up to a **sublimit** of the lesser of (i) 5% of the policy **limit of insurance** for "COVERAGE C: PERSONAL PROPERTY" or (ii) $1,000. The applicable total **limit of insurance** for the "COVERAGE C: PERSONAL PROPERTY" will be reduced by any amount **we** pay for this coverage.*

2. ***Your** taking reasonable and necessary emergency measures to protect covered property from further damage does not relieve **you** of **your** responsibilities outlined in "**Your** Duties After Loss" (CONDITIONS, Item no. 3).*

n) Loss of Use – Coverage D

Coverage D: Loss of Use is an optional coverage in the Condominium policy. Always review the Declarations page to determine whether the policyholder has purchased Coverage D, and if so, the coverage amount. Loss of Use is calculated functionally the same as under the Homeowners policies.

In order to collect Loss of Use or Loss of Rents under the –Homeowners policies, the dwelling must be unfit to live in. Under the Condominium policy, if the insured is forced to vacate because of earthquake-related repairs to other units in the same development, Loss of Use can be paid – even if the dwelling unit is undamaged or fit to live in. Review the policy provision for the exact terms and conditions of Loss of Use coverage.

o) Loss Assessment – Coverage E

A loss assessment is a demand by an association of owners, requiring the dwelling unit owner to pay for damage to commonly-owned property. A loss assessment may be covered, but only to the extent that the assessment relates to the repair or replacement of covered earthquake-damaged association property (covered under Coverage E). For example, damage to swimming pools is included in the list of "Losses Not Covered" under Coverage E, so if the association assesses a CEA policyholder for a share of the damaged pool repair costs, the CEA policy does not pay for any part of that loss assessment.

Because Coverage E: Loss Assessment is an optional coverage in the CEA Condominium policy, it is important to carefully review the Declarations page to determine whether the policyholder has purchased Coverage E, and if so, the coverage amount.

If the policyholder purchased Coverage E, the policy covers the insured's share of an assessment charged by the association against all property owners in the common interest development, if <u>all</u> of the following three requirements are satisfied:

a. *<u>Requirement One</u>: **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. *<u>Requirement Two</u>: The assessment is not made as a result of a loss specified in "<u>Losses Not Covered—Coverage E</u>"; <u>and</u>*
c. *<u>Requirement Three</u>: 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 owner**s, or (iii) **you**.*

   An assessment against the insured must be fully investigated, since portions of the assessment may not be covered. The claim representative must obtain sufficient documentation and records to understand the basis for the assessment.

   Examples:

- There is no association master policy to cover earthquake damage, and each condominium owner is assessed $10,000 to fix the roof of the complex. If the CEA condominium loss assessment deductible is met, the assessments for earthquake-damaged roof repairs could be a covered loss under the insured's CEA policy.

- Same facts as above, but the loss assessment for $10,000 is for landscaping repairs. Even if the CEA condominium loss assessment deductible is met, this assessment would not be covered under the insured's CEA policy.

To determine the covered portion of a claim, reduce the loss assessment sought by the association of owners by that portion of the loss assessment attributable to:

- any of the categories of property not covered under Coverage E: Loss Assessment; or
- causes excluded in any of the CEA policy exclusions.

Also, Coverage E provides a sublimit of $10,000 for that portion of any loss assessment relating to building code upgrades. Unlike the Coverage A losses for building code upgrades, this is not additional insurance, but rather a sublimit of the Coverage E limit of insurance.

Check the Declarations page for the applicable deductible for Coverage E: Loss Assessment.

p) Reduction of Value - Property not Repaired or Replaced - Coverage E

In rare situations, the association of owners may elect not to repair or replace damaged property, or they may be permanently prevented from repairing or replacing the property. The resulting reduction in the fair market value of the insured's ownership interest is covered if both of the following requirements are satisfied:

*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."*

Calculation of the proper amount to be paid for this type of claim is specified in detail in the policy language. Carefully review the policy language if this type of claim is presented.

q) Building Code Upgrades – Coverage A and Coverage E

Under LOSSES EXCLUDED, the policy provides the following:

8. Required compliance with any ordinance, law, or residential building code that regulates the use, construction, repair, or demolition of a building or other structure, except as specifically provided under this policy, under the following provisions:

a. *"Other Coverages—Coverage A," Item 3, "Building Code Upgrades," subject to the applicable $10,000* ***limit of insurance****, or*
b. *"Losses Covered—Coverage E," Item 1, "Assessment By* ***Association of Owners****," subject to the applicable* [Building Code Upgrade] *$10,000* ***sublimit****.*

r) Ingress and Egress

The condominium policy specifies, under:

Property Not Covered—Coverage A

We *do not cover:*

11. Walkways, driveways, decks, and patios that are not necessary for and regularly used for pedestrian ingress to and or egress from the ***dwelling unit****.*

And under Coverage E, Loss Assessment, it reads:

LOSSES NOT COVERED—COVERAGE E

We *do not cover any losses under "COVERAGE E: LOSS ASSESSMENT" that arise out* of any of the following:

10. Loss or damage to walkways, driveways, decks, or patios, except that portion of those walkways, driveways, decks, or patios that are necessary for and regularly used for ingress to and or egress from the residential structure containing the ***dwelling unit*** *by pedestrian or non-ambulatory occupants of that residential structure.*

The ingress and egress exceptions to Losses Not Covered under Coverages A and E both apply only to ingress to and egress "*from the* ***dwelling unit***". Dwelling unit is defined as "***your*** *individual unit.*" Thus, payments under these exceptions are limited to damage to ingress to and egress from the insured's **dwelling unit**.

In cases of loss to ingress and egress that might potentially be covered under the CEA Condominium policy, claim representatives must pay particular attention to the possibility that such losses are covered under an association master policy or other insurance, and apply the "Other Insurance" clause of the CEA policy.

3. BASIC EARTHQUAKE POLICY – RENTERS

The CEA Renters policy does not provide coverage for loss to dwellings or real property; it provides only Coverage C: Personal Property and Coverage D: Loss of Use. The policy limit options are:

- Coverage C: $5,000, $25,000, $50,000, $75,000, $100,000, $150,000, or $200,000
- Coverage D: $1,500, $10,000, $15,000, $25,000, $50,000, $75,000, or $100,000

Renters may also purchase coverage for breakable items by adding a Coverage for Breakables (CEA 04A 01-2016) endorsement. If purchased, this endorsement provides coverage for the items listed under "Breakable items," up to the Coverage C limit. Personal Property sub-limits stated in the policy continue to apply. The endorsement is listed on the Declarations page, when purchased.

a) Personal Property – Deductible – Renters Policy

The CEA Renters policy provides for the following deductibles:

- Personal Property (Coverage C) has deductible options of 5%, 10%, 15%, 20%, and 25%; and
- Loss of Use (Coverage D) has no deductible.

b) Loss of Use – Renters Policy

As with the other CEA policies, there is no deductible for Coverage D: Loss of Use. The adjustment of a Loss of Use claim is the same as it is under the Homeowners policies. The policy reads in part:

*If the part of the **rental unit** that **you** occupy becomes unfit to live in and **you** are forced to vacate the **rental unit** as a result of either (1) damage to the **rental unit** caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period or (2) the process of repairing damage to the **rental unit** caused by an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period, then **we** cover the necessary increase in living expenses **you** actually incur to maintain **your** normal standard of living. **We** will pay Additional Living Expenses for the shortest time reasonably needed (a) to repair or replace the parts of the **rental unit you** occupy that are unfit to live in, or (b) for **you** to permanently relocate elsewhere if the owner of the **rental unit** does not elect to repair or replace the **rental unit**.*

If the insured sublets a portion of the rental unit to a subtenant, and loses rental income due to earthquake damage, the insured may also collect actual rental income losses under Coverage D.

c) Policy Exclusions – Renters Policy

In a CEA Renters policy, items not covered, and exclusions are the same as those found in the personal property coverage of CEA Homeowners policies.

E. CLAIMS INVESTIGATION PROCEDURES

These investigation procedures are designed to provide basic claim-handling information. They are intended to augment what an experienced property claim representative already knows about properly handling property claims, and to highlight certain unique aspects of CEA policies. The procedures have been developed to promote consistency among claim

representatives and fairness to policyholders in the handling of CEA claims. They will not cover all situations.

1. A Companion Policy Must Be in Force

If no companion policy is in effect at the time of loss, the CEA policy is void, and no payment can be made. At the outset of the investigation, always confirm the companion policy is in force.

2. California Fair Claims Settlement Practices Regulations and Other Laws

All claim representatives handling claims in California must abide by the California Fair Claims Settlement Practices Regulations, and other applicable codes or regulations.

Claim representatives must be familiar with the unfair claim-handling practices set forth in California Insurance Code section 790.03(h), as well as the California Fair Claims Settlement Practices found in the California Code of Regulation, Title 10, Chapter 5, Subchapter 7.5.

Insurers and their representatives must not knowingly engage in any of the unfair claims handling practices listed in these statutes.

3. Claim File Documentation

Participating Insurers are expected to handle CEA claims in a manner consistent with this Manual, their company claim lines, and the California Fair Claims Settlement Practices Regulations. Although specific requirements (for example, the number of photographs required) will not be dictated by the CEA, all claim files must be clearly documented, with sufficient detail in the file, to allow a person reading the file to understand how and why all decisions were made on the claim.

The documentation to support claim decisions must be kept in the Participating Insurer claim file. Files are subject to review and audit by the CEA.

4. Complete Investigation

In addition to documenting new earthquake damage in a home, it is important to take pictures of rooms without damage, and to document in the claim file those undamaged rooms. If the claim file reopens at a later date, thorough documentation can be used to help refute any allegations the claim representative missed finding some earthquake damage or did not conduct a complete investigation.

All CEA claim files must include the CUREE Guidelines General Damage Earthquake Inspection Checklist found in the CUREE EDA2 (Earthquake Damage Assessment) document, available on the Web site at http://www.cureedocs.org. This checklist is used by a claim representative during the initial inspection of the home. Use of the CUREE inspection checklist ensures consistent and complete inspections by all the CEA

participating insurance companies. The checklist must be used by both company and independent adjusters.

When a claim representative is investigating a claim and there is evidence of earthquake damage in the attic or crawlspace, or the home has suffered structural earthquake damage, the claim representative must inspect the home's attic and crawlspace (if they are safely accessible). In these cases, use the attic and/or crawlspace inspection checklists contained within document EDA2 of the CUREE Guidelines, available at www.cureedocs.org. The CUREE inspection checklists can also be requested from the CEA Claim Director.

While most inspections will be done by a claim representative, CEA understands the claim representative may have an engineer, contractor, etc., conduct an inspection of the home. Include in the claim file the results of these inspections. Always use appropriate personal safety measures during inspections.

5. Keep the Policyholder Informed

Good claim-handling practices, as well as applicable regulations, require that policyholders be kept informed during the claim process. Keep the insured up-to-date about the claim and the progress of the investigation as decisions and information become available, and in every case, provide an update no less than every 30 days. Estimates and expert reports should be promptly shared with the insured. Keep the insured informed of key decisions made on the claim. When a report from an expert is relied on to form an opinion regarding damage, provide a copy of the report to the insured. Give the insured a copy of the claim representative's scope and estimate as soon as possible.

Claim representatives must be trained on the current law regarding the obligation of the insurer to fully investigate earthquake damage discovered or reported after the initial earthquake damage claim is submitted to, or closed by, the Participating Insurer. The Participating Insurer must investigate reports of hidden or later-discovered damages before invoking any policy provisions regarding the time limit for submitting claims. Even if a new claim is received more than one year after the date of loss, the Participating Insurer should open a new claim, and investigate the facts of the claim, before invoking any policy provisions. All such investigations should be made subject to a written reservation of rights.

All claims must be concluded with a final closing letter, even if payment is being made. This letter should: (1) explain in writing any previous decision not explained in writing, and (2) quote the "Legal Action" condition of the policy.

6. Timely Adjusting - SBA and FEMA Requirements

Considering the policy deductible, policyholders generally do not receive payment for the total amount of the damage they incur and are required to bear themselves some portion of the financial costs of the earthquake. To help pay for the part of their claim that is not covered by the insurance policy, they may look to the Small Business Administration

(SBA) for low-interest loans, or to the Federal Emergency Management Agency (FEMA) for grants.

In order to receive SBA or FEMA assistance, the insured will need documentation from the claim representative. Usually these agencies require a statement of loss or a denial letter. Because the SBA and FEMA have strict submission deadlines, the claim representative must provide the insureds the needed documentation as quickly as possible. For this and many other reasons, it is important to handle all claims and final paperwork in a timely manner.

More information about FEMA and the SBA can be found on their Web sites at: http://www.fema.gov and http://www.sba.gov.

7. Proof of Loss

The policy provides that, if requested by the Participating Insurer, a Proof of Loss must be provided by the policyholder, within 60 days. The CEA does not require a Proof of Loss on every claim. However, the CEA has a right to a Proof of Loss when it is deemed necessary.

In cases where the insured and the Participating Insurer do not agree on the amount of loss, it is valuable to obtain the insured's input by requesting a Proof of Loss. This decision should be made on a case-by-case basis.

8. Emergency Repairs

The policyholder is always responsible for taking the necessary steps to protect property from further damage, as outlined in the "Your Duties After Loss" Condition found in every CEA policy.

Because the different CEA policies pay for Emergency Repairs in different ways, always read the policy language carefully. Below is a summary of how the various CEA policies provide for handling emergency repairs.

Homeowners and Homeowners Choice – Emergency Repairs to Coverages A and B, and Coverage C:

a) The first $1,500 of Emergency Repairs is paid without a deductible;
b) Covered Emergency Repairs must not exceed the policy sublimit of 5% of the applicable limit of insurance for the covered property (Coverages A & B or Coverage C);
c) Emergency Repairs in excess of $1,500 — but only up to the 5% Emergency Repairs sublimit — are subject to the deductible and used in its calculation. Use the CEA Excel Deductible Calculator to help keep track of this sublimit.

Condominium – Emergency Repairs

a) Covered up to $1,500, as sublimit of Coverage A;

b) Covered for the lesser of 5% or $1,000 sublimit of Coverage C, if purchased;
c) Subject to the applicable policy deductible.

Renters – Emergency Repairs

a) Covered for the lesser of 5% or $1,000 sublimit of Coverage C;
b) Subject to the policy deductible.

9. Scope of Loss and Estimates

In most cases, the claim representative must complete a sufficiently thorough examination of the home to enable him or her to list all recent earthquake damage, complete a diagram of areas to be repaired, and obtain needed measurements. The claim representative must then complete an itemized scope of loss.

Claim representatives should create or obtain an accurate estimate of the cost to repair all covered earthquake damage. Participating Insurers may use any software generally accepted by the insurance industry in the preparation of building and structure repair estimates. The file must contain the documentation necessary to support the estimate. The measurement of areas, room sizes, and other dimensions on which quantities of material and labor are based, must be shown in the estimate. A diagram should be prepared and attached to the estimate. Document the damages with photographs, as appropriate.

Claim representatives may need to reevaluate an estimate, if notified that the actual costs of repairs differ from the costs listed on the original estimate. Any additional earthquake damage found after repairs have begun must also be evaluated for coverage.

Engineers or experts should be used when appropriate. (See section E10, below.)

The insured should be given a copy of the scope and estimate as soon as possible. If the policyholder wants to get his own estimate, make sure he understands the importance of using the claim representative's scope of covered damage.

10. Use of Engineers or Experts

Where the causation is obvious and damage is non-structural, a claim representative can assess the damage.

However, earthquake damage can manifest itself in a variety of forms, from minor cracking of interior sheetrock, to major failure of the foundation system. An engineer should be used when the damage appears to be structural in nature. The services of an expert will assist in the analysis of the cause, extent of loss, and the proper way to repair the damage. The claim representative must understand the distinctions between the various expert fields, and how they can be best used during the claim investigation. One source of earthquake engineering information is the CUREE "General Guidelines for the Assessment and Repair of Earthquake Damage in Residential Woodframe Buildings." www.cureedocs.org.) Look for the EDA2 document.

a) When to Retain an Engineer or Expert

Participating Insurers must determine the need for engineers or other experts as soon as possible in the claim adjustment process. It is not necessary to request approval from CEA.

Some of the conditions to consider when retaining an engineer to inspect a property:

1. building has collapsed or partially collapsed;
2. building superstructure has shifted relative to or off its foundation;
3. building as a whole, any story, any walls, any cripple walls, or columns, are visibly out of plumb;
4. shifting or movement of interior walls and partitions relative to the floor;
5. a pattern of broken windows, or a pattern of sticking or inoperable hinged doors;
6. for hillside 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;
7. visible distortion of the roofline or significant fresh damage to attic framing;
8. damage to the structure in the vicinity of the chimney;
9. a pattern of splitting of framing members (sill plate, hold down locations, floor joists, etc.); and
10. evidence of fresh settlement of floors.

b) What Kind of Engineer to Select

Generally, a claim representative should start with a structural specialist (a civil engineer specializing in structural engineering, or a structural engineer). A structural specialist can evaluate all components of a building, including the foundation, for structural damage. Consult the structural specialist regarding the need for a soils specialist or other technical consultants.

For purposes of claims adjusting, the primary technical issues for the engineer to address are:

1. identification of all structurally significant earthquake damage, especially those damage patterns that might not be obvious to owners and adjusters;
2. causation (i.e. distinguishing between damage caused by the earthquake and conditions/damage attributable to other causes);
3. scope of work necessary to repair the damage caused by the earthquake in accordance with the terms of the policy; and
4. any building code upgrades that may be required as a part of the repair of the earthquake damages.

c) Locating Qualified Engineers

Ideally, Participating Insurers should maintain a list of pre-qualified engineers who can be called upon in the immediate aftermath of an earthquake. When that is not the case, one source of contact information for potentially qualified engineers is the regional Structural Engineers Association of California (see www.seaoc.org for links to regional association), or the local chapter of the American Society of Civil Engineers (see https://www.asce.org/regions_sections_branches/ for links to local chapters).

Prior to retaining an engineer, check credentials by obtaining a copy of the engineer's résumé or statement of qualifications, including information on the engineer's education, work experience, technical expertise, and professional registration or engineering license number.

The status of an engineer licensed in California can be verified at the California Department of Consumer Affairs Web site: www.dca.ca.gov Look for the link titled: "License Search for Professional Engineers…"

d) Written Contract Specifying the Scope of Services

If the engineer's credentials are acceptable, the next step is to execute a written contract with the engineer. California Business and Professions Code section 6749 requires, with some exceptions, engineers to provide their clients with a written contract specifying, at a minimum:

1. a description of the services to be provided to the client by the professional engineer;
2. a description of any basis of compensation applicable to the contract, and the method of payment agreed to by the parties;
3. the name, address, and license or certificate number of the professional engineer, and the name and address of the client;
4. a description of the procedure the professional engineer and the client will use to accommodate additional services; and
5. a description of the procedure to be used by any party to terminate the contract.

Following a major earthquake, qualified engineers in an area may be overwhelmed or in short supply. Before authorizing any engineering work, request, and agree to, the delivery time for any written reports to be generated by the engineer.

e) Payment of Expert Fees

Always request and agree to a budget before authorizing the work.

Expert fees necessary to investigate a claim or determine the cause of loss are paid for by Participating Insurers. The Participating Insurers receive a loss-adjusting fee on all paid claims, which when averaged out over all claims handled, is designed to reimburse the PI for these fees.

Expenses that are part of the repair process (i.e. permits, architectural, etc.) are part of the indemnity payment made under the policy coverage limits, after the deductible and any other policy provisions are met.

11. Destructive and Other Tests to Determine Extent or Cause of Loss

In some situations, the insured may be solely responsible for the cost of performing certain tests. The CEA policy provides:

*At **our** option, **we** may select and retain adjusters, consultants, contractors, engineers, or other experts to inspect **your** property or to perform tests, including destructive tests, to determine the extent or cause of loss with respect to any claim **you** make under this policy. **We** will bear the cost of performing any tests (including the cost of repair of damage necessitated by any destructive tests) that **we** elect to perform to determine the extent or cause of loss.*

*If, however, it is the opinion of the CEA that **your** property (or some particular part of **your** property) has not sustained covered **earthquake** damage over the deductible amount of this policy, and despite **our** opinion **you** request additional testing of **your** property or that part of **your** property, then if additional testing is performed, **you** are solely responsible for the costs of performing the additional testing and of repairing the damage to **your** property that was caused by any additional destructive testing, unless the additional testing establishes the existence of covered **earthquake** damage that, either alone or combined with other covered **earthquake** damage, exceeds the deductible amount of this policy.*

When necessary, complete a "testing agreement," a copy of which is included in this Manual as Attachment 4.

12. Cracks in Concrete Surfaces, Such as Garage Floors and Foundations

Most concrete work, especially house and garage floor slabs, develop small cracks over time. This is considered normal, and generally does not impair the structural function of the concrete. The cost to repair old cracks in the concrete that existed prior to the earthquake is not covered; new damage due to the earthquake, which might include expansions of old cracks, is covered.

The claim representative, with the advice of an appropriate expert, must determine whether concrete needs to be replaced, or whether it can be repaired with injected epoxy or other methods. In cases where the cracks do not cause structural impairment, strong consideration should be given to a repair with properly injected epoxy. This will be decided on a case-by-case basis. The CEA policy generally allows for repair or replacement, whichever is most appropriate.

In claims where exacerbation of cracks is being claimed, one approach to valuing the damage is to establish what it would have cost to repair the crack before the earthquake and then value the cost to repair the crack after the earthquake. The difference in those two numbers is the value of the damage caused by the earthquake exacerbation.

13. Reasonably Uniform Appearance of Repairs

The California Fair Claim Settlement Practices Regulations, section 2695.9(a) (2), reads in part: "When a loss requires replacement of items and the replaced items do not match in quality, color or size, the insurer shall replace all items in the damaged area so as to conform to a reasonably uniform appearance."

Carpet and floor coverings: When dealing with replacement of carpet and other floor coverings, good judgment must prevail. If a match cannot be found, doorways with doors that close (swinging or pocket) can be used as the dividing line between rooms where there is replacement of floor covering damaged by the loss, and adjoining rooms where the floor covering was not damaged and need not be replaced. (This concept does not apply to closets with doors. For purposes of floor covering replacement, closets are considered part of the room.)

Roofs: The regulations do not require an exact color match, but rather, that all items in the damaged area "conform to a reasonably uniform appearance." The claim representative must use reasonable judgment to determine how much of the damaged area needs to be repaired or replaced to comply with the "reasonably uniform appearance" standard.

It is generally not necessary to replace the whole slope, unless materials of the same size and quality cannot be found, or the condition of the roof makes a repair impossible. New materials of like kind and quality generally fade to match the existing materials.

When a claim representative recommends a repair rather than a replacement, CEA requires the representative to explain the "reasonably uniform appearance" concept to the insured and advise how the claim representative determined the area to be repaired.

14. Costs to Rebuild or Repair – Prices of Building Materials

The CEA is committed to providing fair and reasonable local cost reimbursements for covered earthquake damage. Claim representatives may use automated damage estimating programs or qualified contractors to estimate the dollar value of damage. **The CEA does not provide cost of labor and or cost of materials information after an earthquake.** Determining appropriate labor and materials costs is part of the Participating Insurers' loss adjustment duties. Participating Insurers should ensure their estimating programs are updated with appropriate local post-disaster labor and material costs.

California law regulates price increases for goods and services after a state of emergency has been declared. Section 396 of the California Penal Code is intended to prevent post-disaster "price gouging," and provides that persons selling specified goods and services at a price more than 10% above the price charged prior to an emergency are guilty of a misdemeanor and are subject to criminal prosecution.

15. Overhead and Profit

It is appropriate to allow for overhead and profit (O&P) in cases where the repair involves multiple trades requiring the use of a general contractor to oversee the job. It is not appropriate to allow for O&P when dealing with individual trades, and individual tradesmen are doing the work. On a one-trade repair, do not allow for O&P, even if a general contractor is doing the work.

If it is appropriate to allow for O&P in an estimate, add the overhead percentage and the profit percent together, then apply the total percentage to the estimate. Do not apply the percentages individually, since this approach results in a higher cumulative O&P amount. The CEA allows O&P amounts that follow the customary practice of contractors in a given area. Any exceptions to these O&P guidelines must be documented in the claim file.

16. Double Coverage

To help resolve issues of overlapping insurance or coexistent insurance coverage, follow the Other Insurance provisions in the CEA policy. Further help can be found in Fire, Casualty, and Surety (FC&S) Bulletins – coverage information, provided by the National Underwriter Company.

17. Suspected Fraudulent Claims

Often discrepancies in claims handling can be resolved by open communication with the insured. It is important that claim representatives always keep an open mind and treat the policyholder with respect.

Refer suspected fraudulent claims to the Participating Insurer's Special Investigation Unit (SIU). Request a Proof of Loss, as stated in the policy conditions. Claim representatives must be trained to recognize insurance fraud. Document in the claim file evidence of teamwork between SIU and the claims handler in resolving the issues in question.

Unless the true amount of covered loss and damage has been determined before the referral to SIU, determination of the actual covered loss and damage, if any, should be continued by the claim representative during the SIU investigation. A general reservation of rights letter should be sent to the insured indicating investigation is not a commitment to payment.

18. When to Name a Mortgagee as a Joint Payee on a Claims Settlement Check

It is important to protect both the interest of the policyholder and any mortgagee or lender that may have a legal right of recovery to an earthquake claim payment. In some cases, it is not appropriate to name the mortgagee on a CEA earthquake policy claim payment, because the mortgagee may not have the legal right to share control of CEA insurance policy proceeds. Therefore, the relevant loan documents must be examined to determine whether the lender has any right to recovery of earthquake insurance proceeds.

It is the claim representative's responsibility to determine whether a mortgagee must be named on a claim payment check. This is accomplished by reviewing the applicable mortgage documents to determine if the mortgagee required earthquake insurance as an express condition for making the loan, or if the loan documents contain wording requiring that the mortgagee be named on proceeds from an earthquake claim. In these cases, the claim representative must name the mortgagee as an additional payee on the claim indemnity payment. The claim file must be documented to support the decision made by the claim representative.

Under longstanding informal guidelines, when the total indemnity payment will be $10,000 or less, the payment may be made to the policyholder(s) only, subject to any specific requirements found in the mortgage contract.

The lender is not entitled to any control over payments for Personal Property or Loss of Use.

19. Subrogation

Compared to most other perils, there is less likelihood of third-party liability for earthquake damages suffered by an insured, but the claim representative should still be aware of subrogation potential. For example, defects in construction can cause additional damage during an earthquake, or the earthquake damage may be increased by recent work in the surrounding area by a public entity or contractor. It is the claim representative's responsibility to thoroughly investigate any subrogation potential.

The Participating Insurer is responsible for the subrogation process.

If the claim representative discovers the loss may have occurred as a result of a third party's negligence, proper documentation must be gathered so a successful subrogation claim can be pursued. Proper investigation of a claim with subrogation potential should include at least the following:

a) take a recorded statement of persons likely to have information about the contributing cause of damage, if possible;
b) obtain and preserve any evidence;
c) notify the insured of the intention to pursue subrogation rights, and of the "Subrogation" provision of the CEA policy, requiring an assignment of rights and cooperation in the pursuit of subrogation;
d) take photographs of the damage and other items material to the case; and
e) notify the responsible party and their insurance carrier as soon as it appears a subrogation claim might be presented.

20. Salvage

As in any other claim, consideration should be given as to whether any damaged items have salvage value. The policyholder should be made whole, including the deductible, before any salvage is taken. If there are salvageable items, follow the Participating Insurer's company procedures for dealing with salvage in the claim handling process.

21. Loss Settlement Disputes

Generally, loss settlement disputes involve questions concerning scope of damage, the proper repair method, and the actual cost of the repairs. Keep an open mind, and solicit input from the insured's contractor or representative, to resolve discrepancies in scope, repair method, and pricing. Face-to-face meetings can be helpful.

Disputes can often be efficiently resolved though the California Earthquake Claims Mediation Program with the California Department of Insurance (CDI) at (800) 927-4357. The CEA supports using the CDI mediation program to resolve issues of scope of loss, mandated building code upgrades, pre-existing damage, additional living expense, asbestos abatement, earthquake vs. aftershocks, hidden damages, and personal property valuation issues. (CDI form 526, EQMED 12/99)

Another dispute resolution option is the appraisal provision in the policy. If CDI mediation does not resolve the dispute, the appraisal process is still available. Please note that in the event of a government-declared disaster, appraisal may be requested, but may not be compelled. (Insurance Code Section 2071)

22. Coverage Disputes

Unlike loss settlement disputes, coverage disputes concerning the interpretations of policy coverage or policy language cannot be handled through the CDI mediation program, nor resolved in appraisal. When investigating a claim where coverage is an issue, consider a reservation-of-rights letter. Procedures to resolve policy and coverage interpretations are explained in section A10.

23. Denying Damages Not Covered, and Claims Under the Deductible

There are three main types of denial letters that might need to be sent to a policyholder.

a) Claims under the deductible:

If an insured makes a claim and a Participating Insurer makes no payment because the damage is below the deductible, the Participating Insurer must inform the policyholder in writing that the claim is being denied. Section 2695.7(b) (1) of title 10 of the California Code of Regulations requires, "when an Insurer denies or rejects a first party claim, in whole or in part, it shall do so in writing…" Attachment 6 is a sample under-deductible denial letter. The CEA does not need to approve these letters before they are sent.

b) Claims where the damages are not covered by the earthquake policy in force

If an insured makes a claim and a Participating Insurer makes no payment because the damage is not covered by the policy in force, the Participating Insurer must inform the policyholder in writing that the claim is being denied, **and the letter must quote the policy provisions on which the decision is based**. The CEA has not provided a sample letter for this situation, but some of the wording found in Attachment 6 may be useful.

Participating Insurers must email a copy of the denial letter to the CEA Claim Director for review and approval as to form, before mailing it to the insured. (See Section A29 i).)

c) Claims with a combination of both above situations

If an insured makes a claim and a portion of it is subject to denial, but other parts are paid, the Participating Insurers must inform the policyholder in writing regarding the specifics of what is being paid, what is not being paid, and why. The CEA does not need to approve these letters before they are sent.

Regarding homeowner claims, a denial letter must:

- Deny payment for damage for Coverage A and Coverage B if it is under the deductible.
- Deny any claim made under Coverage C: (a) under a standard Homeowners policy, on the ground that damage to property covered under Coverage A and Coverage B is insufficient to meet the policy deductible, or (b) under a Homeowners Choice policy, on the ground that the damage to property covered under Coverage C is insufficient to meet the policy deductible.

Denial letters under all policies should:

- inform the insured of his or her right to obtain further inspections and to obtain new estimates, if necessary;
- explain to the insured that Loss of Use coverage has no deductible, and the insured may apply for Loss of Use payments later if a covered loss makes the dwelling unfit to live in and it needs to be vacated during repairs (this is true even if the Coverage A and B damages are under the deductible);
- invite the insured to submit any documents showing the loss exceeds the deductible;
- advise the insured of the one-year (two years if loss is related to a state of emergency, as defined in subdivision (b) of section 8558 of the California Government Code) requirement to bring legal action, and quote the language from the policy; and
- include the required wording regarding how to contact the California Department of Insurance.

Always include with the denial letter any expert's reports used to make the decision.

All denial letters should be completed as soon as practical, since policyholders may need these letters to apply for FEMA or SBA assistance.

24. Usage of the Name "California Earthquake Authority" in Letters

It is important to properly use the name "California Earthquake Authority" or the acronym "CEA" in claims correspondence when adjusting a claim for the CEA. (Guidance regarding the approval process to use the CEA mark (logo) are found in the CEA Communications Circular COMMS #2013-01.)

Whenever the words "California Earthquake Authority" are used, they must be in title case (first letter of each word capitalized), or in all capital letters. Do not use these words in all lower case. The acronym "CEA" is always used in upper case, with no periods.

Letterhead: Use the Participating Insurer company letterhead or name, and include the phrase, "A Participating Insurer of the California Earthquake Authority."

The salutation: It is best to personalize claims correspondence whenever possible. It is generally not appropriate to use the words "California Earthquake Authority" or "CEA" in the salutation. If the name of the policyholder is unknown, simply use "Dear CEA Policyholder."

The body of a letter: It is acceptable to use the name "California Earthquake Authority" or the abbreviation "CEA" when referring to the CEA as an entity, or to CEA policy language.

For example:

"Please refer to your BASIC EARTHQUAKE POLICY – HOMEOWNERS, issued by the California Earthquake Authority, where it reads in part …"; or

"The XXX insurance company, a Participating Insurer of the California Earthquake Authority (CEA), wishes to inform you …".

Signature block: Use the PI company's normal signature block, and while not required, consider adding "A Participating Insurer of the California Earthquake Authority."

For example: Sincerely,

John Q. Adams
Senior Claim Representative
XXX Insurance Company,
A Participating Insurer of the California Earthquake Authority

The return address in a letter: It is acceptable to use "A Participating Insurer of the California Earthquake Authority" as part of the return address shown in a letter.

Claims settlement checks: If the payment check includes a field to name the company on whose behalf the payment is being issued, use "California Earthquake Authority."
CEA return address: Do not use the CEA 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]."

25. Claim Payment Ratio

If there is a very large earthquake or a series of earthquakes, such that the CEA's claims paying ability might be exceeded, there is a provision in the CEA policy that provides for the payment of claims on a pro-rata basis. In that case, the CEA would declare a "claim

payment ratio," and the claim representative would first determine the total amount payable on a claim, and then pay the insured a percentage of that total based on the CEA's declared claim payment ratio.

If a ratio other than 100% is to be used, the percentage will be communicated to the Participating Insurers as soon as possible and will apply to all loss settlements from the date of notification onward. If a payment has already been made on a claim at 100%, any future payments on that claim must be rebalanced, so the total of all payments is made at the declared prorata percentage allowable. Do not ask for money back, but do make adjustments to rebalance total payments on a claim.

26. Media Inquiries

Although the CEA has clear policies and procedures in place to support payment of valid claims, neither CEA nor its Participating Insurers can offer public comment on <u>any</u> details of a specific claim.

Discuss a claim only with the CEA policyholder.

This is good practice, not only because out of respect for, and a desire to protect, our policyholders' privacy, but also because California's insurance-privacy laws prohibit insurance providers from publicly discussing details about policyholders or their claims. Refer all media inquiries to the Participating Insurer's company media spokesperson, team leader, or to the CEA at (916) 325-3800.

Attachment 1. Coverage Chart – Homeowners vs. Homeowners Choice

	HOMEOWNERS Includes Mfg. homes and Mobilehomes	**HOMEOWNERS CHOICE** Includes Mfg. homes and Mobilehomes
COVERAGE A		
Dwelling	Companion policy limit	Companion policy limit
Deductible	5%, 10%, 15%, 20%, or 25% of A & B Combined Single Limit	5%, 10%, 15%, 20%, or 25% of A & B Combined Single Limit
COVERAGE B Other Structures	Limited coverage included in CSL Limit for Coverages A & B.	Limited coverage included in CSL Limit for Coverages A & B.
Coverage C: Personal Property coverage amounts selected by Insured	Included coverage. Available limits: $5,000 $25,000 $50,000 $75,000 $100,000 $150,000 $200,000	Optional coverage that insured can buy or decline. Available limits: $5,000 $25,000 $50,000 $75,000 $100,000 $150,000 $200,000
Deductible	Deductible on Coverage A must be met before C can be paid.	Separate 5%, 10%, 15%, 20%, or 25% deductible for Coverage C that is waived if Coverage A deductible is met. Coverage C deductible percentage must be less than or equal to the Coverage A deductible percentage.
Coverage D: Loss of Use—Coverage Amounts selected by Insured (No deductible)	Included coverage. Available limits: $1,500 $10,000 $15,000 $25,000 $50,000 $75,000 $100,000	Optional coverage that insured can buy or decline. Available limits: $1,500 $10,000 $15,000 $25,000 $50,000 $75,000 $100,000
OTHER COVERAGES	Included	Included
Debris Removal	5% of A & B CSL as additional insurance on total losses	5% of A & B CSL as additional insurance on total losses
Emergency Repairs	No deductible on first $1,500; balance subject to 5% policy sublimit and included in deductible calculation.	No deductible on first $1,500; balance subject to 5% policy sublimit and included in deductible calculation.
Land Stabilization	$10,000 Sublimit of A & B CSL	$10,000 Sublimit of A & B CSL
Building Code Upgrade	This is additional insurance of $10,000, $20,000, or $30,000.	This is additional insurance of $10,000, $20,000, or $30,000.

Attachment 2. Coverage Chart – Common Interest Development, Renters

	COMMON INTEREST DEVELOPMENT (Condo)	RENTERS
COVERAGE A	Optional coverage in Condo policy	No coverage
Building Property (Dwelling)	Available limits: $25,000, $50,000, $75,000. or $100,000 for Building Items (Dwelling Unit)	No coverage
Policy Deductibles	5%, 10%, 15%, 20%, or 25%	5%, 10%, 15%, 20%, or 25%
Emergency Repairs	Coverage A: sublimit of $1,500 Coverage C: Sublimit of the lesser of 5% or $1,000	Coverage C: Sublimit of the lesser of 5% or $1,000
COVERAGE B Other Structures	No coverage	No coverage
COVERAGE C Personal Property	Optional coverage in Condo policy, with a 5%, 10%, 15%, 20%, or 25% deductible.	Always included in Renters policy, with a 5%, 10%, 15%, 20%, or 25% deductible.
Personal Property coverage amounts are selected by Insured	Available limits: $5,000 $25,000 $50,000 $75,000 $100,000 $150,000 $200,000	Available limits: $5,000 $25,000 $50,000 $75,000 $100,000 $150,000 $200,000
COVERAGE D	Optional coverage in Condo policy.	Always included in Renters policy.
Loss of Use—Coverage Amounts selected by Insured (No deductible)	Available limits: $1,500 $10,000 $15,000 $25,000 $50,000 $75,000 $100,000	Available limits: $1,500 $10,000 $15,000 $25,000 $50,000 $75,000 $100,000
COVERAGE E	Optional coverage in Condo policy	No coverage
Loss Assessments	Available limits: $25,000, $50,000, $75,000, or $100,000.	No coverage
OTHER COVERAGES		
Debris Removal	Additional insurance: Coverage A: 5% of A, if A is purchased; Coverage C: Lesser of 5% of C or $1,000 if C is purchased.	Additional insurance: Coverage C: Lesser of 5% of C or $1,000.
Emergency Repairs	Coverage A: $1,500 as sublimit of Coverage A; Coverage C: Lesser of 5% or $1,000 sublimit of Coverage C, if Coverage C is purchased.	Coverage C: Lesser of 5% or $1,000 sublimit of Coverage C.
Land Stabilization	No coverage	No coverage
Building Code Upgrade	Additional insurance, $10,000 (if Coverage A is purchased)	No coverage

Attachment 3. Example of CEA Coverage Review Form

Your Name: Jane Claims Manager XXX Insurance Company		Contact phone number: 123-456-7890	
Your claim representatives Name: John Q. Adjuster	Date of Loss: 9/03/16	Coverage Limit:	Coverage Deductibles:
Policy #: 123-456-789	Policy Period: 02/07/16 – 02/07/17	A 200,000	A 15% 30,000
Insured: David and Liz Insured		C 5000	C N/A
Property Address: 123 Main Street		D 1500	 N/A
City, St, Zip Any town, CA 12345		Code: 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	

Description of loss: The Insured's home was damaged by an earthquake on 9/03/2016. The house is of two-story woodframe construction with a perimeter concrete foundation. There is also a guesthouse (one story) of similar construction that includes a bedroom, bath, kitchen, and a two-car garage. The two structures are built end-to-end, north to south, with a breezeway connecting the north-end of the house and the south end of the guesthouse. The breezeway shares a roofline with the guesthouse. The roof is connected to the north-end wall of the house. A wall on the west side of the breezeway connects to both the house and guesthouse, enclosing the west side of the breezeway. The breezeway is of woodframe construction on its own perimeter foundation. The foundation abuts the foundations of the house on the south side and the guesthouse on the north.

Coverage question: Is the guesthouse a dwelling as defined by the policy and if so, can it be considered under COVERAGE A: 'DWELLING'? 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.

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 *must* 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.

Our recommendation: As such, the guesthouse would appear to fall under "COVERAGE A: 'DWELLING' 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.

Submitted by: Jane Q. Manager	Date: 10/03/16	

Coverage Review Form - California Earthquake Authority

Your Name: Insurance Company:	Contact phone number:		
Your claim representatives Name:	Date of Loss:	Coverage Limit:	Coverage Deductibles:
Policy #:	Policy Period:	A	A
Insured:		C	C
Property Address:		D	
City, St, Zip		Code:	
Coverages Reserves and Paid	Reserves	$ Paid to Date	
A-Dwelling			
C-Contents			
D-Loss of Use			
Code Upgrade			
Land Stabilization			
Loss Assessment			
Description of loss: **Coverage question:** **Our research:** **Our recommendation:**			
Submitted by:	Date: MM/DD/YYYY		

Attachment 4. Testing Authorization Agreement

Testing Authorization Agreement

Claim Number: _____ Date of Loss: _____

Name: _____ Date of Agreement: _____
(Policyholder)
Address: _____

City: _____ State: ___ Zip: _____

I [we], _____[Name(s) of policyholder(s)]_____, acknowledge and agree to the following:

1. _____[Name of Participating Insurer]_____ ("the Insurer"), a Participating Insurer of the California Earthquake Authority ("the CEA"), and I [we] disagree (i) as to whether my [our] home has sustained covered earthquake damage over the deductible amount of my [our] insurance policy issued by the CEA, and (ii) as to the need for further testing to determine the extent or cause of damage to my [our] home. The Insurer contends that additional testing will not establish the existence of covered earthquake damage over the amount of the deductible, and I [we] believe that additional testing will establish that my [our] home sustained covered earthquake damage over the amount of the deductible.

2. The Insurer has advised me [us] that, pursuant to the terms of my [our] insurance policy, the Insurer will not authorize any additional testing as part of the claims adjusting process unless I [we] agree that, in the event additional testing is performed and that testing fails to establish the existence of covered earthquake damage over the amount of the deductible of the insurance policy issued by the CEA, I [we] will pay for the cost of conducting that testing, including the cost of repairing any damage to my [our] property caused by any destructive testing that is conducted.

3. I [we] therefore request the Insurer to authorize the following testing:

   _____

   _____

   _____[DESCRIPTION OF TESTING REQUESTED BY POLICYHOLDER] _____

   I [we] agree that, in the event the testing described above fails to establish the existence of earthquake damage that is covered under my [our] CEA policy and that it is over the deductible amount of that policy, I [we] will pay for all costs associated with conducting that testing, including, but not limited to, the cost of repairing any damage to my [our] property caused by any destructive testing. I [we] understand that, in the event the testing described above establishes that my [our] property has sustained covered earthquake damage over the amount of the deductible of the CEA policy, I [we] will not be required to pay for any of the costs of that testing.

   Policyholder(s): _____ Date: _____
   (Signature of policyholder)
   Claim Representative_____ Date: _____

   CEA Participating Insurer: _____

Attachment 5. Advanced Payment Agreement

Advanced Payment Agreement

Name
Address
City, State

Re: Claim No.:
Policy No.:
Policyholder(s):
Address of Insured Property:
Date of Damage:

Dear _____,

There is a question as to whether there is coverage under the policy for the damages, which have occurred. We are investigating the claim. We are under no legal obligation to make any payments until the coverage investigation is complete.

However, to prevent any undue hardship which this loss may cause, we advance the sum of $_____ under the following terms and conditions:

1) This advance shall not be considered as any admission that payment is due under any portion of the policy;

2) If we determine that payment is not required under the terms and conditions of the policy, you will repay the advance;

3) In making this advance, we reserve all rights and do not waive any terms, conditions or requirements under the policy, nor any rights we have; and

4) Other than as agreed in this letter, you reserve your rights as well.

You will cooperate in the coverage investigation and comply with the policy conditions regarding the presentation of any claim. We may need a Proof of Loss or an examination under oath.

If we determine that your claim is payable, we will apply the advance against any benefit due under the policy. If you have any questions, please let us know.

Sincerely,

XXXXXXXXXXX

I have read this letter, and agree to its terms:

_____
[Insured]

Attachment 6. CEA Under-Deductible Letter

Sample Wording for Under Deductible Denial Letter on a Homeowners Policy

Dear XXXXXX,

Thank you for your courtesy and cooperation during the investigation of your claim [or other opening greeting].

As we discussed, your California Earthquake Authority policy provides coverage for earthquake damage, subject to a deductible of $_____. Our investigation and estimate of damage have determined that the cost to repair any covered damage to your [dwelling, extensions to dwelling– as appropriate] is less than your deductible. For this reason, we will be unable to make any payment under the terms and conditions of your policy, and your claim is therefore denied. [Optional when there is a personal property loss also: Please note that no payment can be made for loss to any personal property until the deductible for the dwelling or extensions to dwelling is met.]

The attached estimate represents our evaluation of your covered damages. If you believe we have missed any damage, please let us know. Also, you may wish to obtain your own estimate of the cost of repairs. If you obtain your own repair estimate (or if you have already obtained one), and the amount is above your policy deductible, please contact us immediately and send us a detailed estimate.

While the covered damage to your property did not exceed the deductible, expenses incurred for Loss of Use while the home is uninhabitable could be considered for payment under Coverage D – Loss of Use. This coverage is subject to the applicable limit of insurance. Please let us know if your home becomes uninhabitable during the repair process and you incur Loss of Use expenses.

If you incurred any additional expenses due to emergency repairs, please submit your receipts to us for consideration.

California law requires us to notify you of a time limit that applies to your claim. The time limit pertains to Condition 10, which is found on page ___ of your policy. This condition is required by law and is contained in all residential property insurance policies issued in the State of California. The condition states the following:

CONDITIONS

10. Legal Action. No action can be brought under this policy by any person unless the policy provisions have been fully complied with and the action is started within one year after the date of inception of the loss. If, however, **your** loss is related to a state of emergency, as defined in subdivision (b) of section 8558 of the California Government Code, and the **residence premises** is located in an area for which such a state of emergency has been proclaimed by the Governor of the State of California in accordance with section 8625 of the California Government Code, then the time limit to bring an action under this policy is extended to two years after the date of inception of the loss.

This condition limits your time to commence legal action for recovery of damages sustained in your loss. Please note that we do not mean to suggest that you file a legal action. We only seek to advise you of the time limitation set forth within this condition of your policy.

We are also required to let you know that, if you believe that this claim has been wrongfully denied or rejected or that there is a dispute as to damages, you have the right to have the matter reviewed by the California Department of Insurance at 300 South Spring Street, 11th Floor, Los Angeles, CA 90013 (213) 897-8921, (800) 927-4357.

Please contact me if you have any questions regarding your damages, your coverage, or the contents of this letter. I can be reached at 1.800.xxx.xxxx.

Sincerely, John/Jane Q. Adjuster Senior Claim Representative XXX Insurance Company
A Participating Insurer of the California Earthquake Authority

Attachment 7. Sample Property Loss Notice

Property Loss Notice – Report of New Earthquake Claim

To: _____ Fax # _____
(Name of Insurance Company) (Insurance company claim reporting Fax telephone number)
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
(Circle one)

Caller's Name: _____

Your phone number in case we get disconnected: (_____) _____- _____ext. _____

The name of your insurance company: _____

Your policy number: _____ Effective Date: _____

Policy Type: HO Condo Renters Mobilehome - Date damage occurred: _____
(Circle one)

Your Agent's Name: _____ Agent's Phone # (_____) _____

Are you the Insured: Yes No a. If not, what is your relationship to the insured: _____
(Circle one) If Yes, go to c. If No, answer a & b.)

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: _____
(It is important that you verify the insured's name, telephone # & policy number.) (Complete only if they request, i.e. Spanish)

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: _____

Governing Board Memorandum

10 April 2020

Agenda Item 8: CEA banking resolutions

Recommended Action: Approve resolutions

Background:

Due to a change to executive staff, CEA must update banking resolutions submitted to CEA's custody and trustee banks, to establish and confirm the authority of identified CEA executives to perform routine banking transactions on behalf of the CEA.

Attachment A and *Attachment B* are forms of resolution, which require CEA Governing Board adoption to accomplish the above. In accordance with the terms of those resolutions, as of April 10, 2020, banking authority will be conferred on the following CEA executives:

Glenn Pomeroy, Chief Executive Officer
Tom Hanzel, Chief Financial Officer
Tom Welsh, Acting Chief Operations Officer/General Counsel

Recommendation:

Staff recommends the Board adopt the resolutions in substantially the form attached as *Attachment A* and *Attachment B*.

CALIFORNIA EARTHQUAKE AUTHORITY

RESOLUTION ADOPTED BY THE CALIFORNIA EARTHQUAKE AUTHORITY GOVERNING BOARD ON APRIL 10, 2020, AUTHORIZING CERTAIN OFFICERS OF THE CALIFORNIA EARTHQUAKE AUTHORITY TO OPEN, ADMINISTER, AND MAINTAIN ACCOUNTS WITH STATE STREET BANK AND TRUST COMPANY, AND APPROVING OTHER, RELATED ACTIONS.

WHEREAS, the California Earthquake Authority (the "CEA") is a public instrumentality of the State of California, duly organized and operating pursuant to Chapter 8.6 of Part 1 of Division 2 of the California Insurance Code (the "Act");

WHEREAS, it is necessary and desirable and in the best interests of the CEA to have and maintain suitable bank accounts at depository banks to allow for the appropriate and legal handling and transfer of CEA funds;

WHEREAS, by way of a prior Board resolution, the Board designated State Street Bank and Trust Company as a depository bank of the CEA, and authorized certain officers of the CEA to open, administer, and maintain accounts with that bank;

WHEREAS, it is necessary and desirable and in the best interests of the CEA to update the list of officers of the CEA who are authorized to open, administer, and maintain accounts with the CEA's depository banks;

WHEREAS, the Board has heard, discussed, and deliberated the CEA staff's presentations and related written materials on its depository bank account handling methods; and

WHEREAS, the public has been given an opportunity to make comments and suggestions on the subjects of this Resolution, after having received the notice required by law of their opportunity to do so.

ACCORDINGLY, IT IS RESOLVED by the CEA, acting by and through its Governing Board at a meeting duly convened and held on April 10, 2020:

Section 1. Effective April 10, 2020, State Street Bank and Trust Company ("State Street Bank"), which has previously been designated a depository of the CEA, is hereby redesignated as a depository of this organization, and as such is requested, authorized, and directed to pay from and charge to the account of this organization without limit as to amount and without inquiry as to circumstance of issue or disposition of the proceeds, even if drawn or endorsed to any signing or endorsing officer or other officer of this organization or for the credit of any such officer or person or for deposit to such person's personal account or payable to State Street Bank or others for such person's account, or tendered in payment of such person's individual obligation, any check, draft, instrument, or other order for the transfer or payment of money which is drawn on or payable at State Street Bank when such order is made, signed, drawn, indorsed or given by any of the persons specified below:

Name	**Title**
Glenn Pomeroy	Chief Executive Officer
Tom Hanzel	Chief Financial Officer

Tom Welsh Acting Chief Operations Officer/General Counsel

Section 2. State Street Bank, as designated depository of the CEA, shall be and hereby is requested, authorized and directed to honor all checks, drafts, instruments or other order for the transfer or payment of money when made, signed, drawn, accepted or given in this organization's name on its account(s) (including but not limited to those drawn to the individual order of or paid to any person whose name appears thereon as signer thereof or who delivers such written instructions) when bearing or purporting to bear the facsimile or machine-stamped signature of any of the persons specified below, effective April 10, 2020:

Name	**Title**
Glenn Pomeroy	Chief Executive Officer
Tom Hanzel	Chief Financial Officer
Tom Welsh	Acting Chief Operations Officer/General Counsel

and State Street Bank shall be entitled to honor and to charge this organization for all such checks, drafts, instruments, or other order for the transfer or payment of money, regardless of by whom or by what means the actual or purported facsimile or machine-stamped signature may have been affixed if the actual or purported facsimile or machine-stamped signature resembles the specimens from time to time filed with State Street Bank by an officer of this organization signing as an Authorized Officer below (each hereinafter referred to as an "Authorized Officer").

Section 3. In consideration of State Street Bank honoring a facsimile or machine-stamped signature as authorized above, the CEA assumes the responsibility for and agrees to indemnify and hold State Street Bank harmless against any and all damage, loss or expense suffered or incurred by State Street Bank, or liability alleged against State Street Bank, arising out of the use of actual or purported facsimile or machine-stamped signature of any person named above appearing on genuine or counterfeit checks, drafts or other order for the transfer or payment of money purportedly drawn by this organization on State Street Bank and for payments made by State Street Bank in reliance thereon, regardless of by whom and by what means the actual or purported facsimile or machine-stamped signature is affixed, if in State Street Bank's judgment such signature resembles the facsimile or machine-stamped signature.

Section 4. Each Authorized Officer is authorized to certify to State Street Bank the names of the present officers of this organization and any other persons authorized to sign for it and the offices respectively held by them, if any, together with specimens of their signatures, and in case of any change of authorized persons or holders of any such office, the fact of such change and the names of any new officers and the offices held by them, if any, together with specimens of their signatures; and State Street Bank is authorized to honor any checks, drafts or other order for the transfer or payment of money signed by any new officer or person with the same force and effect as if that new officer or person were officers named in this Resolution.

Section 5. The authority given hereunder will be deemed retroactive and any and all acts performed in accordance with the terms of this Resolution prior to the passage of this Resolution are hereby ratified and approved.

Section 6. State Street Bank shall be promptly notified in writing by certificate by the Authorized Officer or any other officers of this organization of any change in this Resolution, and that until it has actually received such notice in writing, it is authorized to act in pursuance of this Resolution, and until it has actually received such notice it shall be indemnified and saved harmless

from any loss suffered or liability incurred by it in continuing to act in pursuance of this Resolution, even though this Resolution may subsequently be changed.

Section 7. All previous Board resolutions regarding the subject matter of this Resolution are, as of the effective date of this Resolution, superseded by this Resolution.

Section 8. The Board certifies to State Street Bank that there is no provision in any charter or by-law applicable to this organization limiting the power of the Board to pass this Resolution, and the same is in conformity with the provisions of all applicable charters and by-laws, if any.

IN WITNESS WHEREOF, we have each hereunto set our hand as an Authorized Officer of this organization on the 10th day of April, 2020.

_____ _____

Authorized Officer: Tom Hanzel
Chief Financial Officer

Additional Officer: Glenn Pomeroy
Chief Executive Officer

_____

Additional Officer: Tom Welsh
Acting Chief Operations Officer/General Counsel

APPROVED AS TO FORM:

_____

Tom Welsh
General Counsel

PASSED AND ADOPTED BY THE GOVERNING BOARD OF THE CALIFORNIA EARTHQUAKE AUTHORITY, THIS 10th DAY OF APRIL, 2020, BY THE FOLLOWING VOTE:

PRESENT (STRIKE OUT VOTING MEMBERS (OR THEIR DESIGNEES) NOT PRESENT):

- Governor Newsom
- Treasurer Ma
- Insurance Commissioner Lara

AYES:

NOES:

ABSTAIN:

ABSENT:

DRAFT

CALIFORNIA EARTHQUAKE AUTHORITY

RESOLUTION ADOPTED BY THE CALIFORNIA EARTHQUAKE AUTHORITY GOVERNING BOARD ON APRIL 10, 2020, AUTHORIZING CERTAIN OFFICERS OF THE CALIFORNIA EARTHQUAKE AUTHORITY TO OPEN, ADMINISTER, AND MAINTAIN ACCOUNTS WITH U.S. NATIONAL BANK ASSOCIATION, AND APPROVING OTHER, RELATED ACTIONS.

WHEREAS, the California Earthquake Authority (the "CEA") is a public instrumentality of the State of California, duly organized and operating pursuant to Chapter 8.6 of Part 1 of Division 2 of the California Insurance Code (the "Act");

WHEREAS, it is necessary and desirable and in the best interests of the CEA to have and maintain suitable bank accounts at depository banks to allow for the appropriate and legal handling and transfer of CEA funds;

WHEREAS, by way of a prior Board resolution, the Board designated U.S. Bank National Association as a depository bank of the CEA, and authorized certain officers of the CEA to open, administer, and maintain accounts with that bank;

WHEREAS, it is necessary and desirable and in the best interests of the CEA to update the list of officers of the CEA who are authorized to open, administer, and maintain accounts with the CEA's depository banks;

WHEREAS, the Board has heard, discussed, and deliberated the CEA staff's presentations and related written materials on its depository bank account handling methods; and

WHEREAS, the public has been given an opportunity to make comments and suggestions on the subjects of this Resolution, after having received the notice required by law of their opportunity to do so.

ACCORDINGLY, IT IS RESOLVED by the CEA, acting by and through its Governing Board at a meeting duly convened and held on April 10, 2020:

Section 1. Effective April 10, 2020, U.S. Bank National Association ("U.S. Bank"), which has previously been designated a depository of the CEA, is hereby redesignated as a depository of this organization, and as such is requested, authorized, and directed to pay from and charge to the account of this organization without limit as to amount and without inquiry as to circumstance of issue or disposition of the proceeds, even if drawn or endorsed to any signing or endorsing officer or other officer of this organization or for the credit of any such officer or person or for deposit to such person's personal account or payable to U.S. Bank or others for such person's account, or tendered in payment of such person's individual obligation, any check, draft, instrument, or other order for the transfer or payment of money which is drawn on or payable at U.S. Bank when such order is made, signed, drawn, indorsed or given by any of the persons specified below:

Name	**Title**
Glenn Pomeroy	Chief Executive Officer
Tom Hanzel	Chief Financial Officer

DRAFT

Tom Welsh Acting Chief Operations Officer/General Counsel

Section 2. U.S. Bank, as designated depository of the CEA, shall be and hereby is requested, authorized and directed to honor all checks, drafts, instruments or other order for the transfer or payment of money when made, signed, drawn, accepted or given in this organization's name on its account(s) (including but not limited to those drawn to the individual order of or paid to any person whose name appears thereon as signer thereof or who delivers such written instructions) when bearing or purporting to bear the facsimile or machine stamped signature of any of the persons specified below, effective April 10, 2020:

Name	**Title**
Glenn Pomeroy	Chief Executive Officer
Tom Hanzel	Chief Financial Officer
Tom Welsh	Acting Chief Operations Officer/General Counsel

and U.S. Bank shall be entitled to honor and to charge this organization for all such checks, drafts, instruments, or other order for the transfer or payment of money, regardless of by whom or by what means the actual or purported facsimile or machine stamped signature may have been affixed if the actual or purported facsimile or machine-stamped signature resembles the specimens from time to time filed with U.S. Bank by an officer of this organization signing as an Authorized Officer below (each hereinafter referred to as an "Authorized Officer").

Section 3. In consideration of U.S. Bank honoring such a facsimile or machine-stamped signature as authorized above, the CEA assumes the responsibility for and agrees to indemnify and hold U.S. Bank harmless against any and all damage, loss or expense suffered or incurred by U.S. Bank, or liability alleged against U.S. Bank, arising out of the use of actual or purported facsimile or machine stamped signature of any person named above appearing on genuine or counterfeit checks, drafts or other order for the transfer or payment of money purportedly drawn by this organization on U.S. Bank and for payments made by U.S. Bank in reliance thereon, regardless of by whom and by what means the actual or purported facsimile or machine-stamped signature is affixed, if in U.S. Bank's judgment such signature resembles the facsimile or machine-stamped signature.

Section 4. Each Authorized Officer is authorized to certify to U.S. Bank the names of the present officers of this organization and any other persons authorized to sign for it and the offices respectively held by them, if any, together with specimens of their signatures, and in case of any change of authorized persons or holders of any such office, the fact of such change and the names of any new officers and the offices held by them, if any, together with specimens of their signatures; and U.S. Bank is authorized to honor any checks, drafts or other order for the transfer or payment of money signed by any new officer or person with the same force and effect as if said new officer or person were officers named in this Resolution.

Section 5. The authority given hereunder will be deemed retroactive and any and all acts hereunder performed in accordance with the terms of this Resolution prior to the passage of this Resolution are hereby ratified and approved.

Section 6. U.S. Bank shall be promptly notified in writing by certificate by the Authorized Officer or any other officers of this organization of any change in this Resolution, and that until it has actually received such notice in writing, it is authorized to act in pursuance of this Resolution, and until it has actually received such notice it shall be indemnified and saved harmless

DRAFT

from any loss suffered or liability incurred by it in continuing to act in pursuance of this Resolution, even though this Resolution may subsequently be changed.

Section 7. All previous Board resolutions regarding the subject matter of this Resolution are, as of the effective date of this Resolution, superseded by this Resolution.

Section 8. The Board certifies to U.S. Bank that there is no provision in any charter or by-law applicable to this organization limiting the power of the Board to pass this Resolution, and the same is in conformity with the provisions of all applicable charters and by-laws, if any.

IN WITNESS WHEREOF, we have each hereunto set our hand as an Authorized Officer of this organization on this 10th day of April, 2020.

_____ _____

Authorized Officer: Tom Hanzel
Chief Financial Officer

Additional Officer: Glenn Pomeroy
Chief Executive Officer

_____

Additional Officer: Tom Welsh
Acting Chief Operations Office/General Counsel

APPROVED AS TO FORM:

_____

Tom Welsh
General Counsel

PASSED AND ADOPTED BY THE GOVERNING BOARD OF THE CALIFORNIA EARTHQUAKE AUTHORITY, THIS 10TH DAY OF APRIL, 2020, BY THE FOLLOWING VOTE:

PRESENT (STRIKE OUT VOTING MEMBERS (OR THEIR DESIGNEES) NOT PRESENT):

- Governor Newsom
- Treasurer Ma
- Insurance Commissioner Lara

AYES:

NOES:

ABSTAIN:

ABSENT:

DRAFT

Governing Board Memorandum

10 April 2020

Agenda Item 9: Cyber Insurance

Recommended Action: Authorize CEA to purchase Cyber Insurance in coverage amounts appropriate to cover CEA's potential financial losses from a cyber incident or data breach

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Background:

Summary of Data & Cyber Risks.

In the ordinary course of conducting its earthquake insurance business, CEA is required to maintain a variety of confidential and private policyholder data, including policyholder data, that must be protected from public disclosure. While CEA's systems hold names, addresses, and information on insured home values (coverage limits, etc.), CEA does not collect other highly sensitive data commonly sought by hackers, such as Social Security numbers, credit card numbers, driver license numbers, or other account numbers. CEA has no intent to gather that type of customer data in the foreseeable future. The customer data that CEA does obtain is stored in CEA's electronic data and communications systems, and thus is still subject to attempts to gain illegal and unauthorized access to the data. In addition, CEA relies heavily on networked communications systems that store internal electronic communications and confidential business documents. The sudden unavailability of CEA's networked systems due to hacking or ransomware attacks would materially impair CEA's ability to conduct business. All of these cyber risks are not unique to CEA; they are the types of risks that face every insurance company and every business that relies on computers and the internet. The question becomes, what is CEA doing to manage and mitigate these cyber risks?

Management of Cyber Security Risks.

CEA is managing its cyber risk in two key ways. First, CEA has adopted affirmative measures to mitigate those cyber risks; second, CEA is in the process of purchasing cyber insurance to protect CEA's assets in the event CEA incurs expenses or liabilities from cyber attacks, notwithstanding its mitigation efforts.

1. Risk Mitigation

With respect to managing and mitigation of cyber risks, in 2019 the Governing Board accelerated CEA's ongoing mitigation efforts by approving the hiring of a new Chief Information Security Officer (CISO), Kim Owen, and by approving a 2020 budget that authorized increased spending on cyber security resources. Under the direction of the CISO, CEA has been deploying increased cyber security measures to protect confidential data from disclosure, and to broadly protect against cyber incidents or intrusions that could impair CEA's ability to operate normally.

2. Cyber Insurance

Notwithstanding CEA's increased information security and mitigation measures, CEA will always face risks of cyber incidents that could result in liability to CEA or disruption of its operations. Simply put, the risk of a cyber incident can never be eliminated entirely. In addition, many of the Participating Insurers that have migrated or plan to migrate their CEA policy administration work onto CEA's Centralized Policy Processing (CPP) system have asked CEA to confirm that it has or will obtain cyber insurance. In fact, several Participating Insurers have indicated that cyber insurance is essential to their ability to adopt CPP. For these reasons, CEA has determined that it is necessary and appropriate to purchase cyber insurance to mitigate the potential costs of and cover liabilities resulting from a data breach or cyber incident.

Analysis—Cyber Insurance Coverage:

CEA has been working with Willis Towers Watson as its insurance broker on structuring a multi-carrier tower of insurance coverages for this risk. The cyber insurance market has evolved significantly over the past several years. For example, in 2018 the market was providing coverages that focused mainly on large scale consumer data breaches, which was the most common form of attack at the time, without a great deal of clarity on the specific post-incident costs that would be covered under the policy.

The cyber insurance market has greatly matured and the forms of policies are now better defined and have more clarity on the types of insurance benefits available following a cyber event based on the types of attacks that are occurring and the specific types of responses that companies are required to deploy. Cyber policies now provide specific coverages for responses like consumer credit protection services (e.g. "Life Lock" credit protection), crisis media services, ransomware benefits, and networks recovery services. Currently, CEA is in a better position than it would have been several years ago to tailor the insurance coverage it plans to purchase to the specific types of risks CEA faces. The recent refinements in cyber policy forms have also given insureds a bit more control over premium pricing—CEA will be able to manage the cost of its cyber coverage by tailoring its coverages to conform to CEA's risks. Even with that ability to control policy structure, the premiums for cyber coverage are still significant, and CEA is being careful about balancing the cost of cyber insurance against the level of protection the insurance will provide for CEA's assets and policyholders.

Recommendation:

CEA requests authorization for the purchase of cyber insurance with coverage limits of up to $150 million, and annual aggregate premiums not to exceed $1.5 million.

Governing Board Memorandum

10 April 2020

Agenda Item 10: Final Update on Enterprise Resource Planning (ERP) Software Program & Procurement of HRMS and CPP Ticketing Systems

Recommended Action: No action required—information only

Background

In 2018, CEA staff commenced an extensive procurement process to consider acquiring software that would allow CEA to replace a number of inefficient manual methods that were being used to track and manage CEA's core business activities. Initially, CEA sought to procure a single enterprise-wide software system sophisticated enough to meet all or virtually all of CEA's operational systems needs. This was referred to as the Enterprise Resource Management (ERM) procurement. While CEA determined that an ERM software solution was feasible, the preferred solution came at a very high price. Ultimately, CEA staff and the Governing Board determined that CEA's size and needs did not warrant the expense of a full scale ERM system.

During the second half of 2019, CEA staff re-tooled the ERM procurement process to identify and implement smaller, function-specific software solutions rather than an enterprise-wide solution. At the September 25, 2019 Governing Board meeting, CEA staff provided a recap of the revised procurement process. For reference purposes, a copy of CEA's September 25, 2019 Memorandum is attached.

At this March 12, 2020 meeting, CEA staff will provide a final update on the last two function-specific software solutions that were acquired to achieve CEA's needs—the Human Resources Management System (HRMS), and the ticketing (project tracking) system used by CEA's Centralized Policy Processing (CPP) team.

Updates.

1. HRMS. One of CEA's most significant software needs was in the Human Resource management area. Given the unique nature of CEA's business and its unique structure as

a publicly managed, but privately funded insurer, CEA has a varied workforce that consists of civil servants, direct employees, and staffing agency employees. Historically, CEA has managed the HR aspects of this diverse workforce without the benefit of automation and the type of employee self-service system that has been commonly available to employees and employers for well over a decade. This has required CEA to develop manual HR processes for payroll and benefits for each type of CEA employee.

CEA recently completed the procurement of a well-regarded HRMS solution, Dayforce™ by Ceridian, that will greatly simplify all of CEA's HR, benefits and payroll functions. The Ceridian system allows CEA to consolidate virtually all aspects of its HR administration functions, from recruitments, on-boarding & off-boarding, benefits administration, scheduling, leave balance tracking, and payroll. The selection of Ceridian was the result of a detailed procurement process that compared the features and costs of a significant number of vendors offering HRMS solutions. CEA determined that Ceridian was the system that provided the highest level of functionality and flexibility, at the most reasonable cost to implement and license the software. The annual cost of the system for the next three years (the term of the initial license agreement) is as follows:

2020	$80,870
2021	$78,274
2022	$79,840

Implementation of the Ceridian system is underway, and the "go-live" date is set for approximately July 1, 2020.

2. CPP Ticketing. CEA's CPP team maintains a ticketing system that allows the team to track all service requests and projects to ensure timely completion and accurate documentation of CPP activities. The ticketing system is vitally important to the CPP project because all of the current and future Participating Insurers that have or will migrate the administration of CEA policies onto the CPP system are stakeholders who submit service requests to the CEA CPP team. The CPP team had been using Desk.com, a system owned and operated by Salesforce. Salesforce notified CEA that that Desk.com was being de-activated and would no longer be supported after the first quarter of 2020. Thus, CEA was required to replace the ticketing system.

After a thorough search of available ticketing systems in the market, CEA chose to acquire ServiceNow™, the ticketing which best matched CPP's requirements. The ServiceNow™ license is only a one-year commitment, but it is expected to renew annually unless it fails to meet CEA's needs.

The total cost of acquiring and implementing the ServiceNow™ system for 2020 is as follows:

Annual License Fee	$25,200
One-time Implementation Fee	$64,370
First year total cost	**$89,570**
Annual recurring cost thereafter	$25,200

The system is in the process of being implemented, and is expected to "go-live" at the end of June.

Governing Board Memorandum

10 April 2020

Agenda Item 11: Chief Risk & Actuarial Officer Shawna Ackerman will update the Board on the CEA Enterprise Risk Management Program.

Recommended Action: No action required—information only

The CEA Enterprise Risk Management (ERM) Program is focused on monitoring and managing 12 priority risks:

Financial Risks	Insurance Risks	Operational Risks	Strategic Risks
• Risk Transfer • Financial Management – Investments and Accounting	• Policy Contracting and Servicing • Claim Handling • Earthquake Science and Modeling • CEA Residential Mitigation programs	• Business Continuity • IT Systems and Data Security • Legal – Compliance and Litigation • Workforce	• Legislative/Regulatory • Reputation

Since a major, damaging earthquake occurring in California is an overarching risk consideration for CEA, each priority risk in CEA's ERM program is assessed from both a normal "steady-state" perspective *and* a post-earthquake or "stressed" perspective.

The following scorecard represents CEA ERM risk-reporting on these priority risks for 1st quarter 2020 and includes all activity since the December 11, 2019 CEA Governing Board meeting. The column "Q1 2020" indicates risk status and whether a risk escalation occurred during the preceding months. The column named Outlook indicates the potential future direction of the risk status—as either positive, negative, or stable—until the CEA Governing Board next meets. The final column is a brief summary of actions taken and risk-escalation status.

ERM Quarterly Report	Status		12-Mar-20
Priority Risk	**Q1 2020**	**Outlook**	**Activity Last Quarter / Comments**
Risk Transfer	●	Stable	
Financial Management - Investments and Accounting	●	Stable	
Policy Sales and Servicing	●	Stable	2019 CDI - California Consumer Complaint Study: CEA had zero justified complaints
Business Continuity	●	Stable	
IT Systems and Data Security	◆	Positive	A cross-organizational committee, including the CEA's new Chief Information Security Officer, is engaged in exploring options to appropriately resolve this matter.
Legislative/Regulatory	▲	Positive	State legislation for CEA to be the interim administrator for the California Wildfire Fund passed in July 2019 has materially affected the CEA's core responsibilities, at least on an interim basis.
Claim Handling	●	Stable	
Legal - Compliance and Litigation	●	Stable	
Reputation	●	Stable	
Earthquake Science and Modeling	●	Stable	
Workforce	●	Stable	
Residential Mitigation Programs	●	Stable	

Legend	
●	No risk checkpoints or limits reached.
▲	Approaching or reached a risk checkpoint.
◆	Approaching or reached a risk limit.

There are two continuing issues from prior reports that both have a positive outlook for Q1 2020:

- The IT Systems and Data Security priority-risk remains at “red” status while a cross-organizational committee, including CEA’s Chief Information Security Officer, explore implement tools and processes to ensure that CEA continues to operate with effective data security controls. The positive outlooks reflects material and continued progress by this CEA team.
- The Legislative-Regulatory priority-risk remains at “yellow” status to reflect the wildfire-related legislation passed in July 2019. The ERM Committee is continuing its enterprise-risk assessment process for CEA while it serves as interim administrator of the California Wildfire Fund. The positive outlooks reflects the fact that CEA is effectively and diligently performing all requisite functions as interim administrator, with the relative recency of this responsibility warranting close monitoring for the generation of enterprise risks to CEA.

The Chief Risk & Actuarial Officer and support staff are continuing their work with the ERM Committee to advance the risk culture and ERM awareness within CEA and to build out the enterprise-wide risk management framework, consistent with the principles of the Own Risk and Solvency Assessment ("ORSA") guidance of the National Association of Insurance Commissioners.

The 2020 ERM Program Plan includes regular reviews of each priority-risk and corresponding risk control summary, consideration of potential emerging risks and addressing post-earthquake response planning priorities revealed through the ERM efforts.

Governing Board Memorandum

10 April 2020

Agenda Item 12: CEA Centralized Policy Processing (CPP)—Quarterly Update

Recommended Action: No action required—information only

The CEA CPP Portfolio Manager, Sonja Berry, will present the current status of the Centralized Policy Processing (CPP) initiative. The quarterly status report will include the following items, and any addition items that arise prior to the Governing Board meeting:

- The onboarding of 21st Century Premier Insurance Company (Toggle) is on track. CPP implementation is expected to complete during Q1 2020. Toggle is the first CEA participating insurer to adopt CPP that operates through an internet based, direct-to-consumer distribution model, rather than distributing policies through insurance producers (i.e., appointed insurance agents or brokers). This business model will require CPP to implement a Consumer Portal to allow for Toggle policyholders to have "self-service" functionality. The new Consumer Portal functionality will be rolled-out incrementally during 2020, and will be available for other PIs that have or implement direct-to-consumer distribution models.
- Both State Farm and Farmers continue moving through the "Discovery" phase, during which they are examining the CPP Diamond system and assessing the system's ability to meet their operational and administrative needs.
    - State Farm is now engaged in contract reviews with CEA and is tentatively scheduled to begin the onboarding process in June 2020, pending execution of the CPP agreement.
    - Farmers has not yet set a tentative schedule for contract review and implementation.
- Four CPP process improvement projects are currently underway and on schedule. The four projects center around enhancing the infrastructure, adding automation, and optimizing the performance of CPP to handle the policies of CEA's largest PIs in a way that meets their specific needs. All projects are expected to complete during Q3 2020.
- The CPP vendor, Insuresoft, and its affiliated companies (RedHawk, Kaboodle, and Covenir), were acquired in late 2019 by Volaris Group, an affiliate of Constellation Software. Constellation is a publicly traded company based in Canada. Its

subsidiary, Volaris Group, is a holding company that acquires software and technology companies that work in the insurance and financial services space. Importantly, Volaris pursues a "buy and hold" strategy, under which it acquires technology companies like Insuresoft with the intention of long-term ownership and stable, well capitalized growth. CEA believes that this change of ownership should further enhance the stability of Insuresoft, and thus the CPP Diamond system. CEA does not expect any changes or disruptions to CEA business from this acquisition. CEA is continuing the process of learning about Constellation, Volaris Group, and assessing the impact this acquisition may have on CPP in the years to come.

Governing Board Memorandum

10 April 2020

Agenda Item 13: Mitigation and Research Program Update

Recommended Action: No action required—information only

CRMP Earthquake Brace + Bolt Programs

The CEA mitigation department staff that supports the CRMP its Earthquake Brace + Bolt (EBB) program is actively administering mitigation grant programs that are being funded from two different sources—from money transferred to CRMP (the Joint Powers Authority between CEA and CalOES) from CEA's Loss Mitigation Account, and federal funds awarded by FEMA under its pre-disaster Hazard Mitigation Grant Program (HMGP).

With regard to the FEMA funded programs, CEA staff is busy processing grant applications, submitting required documentation to FEMA for its review and approval, and handling an average of 137 calls per day into CEA's in-house call center The CRMP-funded program, with 1,000 grants available, has 529 retrofits completed, 44 in-process and 2 applicants that have requested extensions. One completed retrofit grant was distributed from the prior 2018 EBB program, after EBB agreed to accept documentation from an applicant who had been significantly delayed in completing their retrofit. Once the applicant provided necessary documentation, the program was able to award the grant.

The FEMA funded programs are administered separately, and are tracked by the two FEMA HMGP grant award numbers, HMGP DR 4308, and HMGP DR 4344, and status is as follows:

> **HMGP DR-4308** – FEMA has reviewed and approved all of the building permits for projects that are eligible for grants. Of the group of grantees, 729 have completed their retrofits and the remaining 271 are in-process.
>
> **HMGP DR-4344** – EBB began processing applications for the HMGP DR-4344 program in September 2019. 350 retrofits have been completed; 1,348 are in-process, with 948

approved by FEMA and 404 under review by FEMA and EBB or awaiting documentation from the applicant; 271 applicants have requested and received extensions on document requirements.

2020 EBB Program

EBB reopened registration for the 2020 program on February 19, 2020, with approximately 4,400 grants available to be funded under the HMGP DR-4344 program. As of February 25, 5,368 homeowners had registered, which is 150% higher for the same day during the previous registration period in 2018. CEA's extensive outreach and communications efforts on the launch of the 2020 program has been very successful.

Overall statistics for EBB since inception are as follows:

Earthquake Brace + Bolt Program (2/25/2020): CRMP and CEA			
Program	**Completed**	**In Progress**	**Status**
2014-2017 EBB	4,285	N/A	Closed
2018 EBB	3,350	N/A	Closed
FEMA Napa EBB	84	N/A	Closed
CRMP 2019 EBB	529	44	984 transfers 2 extensions
FEMA– HMGP DR 4308	729	271	0 extensions
FEMA – HMGP DR 4344	350	1,348	271 extensions
Total	9,324*	1,663	273 extensions

* As of March 5, 2020, the EBB program has completed 10,000 retrofits, with an additional 1,700 homeowners somewhere in the process of retrofitting.

Future Funding Opportunities

CRMP continues to look beyond present funding sources—the primary source has been the CEA Earthquake Loss Mitigation Fund—for additional funding sources, including available FEMA grants. Current FEMA grant applications include:

FEMA – Hazard Mitigation Grant Program (HMGP)

- DR-4407 0104 - $20M – (EBB Soft Story, 3 counties) The application has been withdrawn.
- DR-4407 0105 - $20M – (EBB 23 counties) The application has been submitted to Cal OES. Grant request was reduced to $5M.
- DR-4431 - $3M – (EBB 23 counties) The application has been submitted to Cal OES.
- DR-4434 - $3M – (EBB 23 counties) The application has been submitted to Cal OES.

DHS – 2019 Pre-Disaster Mitigation (PDM) Program

- $10M – Resilient Infrastructure Grant for Earthquake Brace +Bolt – (Statewide) The application has been submitted to Cal OES.
- $ 4M – Pre-Disaster Mitigation for Earthquake Brace + Bolt – (Statewide) The application has been submitted to Cal OES.

CEA Brace + Bolt Program

CEA continues to engage in outreach efforts to CEA policyholders on the benefits and value of participating in the CEA BB program. During February and March, CEA plans on conducting several focus groups to help identify what CEA can do to improve registration uptake among eligible policyholders by identifying gaps in the current outreach and marketing efforts.

CEA Brace +Bolt Program (02/25/20): CEA BB			
Program	**Completed**	**In Progress**	**Status**
Pilot CEA BB	98	N/A	Closed
2019 CEA BB	399	188	42,000 invited 447 accepted 108 extensions
TOTAL	497	188	N/A

<u>Ongoing Research Projects: Guidelines Development</u>

The ATC 110 earthquake-guidelines-development project, first phase, completed on June 20, 2018. Now called FEMA P-1100, *Vulnerability-Based Seismic Assessment and Retrofit of One- and Two-Family Dwellings*, the bulk publication consists of three volumes:

- Volume 1, Prestandard publication (published October 2019)
- Volume 2, FEMA plan set (published November 2019)
- Volume 3, background documents (completed November 2019)

The second phase of this project consists of developing a training program for Contractors, Building Officials, and Engineers. Training outline has been drafted and the program is currently being developed. Estimated to be completed Q3 2020.
The third phase will involve CEA working closely with FEMA and the International Code Council (ICC) to adopt the guidelines as industry standards, which paves the way for adoption into California's building code. Additionally, by creating a uniform seismic-retrofit-design method for homeowners, contractors, and engineers, the new guidelines will help CEA and others (1) establish and expand incentive programs to encourage seismic retrofits, such as that of the California Residential Mitigation Program, and (2) enhance CEA's ability to develop and provide suitable mitigation discounts for CEA-insured homeowners.

HISTORICAL REPORT

December 31, 2019

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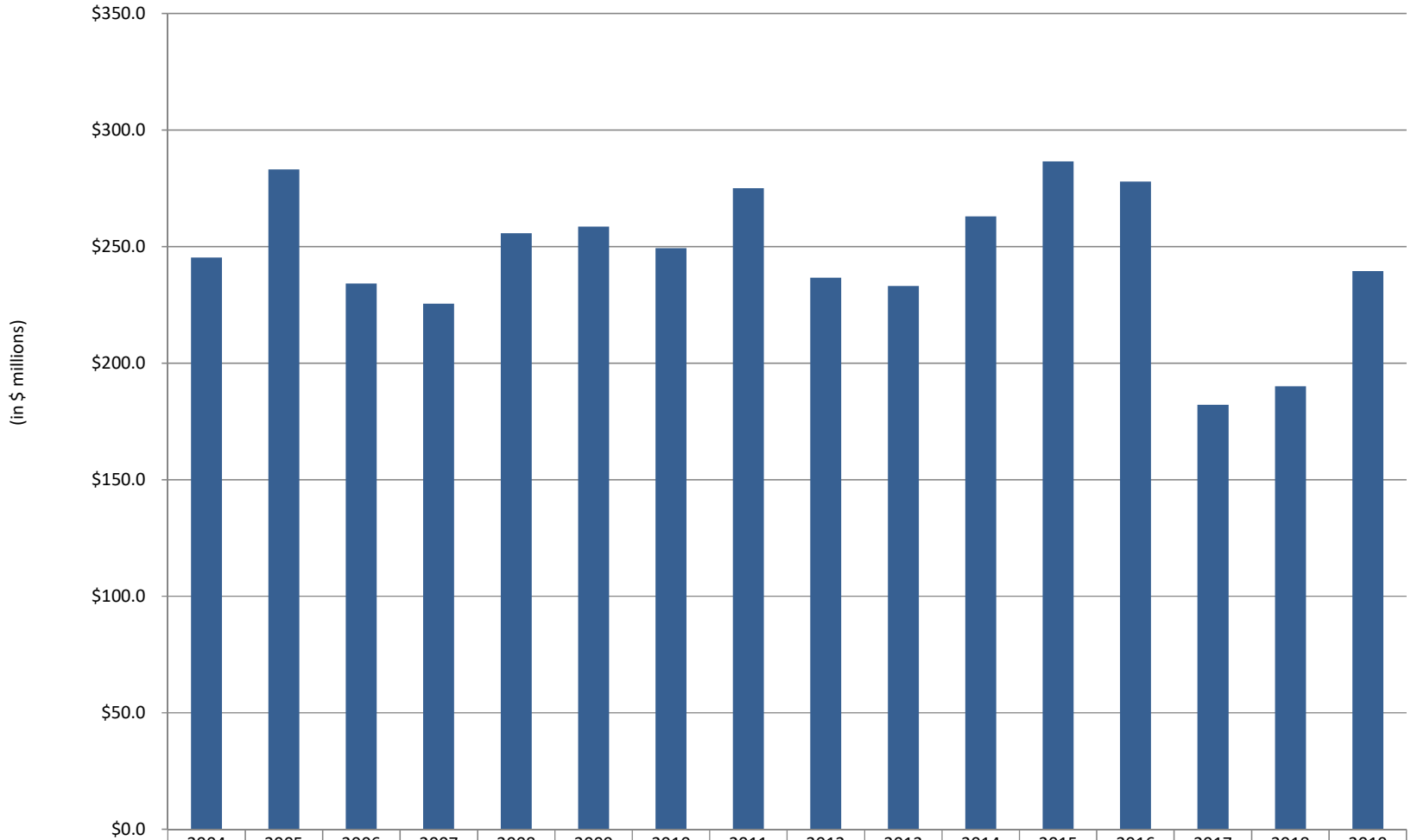
Note: See Fact Sheets for Policies In Force, Written Premiums, and Exposures.

California Earthquake Authority
Historical Annual Capital Accumulated from Premium
as of December 31, 2019

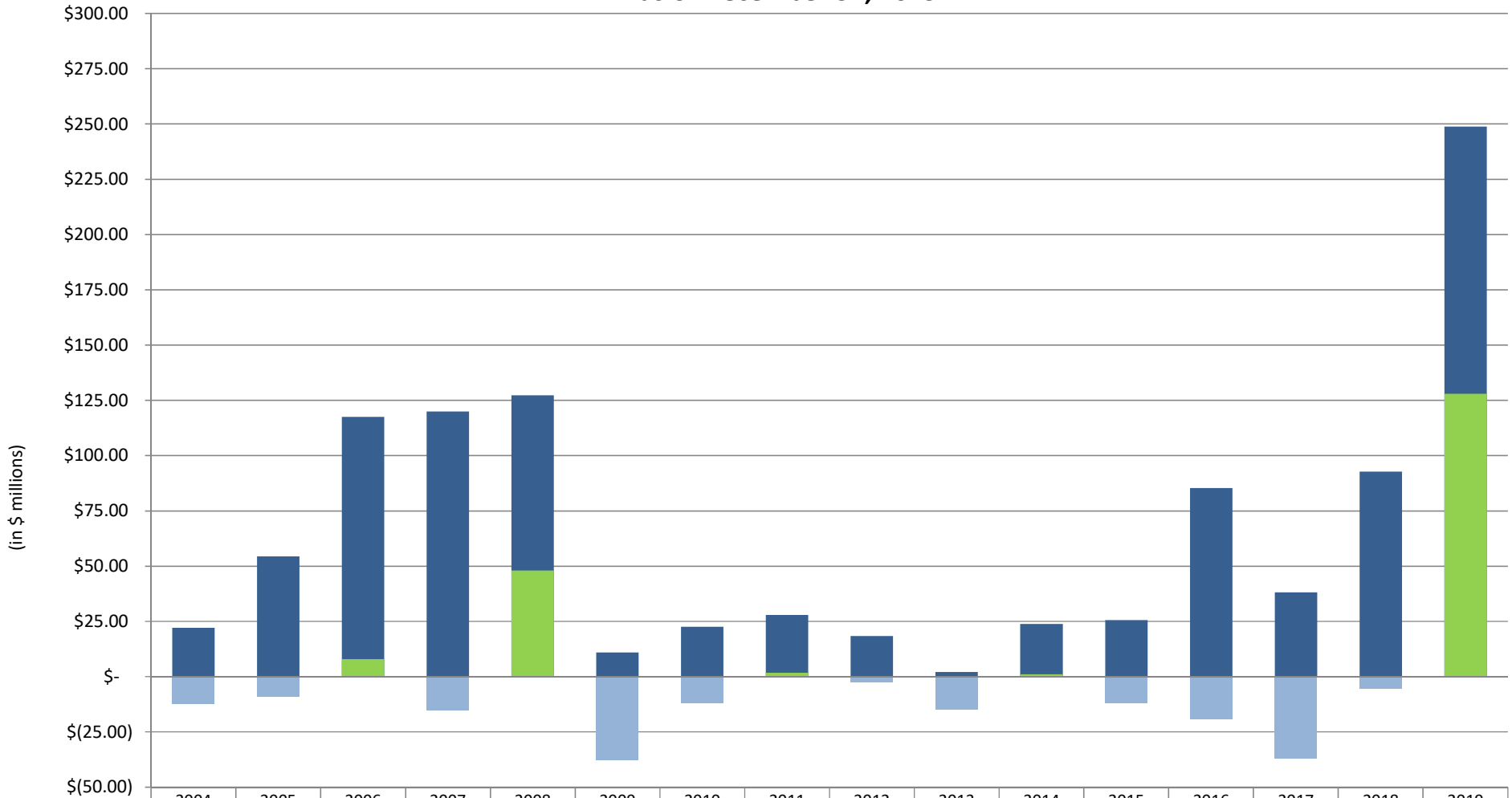


	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Capital Accumulated from Premium	$245.2	$283.1	$234.1	$225.5	$255.7	$258.6	$249.3	$275.0	$236.7	$233.1	$263.0	$286.6	$277.9	$182.1	$190.0	$239.4

*Capital Accumulated from Premium is calculated as Direct Premiums Earned less Ceded Premiums and Underwriting Expenses.

Investments

California Earthquake Authority
Historical Annual Investment Income
as of December 31, 2019



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net Investment Income*	$22.10	$54.40	$117.50	$119.88	$127.20	$10.90	$22.50	$27.90	$18.40	$2.10	$23.80	$25.60	$85.29	$38.07	$92.75	$248.72
Investment Income	$34.30	$63.30	$109.60	$135.10	$79.20	$48.50	$34.50	$26.20	$20.90	$17.10	$22.80	$37.60	$104.46	$75.17	$98.16	$120.81
Change Unrealized Gain	$-	$-	$7.90	$-	$48.00	$-	$-	$1.70	$-	$-	$1.00	$-	$-	$-	$-	$127.91
Change Unrealized Loss	$(12.20)	$(8.90)	$-	$(15.22)	$-	$(37.60)	$(12.00)	$-	$(2.50)	$(15.00)	$-	$(12.00)	$(19.17)	$(37.10)	$(5.41)	$-

*Net Investment Income is investment income net of unrealized gain or unrealized loss and ties to the financial statements.

Debt

California Earthquake Authority
Schedule of Outstanding Debt - Defeased

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE	MOODY'S RATING*	FITCH RATING**
Series 2006 Revenue Bonds[1]	**$ 315,000,000**	**6.169%**	**$ 310,829,067**	**$ -**	**31-Dec-2016**	**A3 Outlook Stable**	**A Outlook Stable**

[1]As of November 6, 2014, interest and principal are fully funded in escrow for remaining interest and principal payments.

DEBT-SERVICE SCHEDULE

The table below shows the annual-debt-service requirements for the Series 2006 Bonds.

Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
1-Jan-16	$31,500,000	$0	$971,618	$971,618	
1-Jul-16	$0	$ 31,500,000	$971,618	$32,471,618	
2016					$33,443,236
2019 - Oustanding					*Defeased

*Moody's rating since May 2015.

**Fitch rating affirmed October 2016.

California Earthquake Authority
Schedule of Outstanding Debt

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE	MOODY'S RATING*	FITCH RATING**
Series 2014 Revenue Bonds	**$ 40,000,000**	**1.194%**	**$ 39,665,642**	**$ -**	**31-Dec-2016**	**A3**	**A**
2 year bond CUSIP 13017HAC0						**Outlook Stable**	**Outlook Stable**

DEBT-SERVICE SCHEDULE

The table below shows the annual-debt-service requirements for the Series 2014 Bonds.

Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
1-Jan-16	$40,000,000	$0	$238,800	$238,800	
1-Jul-16	$0	$40,000,000	$238,800	$40,238,800	
2016					$40,477,600
2019 - Oustanding					*Matured

*Moody's rating since May 2015.

**Fitch rating affirmed October 2016.

California Earthquake Authority
Schedule of Outstanding Debt

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE	MOODY'S RATING*	FITCH RATING**
Series 2014 Revenue Bonds	**$ 250,000,000**	**2.805%**	**$ 247,910,261**	**$ -**	**31-Dec-2019**	**A3**	**A**
5 year bond CUSIP 13017HAE6						**Outlook Stable**	**Outlook Stable**

DEBT-SERVICE SCHEDULE

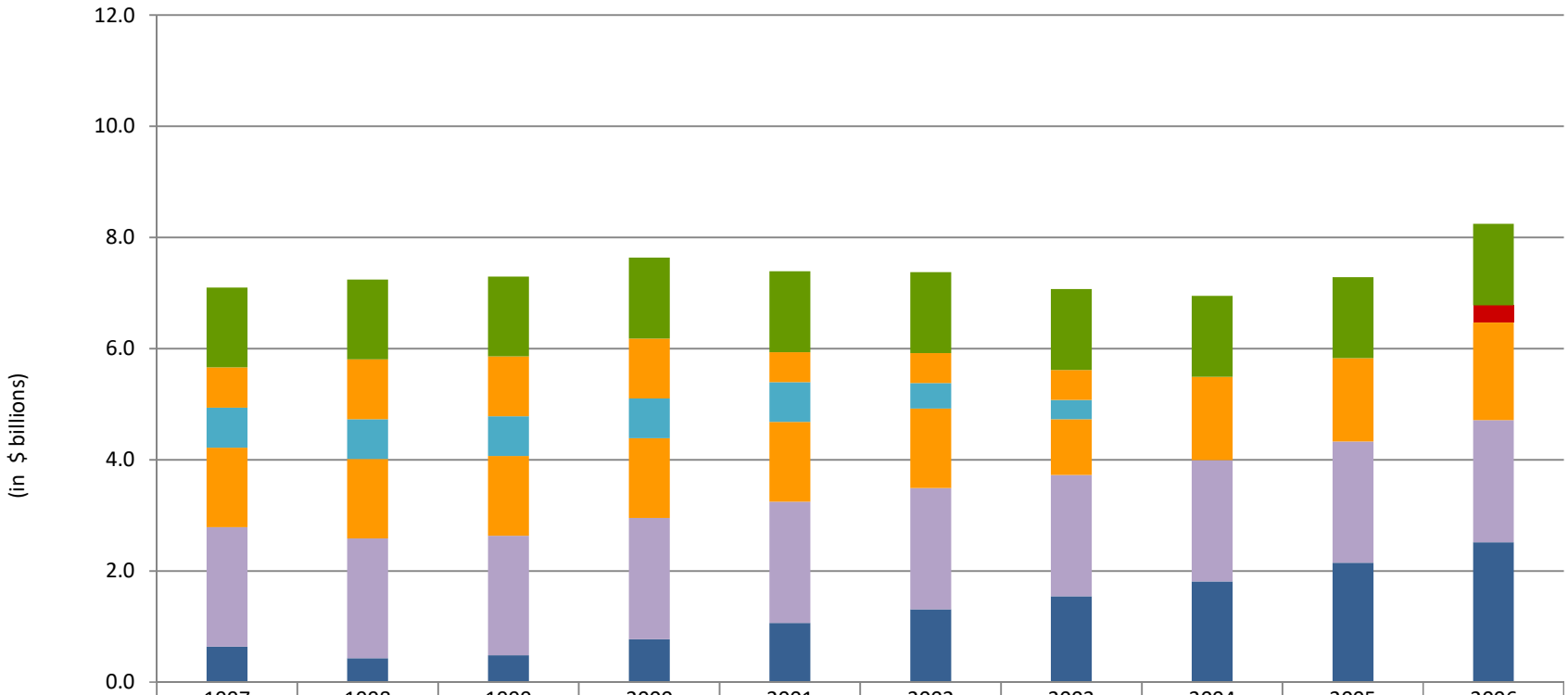
Debt	Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
Series 2014 Revenue Bonds	1-Jan-17	$250,000,000	$0	$3,506,250	$3,506,250	
5 year bond	1-Jul-17	$210,000,000	$40,000,000	$3,506,250	$43,506,250	
	2017- Paid					$47,012,500
	1-Jan-18	$210,000,000	$0	$2,945,250	$2,945,250	
	1-Jul-18	$105,000,000	$105,000,000	$2,945,250	$107,945,250	
	2018- Paid					$110,890,500
	1-Jan-19	$105,000,000	$0	$1,472,625	$1,472,625	
	1-Jul-19	$0	$105,000,000	$1,472,625	$106,472,625	
	2019- Outstanding					*Matured

*Moody's rating since November 2018.

**Fitch rating affirmed December 2018.

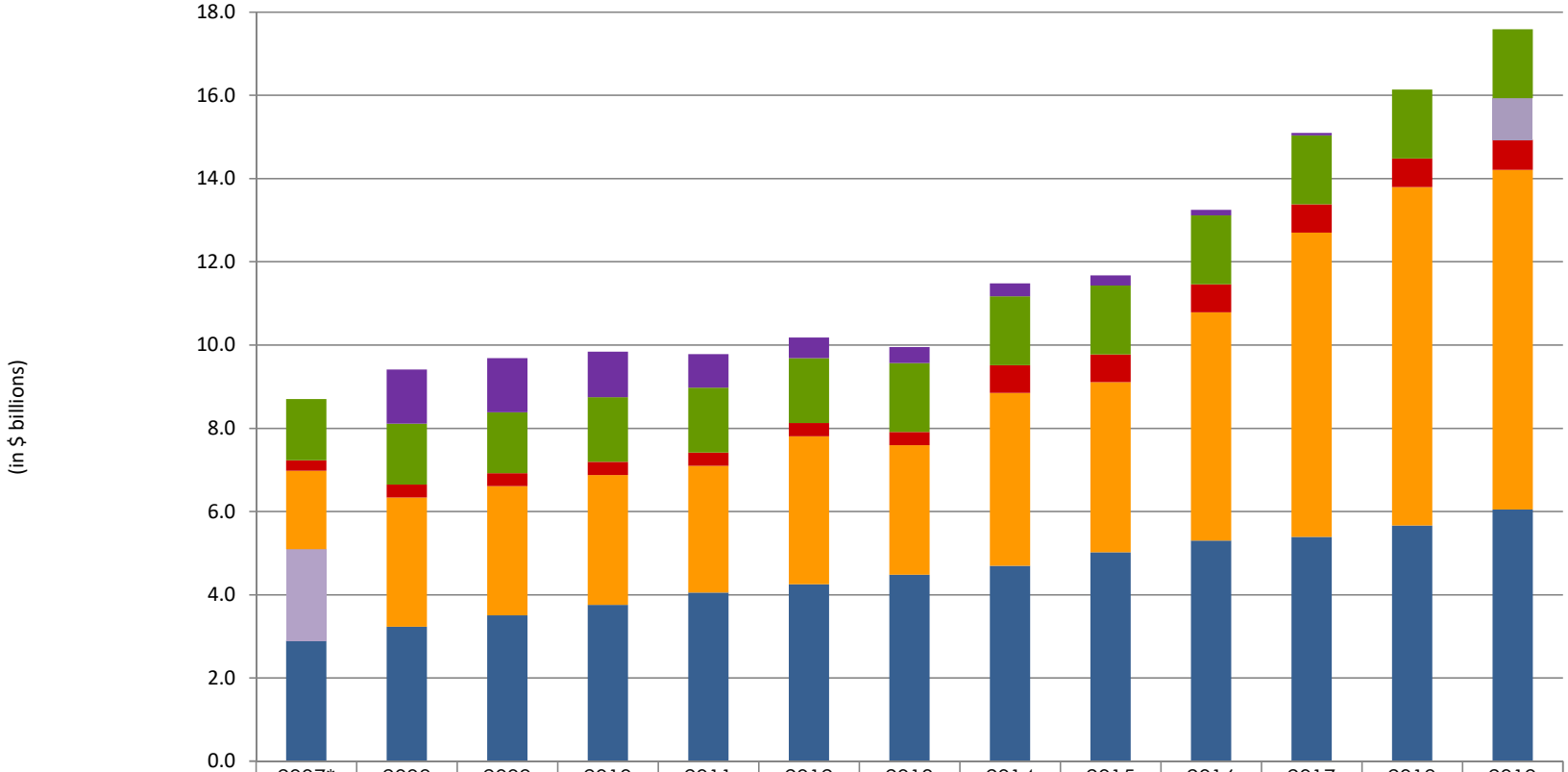
Claim-Paying Capacity

California Earthquake Authority
Historical Claim-Paying Capacity (CPC)
December 31, 1997 through December 31, 2006



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total CPC	$7.095	$7.240	$7.293	$7.635	$7.390	$7.373	$7.069	$6.948	$7.284	$8.244
New Industry Assessment	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
2nd Industry Assessment	$1.434	$1.434	$1.434	$1.456	$1.456	$1.456	$1.456	$1.456	$1.456	$1.465
Revenue Bonds	$-	$-	$-	$-	$-	$-	$-	$-	$-	$0.311
Risk-Transfer, 2nd Layer	$0.727	$1.075	$1.075	$1.075	$0.538	$0.538	$0.538	$-	$-	$-
Line of Credit	$0.716	$0.716	$0.716	$0.716	$0.716	$0.456	$0.348	$-	$-	$-
Risk Transfer, 1st Layer	$1.433	$1.433	$1.433	$1.433	$1.433	$1.433	$1.000	$1.500	$1.500	$1.756
1st Industry Assessment	$2.150	$2.150	$2.150	$2.183	$2.183	$2.183	$2.183	$2.183	$2.183	$2.197
CEA Available Capital	$0.635	$0.432	$0.485	$0.772	$1.064	$1.307	$1.544	$1.809	$2.145	$2.515

California Earthquake Authority
Historical Claim-Paying Capacity (CPC)
December 31, 2007 through December 31, 2019

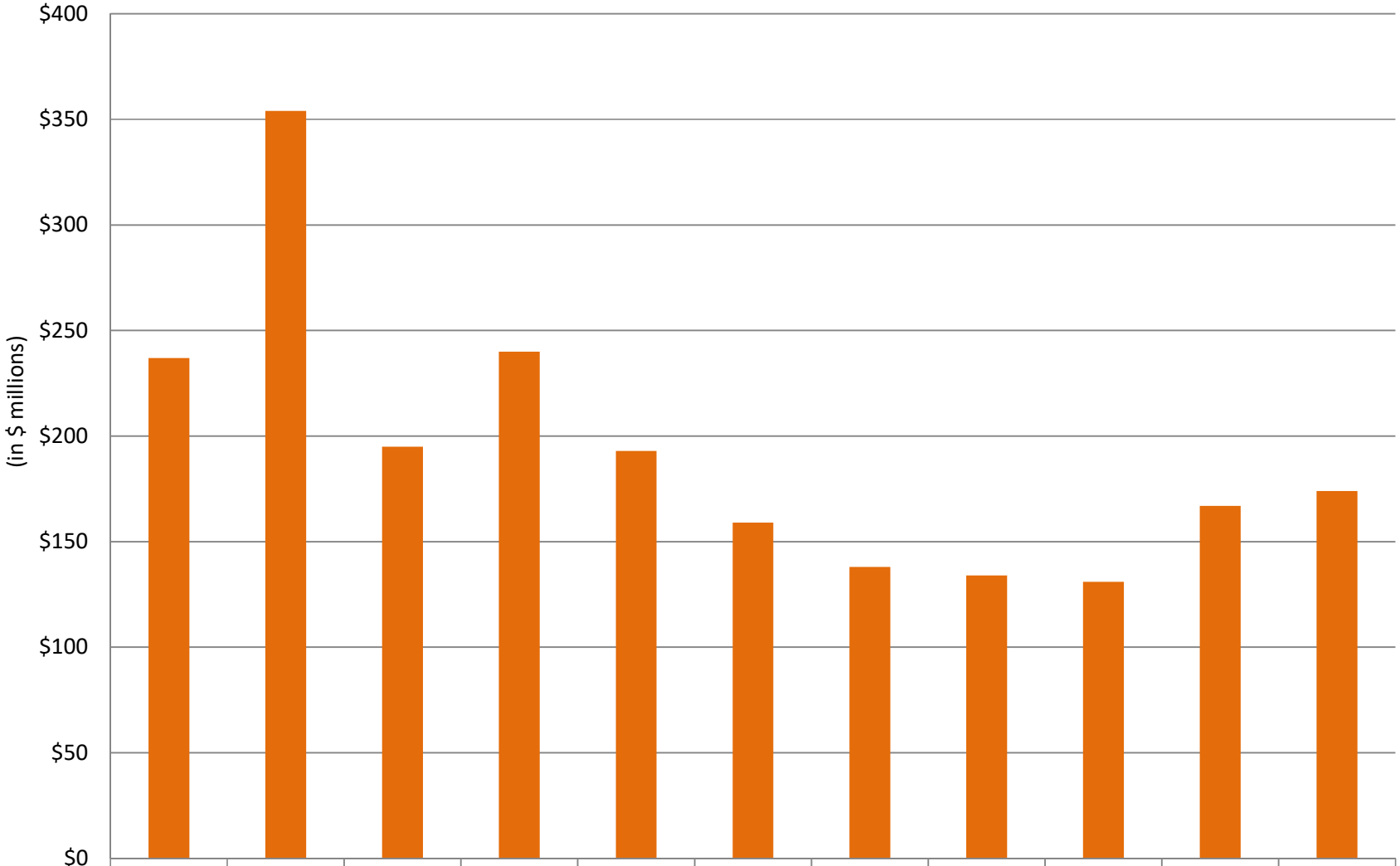


	2007*	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total CPC	$8.695	$9.411	$9.685	$9.840	$9.777	$10.179	$9.949	$11.481	$11.667	$13.242	$15.090	$16.136	$17.587
New Industry Assessment	$-	$1.304	$1.304	$1.095	$0.804	$0.500	$0.385	$0.312	$0.238	$0.128	$0.054	$-	$-
2nd Industry Assessment	$1.465	$1.465	$1.465	$1.558	$1.558	$1.558	$1.656	$1.656	$1.656	$1.656	$1.656	$1.656	$1.656
Policy Holders Surcharge	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$1.000
Revenue Bonds	$0.254	$0.311	$0.311	$0.311	$0.317	$0.314	$0.314	$0.664	$0.668	$0.673	$0.683	$0.690	$0.722
Risk Transfer, 1st Layer	$1.885	$3.100	$3.100	$3.123	$3.050	$3.557	$3.115	$4.159	$4.091	$5.488	$7.312	$8.132	$8.161
1st Industry Assessment	$2.197	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
CEA Available Capital	$2.894	$3.231	$3.505	$3.753	$4.048	$4.250	$4.478	$4.689	$5.014	$5.297	$5.385	$5.658	$6.048

NOTE: In 2007 Revenue Bond Proceeds were split between the base-limits and supplement programs

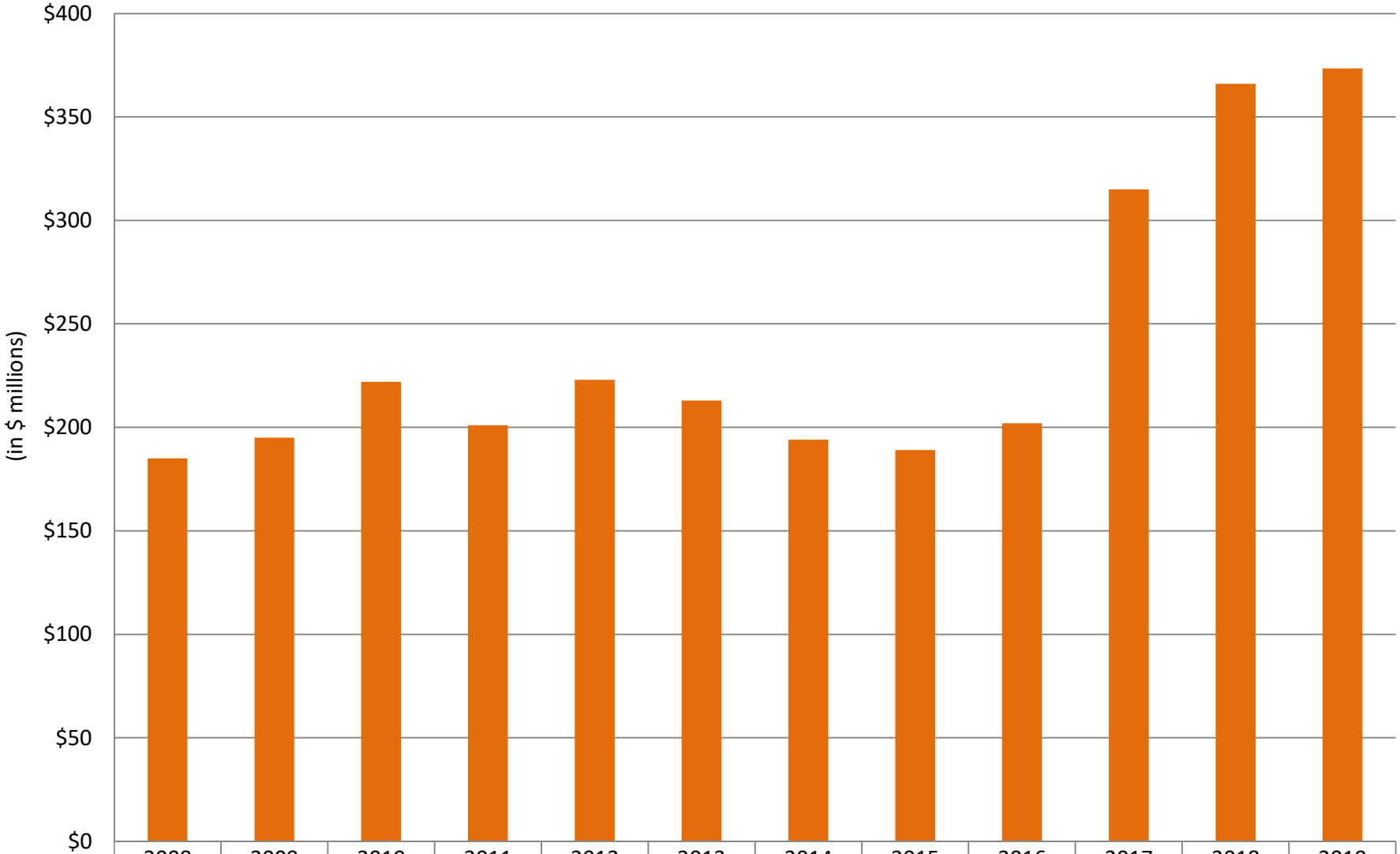
Risk-Transfer Programs

California Earthquake Authority
Annual Risk-Transfer Premium
December 31, 1997 - December 31, 2004



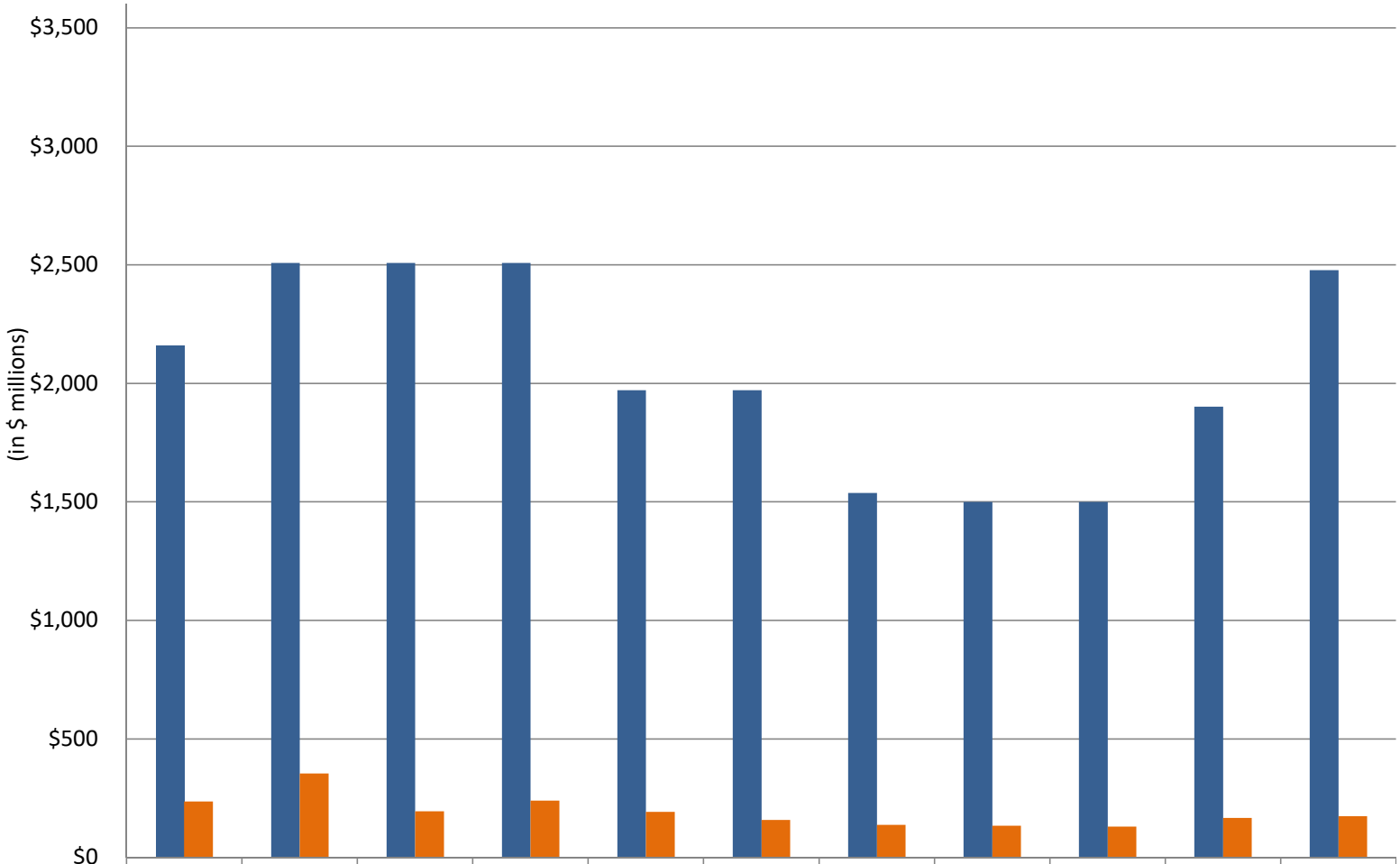
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Premium	$237	$354	$195	$240	$193	$159	$138	$134	$131	$167	$174

California Earthquake Authority
Annual Risk-Transfer Premium
December 31, 2005 - December 31, 2019



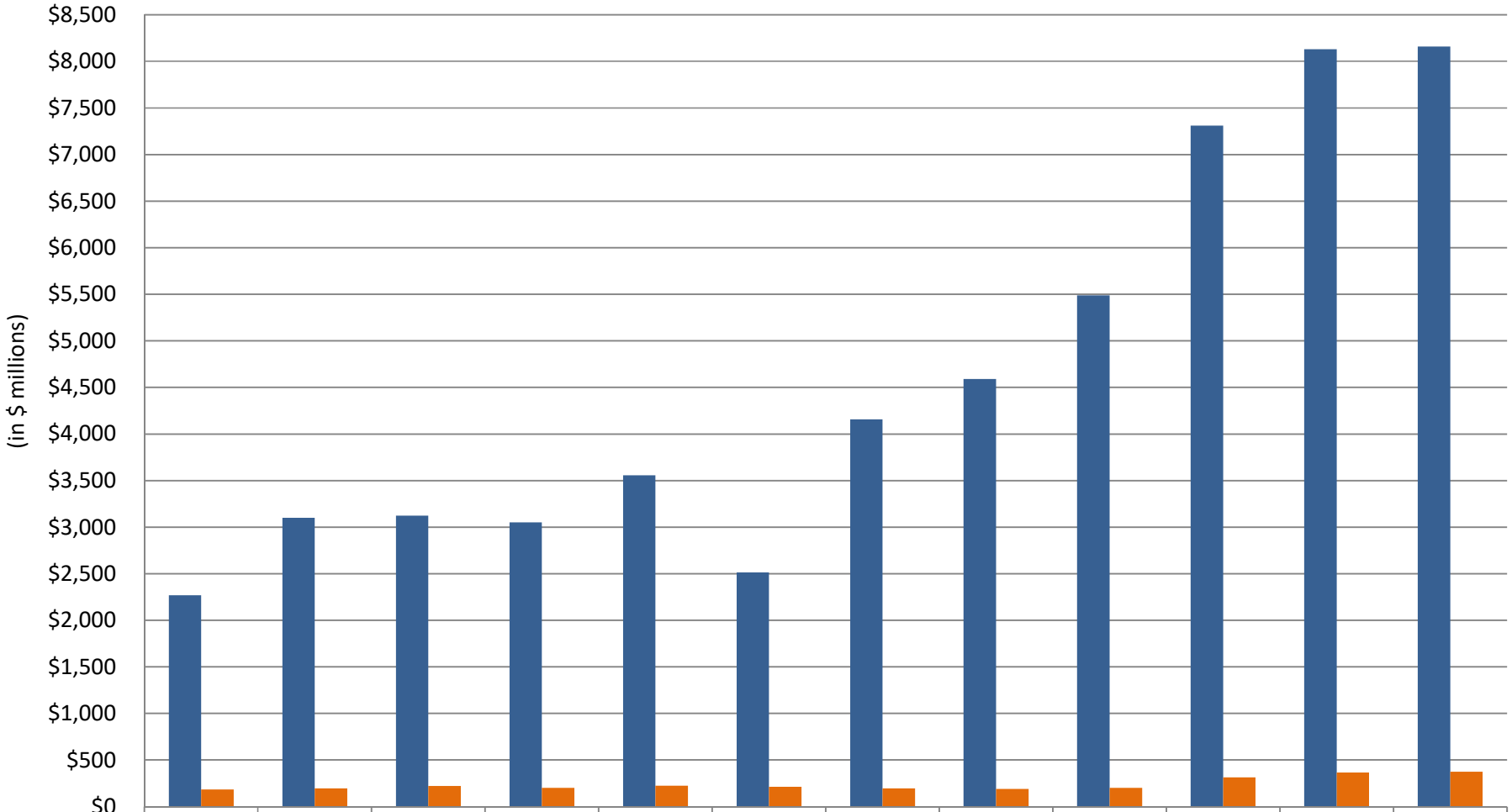
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Premium	$185	$195	$222	$201	$223	$213	$194	$189	$202	$315	$366	$373

California Earthquake Authority
Annual Risk-Transfer Premium and Limit
December 31, 1997 - December 31, 2004



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Limit	$2,160	$2,509	$2,509	$2,509	$1,971	$1,971	$1,538	$1,500	$1,500	$1,902	$2,478
Premium	$237	$354	$195	$240	$193	$159	$138	$134	$131	$167	$174

California Earthquake Authority
Annual Risk-Transfer Premium and Limit
December 31, 2005 - December 31, 2019



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Limit	$2,268	$3,100	$3,123	$3,050	$3,557	$2,515	$4,159	$4,591	$5,488	$7,312	$8,132	$8,161
Premium	$185	$195	$222	$201	$223	$213	$194	$189	$202	$315	$366	$373

California Earthquake Authority

Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to December 31, 2019

Event Code	Event Name	Date of Event	Magnitude	Location	# of Paid Claims	Losses Paid	LAE Paid	Total Paid Losses & LAE
98010	Chino	1/5/1998	4.3	3 mi. W of Chino	1	$1,385.72	$124.71	$1,510.43
98050	San Juan Bautista	8/12/1998	5.3	7 mi. SSE of San Juan Bautista	1	161,204.93	13,643.13	$174,848.06
98070	Redding	11/26/1998	5.2	3 mi. NNW of Redding	1	4,029.72	362.67	$4,392.39
	1998 Minor Quakes				2	4,199.20	377.93	$4,577.13
99050	Hector Mine	11/16/1999	7.0	28 mi. N of Joshua Tree (near Palm Springs)	25	137,361.81	12,362.47	$149,724.28
	1999 Minor Quakes				1	4,037.26	363.35	$4,400.61
00030	Napa	9/3/2000	5.2	17 mi. ESE of Santa Rosa; 6 mi. NNE of Sonoma; 3 mi. WSW of Yountville	15	278,130.07	25,031.71	$303,161.78
01010	Ferndale	1/13/2001	5.4	53 mi. WNW of Ferndale	1	34,764.54	3,128.79	$37,893.33
	2001 Minor Quakes				1	52,896.82	4,760.70	$57,657.52
01040	West Hollywood	9/9/2001	4.2	West Hollywood	10	67,044.15	6,033.94	$73,078.09
	2002 Minor Quakes				1	8,361.24	752.51	$9,113.75
03090	San Simeon	12/22/2003	6.4	7 mi. NE of San Simeon	86	2,692,628.02	242,339.74	$2,934,967.76
04120	Parkfield	9/28/2004	6.0	7 mi SSE of Parkfield	1	7,032.59	632.93	$7,665.52
07240	Chatsworth	8/9/2007	4.5	4 mi NNW of Chatsworth	1	7,813.88	703.24	$8,517.12
07250	Alum Rock	10/30/2007	5.6	5 mi NNE of Alum Rock	1	6,149.20	553.42	$6,702.62
08280	Chino Hills	7/29/2008	5.4	5.5 mi SE of Diamond Bar	8	145,967.19	13,089.08	$159,056.27
09320	Calexico	12/30/2009	5.9	22.7 mi SE of Calexico	1	275.88	24.83	$300.71
	2009 Minor Quakes				2	8,627.67	776.49	$9,404.16

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California Earthquake Authority

Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to December 31, 2019 (continued)

Event Code	Event Name	Date of Event	Magnitude	Location	# of Paid Claims	Losses Paid	LAE Paid	Total Paid Losses & LAE
10330	Ferndale	1/9/2010	6.5	27 mi W of Ferndale	3	23,901.50	2,151.13	$26,052.63
10360	Baja California Mexico	4/4/2010	7.2	16 mi SW from Guadalupe Victoria, Mexico	17	81,066.58	7,296.00	$88,362.58
	2010 Minor Quakes				1	225,000.00	0.00	$225,000.00
12410	Brawley	8/26/2012	5.3	4 mi North of Brawley, CA	2	23,833.24	2,145.00	$25,978.24
	2012 Minor Quakes				3	146,471.18	13,182.41	$159,653.59
13430	Greenville	5/23/2013	5.7	7 mi WNW of Greenville, CA	1	1,500.00	135.00	$1,635.00
14460	Westwood	3/17/2014	4.4	6mi NNW of Westwood, CA	6	67,989.89	6,119.09	$74,108.98
14470	La Habra	3/28/2014	5.1	1mi S of La Habra, CA	84	458,354.56	41,251.91	$499,606.47
14480	American Canyon	8/24/2014	6.0	4mi NW of American Canyon, CA	196	3,817,733.32	343,596.00	$4,161,329.32
	2014 Minor Quakes				3	18,859.35	1,697.34	$20,556.69
	2015 Minor Quakes				2	5,877.69	529.00	$6,406.69
	2018 Minor Quakes				3	6,058.71	545.28	$6,603.99
19520	Searles Valley	7/4/2019	6.4	SW of Searles Valley, CA	32	789,619.91	71,065.77	$860,685.68
19530	Pleasant Hill	10/14/2019	4.7	.7 mi SSE of Pleasant Hill, CA	2	2,700.04	243.01	$2,943.05
	2019 Minor Quakes				2	1,835.35	165.18	$2,000.53
				Total	**516**	**$9,292,711.21**	**$815,183.76**	**$10,107,894.97**

Claims History Report Glossary

Event Code: A 5 digit code that the CEA assigns to all earthquakes expected to produce paid losses. This code is used to track statistics for a particular earthquake.

Event Name: This is generally the name given to the earthquake by the USGS (United States Geological Survey).

Date of Event: Date that the earthquake occurred.

Magnitude: Richter scale magnitude assigned by USGS.

Location: This is assigned by USGS and is usually a city close to the earthquake.

# of Paid Claims: A numeric count of the claims that received a payment for damage caused by a particular earthquake.

Losses Paid: Total dollar amount of all claims paid to the policyholders for a particular earthquake.

LAE Paid: "LAE" stands for Loss Adjustment Expense which is always 9% of paid losses. This is the amount paid to the Participating Insurers for handling the claim.

Total Paid Losses and ALE: The sum of Losses Paid and LAE Paid.

Minor Quakes: Losses paid for damage from minor earthquakes that were initially not expected to generate a claim and therefore were not issued a CEA event code.

CEA Project Portfolio

Schedule	Scope	External Resources	Project Cost	Overall Score	Portfolio #	Project Name	PM	Status	Target Start Date	Start Date	Project % Complete	Target End Date	End Date
✓	✓	✓	✓	✓	2017-03	Business Continuity Program	Ben Mareano	Active	01/03/17	01/03/17	50%	12/31/20	
✗	✗	✓	✓	✗	2017-05	Enterprise Resource Planning	Terri Kletzman	Active	02/01/17	02/01/17	15%	12/31/20	
✓	✓	✓	✓	✓	2018-02	EBB Redesign	Jenny Yanez	Active	08/27/18	10/01/19	50%	06/02/20	
✓	✓	✓	✓	✓	2019-01	CPP Ticketing System Implementation	Jill Feather	Active	03/04/19	12/20/19	25%	03/30/20	
✓	✓	✓	✓	✓	2019-02	CEA BB Outreach	Danica Wallin	Active	07/01/19	07/01/19	75%	04/01/20	

Legend	
●	Project Status is at 0 - 2
●	Project Status is at 3 - 5
●	Project Status is at 6 - 7
●	Project Status is at 8 - 10

CEA GOVERNING BOARD MEETING DATES FOR - 2020

January 30, 2020 – Thursday

~~March 12, 2020 – Thursday~~ (Cancelled)

April 10, 2020 (Added)

June 11, 2020 – Thursday

September 10, 2020 – Thursday

December 10, 2020 – Thursday

CEA ADVISORY PANEL MEETING DATES FOR - 2020

None scheduled at this time

[IMPORTANT NOTE: ***This schedule is for future meetings that have been proposed and approved by the respective bodies named. Meeting dates, times, and locations are subject to change. The final dates, times, and locations will be announced on official Public Notice, issued by the CEA 10 or more days before the date of the meeting. Public Notices are also posted on the CEA Web site www.EarthquakeAuthority.com***]

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