



Date of Notice: Friday, May 26, 2016

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 meet in Sacramento, California. Pursuant to California Insurance Code §10089.7, subdivision (j), the Bagley-Keene Open Meeting Act applies generally to meetings of the Board, and the meeting is open to the public—public participation, comments, and questions will be welcome for each agenda item. All items are appropriate for action if the Governing Board wishes to take action. Agenda items may be taken out of order.

LOCATION: Sacramento City Hall*
Council Chamber, 1st Floor
915 I Street
Sacramento, California

DATE: Wednesday, June 7, 2017

TIME: 1:00 p.m.

*** Because of facility limitations at this location, this Governing Board meeting will not be available as audio or video on the Internet.**

AGENDA:

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 March 15, 2017, CEA Governing Board meeting.
3. Executive Report by Chief Executive Officer Glenn Pomeroy.
4. Chief Financial Officer Tim Richison will present to the Board the CEA financial report.
5. Mr. Richison will propose, for Board approval, a routine update to CEA's Governing Board resolutions pertaining to certain CEA bank accounts.
6. CEA independent financial auditor Plante & Moran, PLLC, will present to the Board the results of its most recent audit of the CEA, conducted pursuant to standards of the Governmental Accounting Standards Board (GASB).
7. Mr. Richison will seek the Board's approval for the annual set-aside of a statutory portion of CEA investment income for transfer into the CEA Earthquake Loss Mitigation Fund.
8. Chief Insurance and Technology Officer Todd Coombes will give a report to the Board on CEA insurance and information technology initiatives.
9. Mr. Coombes will propose, for Board approval, to update the CEA Procedures and Accounting Manual.
10. Chief Mitigation Officer Janiele Maffei will update the Board on CEA-mitigation-program projects, including the California Residential Mitigation Program incentive program (CRMP Earthquake Brace + Bolt), CEA's financial-incentive and mitigation program (CEA Brace + Bolt), and ongoing mitigation-related research projects.
11. Ms. Maffei will update the Board on the CEA Research Program.
12. As a means to promote and expand funding for loss-mitigation (retrofit) grants and related projects, Mr. Pomeroy will introduce for discussion purposes the establishment by CEA of a nonprofit charitable foundation, whose functions would include receiving contributions and disbursing accumulated funds for clearly defined grant programs and other appropriate mitigation-related purposes.
13. Mr. Pomeroy will update the Board on CEA enterprise-risk-management-program planning and progress.
14. Chief Operations Officer Kellie Schneider will give a progress report, to the Board, on updating the CEA Strategic Plan and Business Implementation Plan, and provide the quantitative metrics report.
15. 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), respectively.
16. 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.
17. Adjournment.

For further information about this notice or its contents:

General Information:

Carlos Martinez
(916) 661-5549 (Direct)
Toll free: (877) 797-4300

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To view this notice on the CEA website or to learn more about the CEA, please visit www.EarthquakeAuthority.com

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 the CEA prepares for its Board meetings.

Please contact Carlos Martinez by telephone, toll free, at (877) 797-4300 or by email at cmartinez@calquake.com. We would appreciate hearing from you at least five days before the meeting date to best allow us to meet your needs.

NOTE: You might have received this notice because your name, or that of your organization, appears on a public-notice list maintained by the California Earthquake Authority. If in the future you do not wish to receive public notices pertaining to the California Earthquake Authority, please send your request by email to cmartinez@calquake.com.



Draft Meeting Minutes are not available.

Please see CEA Governing Board Meeting
[Approved Minutes.](#)

Governing Board Memorandum

June 7, 2017

Agenda Item 3: 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.



FINANCIAL REPORT

March 31, 2017

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

Financial Statements & Budgets

California Earthquake Authority
Balance Sheet
as of March 31, 2017

Assets

Cash and investments:	
Cash and cash equivalents	\$ 354,096,048
Restricted cash and equivalents	21,911,235
Restricted investments	431,620,852
Investments	5,483,479,049
	<hr/>
Total cash and investments	6,291,107,184
Premiums receivable, net of allowance for doubtful accounts of \$9,328,134	45,827,437
Capital contributions receivable	-
Risk capital surcharge receivable	-
Interest receivable	19,659,452
Securities receivable	-
Restricted securities receivable	-
Prepaid reinsurance premium	17,143,436
Transformer reinsurance premium deposit	-
Prepaid transformer maintenance premium	2,085,491
Equipment, net	232,922
Other assets	5,430
	<hr/>
Total assets	<u><u>\$ 6,376,061,352</u></u>

Liabilities and Net Position

Unearned premiums	\$ 306,721,076
Accounts payable and accrued expenses	6,918,618
Deferred grant revenue	3,000,000
Accrued reinsurance premium expense	-
Loss and loss adjustment expense reserves	76,414
Securities payable	-
Revenue bond payable	310,000,000
Revenue bond interest payable	2,026,725
	<hr/>
Total liabilities	628,742,833
Net position:	
Restricted, expendable	138,233,049
Unrestricted, participating insurer contributed capital	777,384,796
Unrestricted, State of California contributed capital	243,133,972
Unrestricted, all other remaining	4,588,566,702
	<hr/>
Total net position	5,747,318,519
	<hr/>
Total liabilities and net position	<u><u>\$ 6,376,061,352</u></u>

California Earthquake Authority
Statement of Revenues, Expenses and Changes in Net Position
as of March 31, 2017

Underwriting income:	
Premiums written	\$ 146,985,244
Less premiums ceded - reinsurance	(66,422,450)
Less risk capital surcharge	-
	<hr/>
Net premiums written	80,562,794
	<hr/>
Change in unearned premiums	10,744,288
	<hr/>
Net premiums earned	91,307,082
	<hr/>
Expenses:	
Losses and loss adjustment expenses	(100,715)
Participating Insurer commissions	14,699,234
Participating Insurer operating costs	4,773,294
Reinsurance broker commissions	700,000
Pro forma premium taxes equivalent	3,456,586
Other underwriting expenses	8,346,029
	<hr/>
Total expenses	31,874,428
	<hr/>
Underwriting profit	59,432,654
Net investment income	19,302,595
Other income	104,758
Grant revenue	-
Financing expenses, net	(946,315)
Earthquake Loss Mitigation Fund expenses	(1,741,918)
Participating Insurer Contributed Capital	-
State of California premium tax contribution equivalent	3,456,586
	<hr/>
Increase in net position	79,608,360
Net position, beginning of year	5,667,710,159
	<hr/>
Net position, end of year to date	\$ 5,747,318,519
	<hr/> <hr/>

CALIFORNIA EARTHQUAKE AUTHORITY
Insurance Services
Budgeted and Actual Expenditures
2017 Budget Year
as of March 31, 2017

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
				(d=a+b+c)		(f=d-e)	(g=e/d)
	<u>Approved</u>			<u>2017 Budget after</u>	<u>Actual</u>	<u>Augmented & Adjusted</u>	<u>Percentage used of</u>
	<u>2017 Budget</u>	<u>Adjustments</u>	<u>Augmentations</u>	<u>Augmentations</u>	<u>Expenditures</u>	<u>Approved Budget (d) vs.</u>	<u>Augmented & Adjusted</u>
	<u>1/1/2017</u>			<u>and Adjustments</u>		<u>Actual Expenditures (e)</u>	<u>Approved 2017 Budget</u>
Human Resources:							
Compensation and Benefits	\$ 25,359,916	\$ -	\$ -	\$ 25,359,916	\$ 5,268,518	\$ 20,091,398	20.77%
Travel	707,298	-	-	707,298	67,189	640,109	9.50%
Other	766,310	-	-	766,310	100,174	666,136	13.07%
Board Meeting	22,100	-	-	22,100	322	21,778	1.46%
Administration & Office	1,351,140	-	-	1,351,140	93,163	1,257,977	6.90%
EDP Hardware	470,950	-	-	470,950	36,411	434,539	7.73%
EDP Software	1,099,915	-	-	1,099,915	183,489	916,426	16.68%
Information Technology	1,775,205	-	-	1,775,205	511,244	1,263,961	28.80%
Telecommunications	268,324	-	-	268,324	86,297	182,027	32.16%
Rent/Lease	1,693,900	-	-	1,693,900	266,143	1,427,757	15.71%
Compliance	60,000	-	-	60,000	-	60,000	0.00%
Government Affairs	146,000	-	-	146,000	28,594	117,406	19.58%
Insurance	175,000	-	-	175,000	-	175,000	0.00%
Internal Audit	100,000	-	-	100,000	-	100,000	0.00%
Intervener Fees	-	-	-	-	-	-	0.00%
Other	78,000	-	-	78,000	965	77,035	1.24%
Regulatory Expenses	50,000	-	-	50,000	16,974	33,026	33.95%
Total Statutory Expenditures	\$ 34,124,058	\$ -	\$ -	\$ 34,124,058	\$ 6,659,483	\$ 27,464,575	19.52%
Audit Services	116,000	-	-	116,000	7,500	108,500	6.47%
Capital Market	7,583,695	-	-	7,583,695	2,095,599	5,488,096	27.63%
Claims	124,000	-	-	124,000	900	123,100	0.73%
Loans	-	-	-	-	-	-	0.00%
Grants	12,000,000	-	-	12,000,000	69,038	11,930,962	0.58%
Investment Services	3,234,043	-	-	3,234,043	696,059	2,537,984	21.52%
Legal Services	3,567,500	-	-	3,567,500	192,759	3,374,741	5.40%
Loss-Modeling	1,123,500	-	-	1,123,500	40,000	1,083,500	3.56%
Marketing Services ¹	14,925,725	-	360,000	15,285,725	683,093	14,602,632	4.47%
Producer Compensation	67,500,000	-	-	67,500,000	14,695,312	52,804,688	21.77%
Participating Insurer Operating Costs	28,306,360	-	-	28,306,360	5,247,866	23,058,494	18.54%
Seismic Related Research	200,000	-	-	200,000	-	200,000	0.00%
Engineering Related Research	1,620,000	-	-	1,620,000	-	1,620,000	0.00%
Risk Transfer	246,947,682	-	-	246,947,682	67,122,450	179,825,232	27.18%
Total Non-Statutory Expenditures	\$ 387,248,505	\$ -	\$ 360,000	\$ 387,608,505	\$ 90,850,576	\$ 296,757,929	23.44%
Total Budget Expenditures	\$ 421,372,563	\$ -	\$ 360,000	\$ 421,732,563	\$ 97,510,059	\$ 324,222,504	23.12%

¹Augmentation to fund user experience and user interface website design from March 15, 2017 Governing Board Meeting Agenda Item 9.

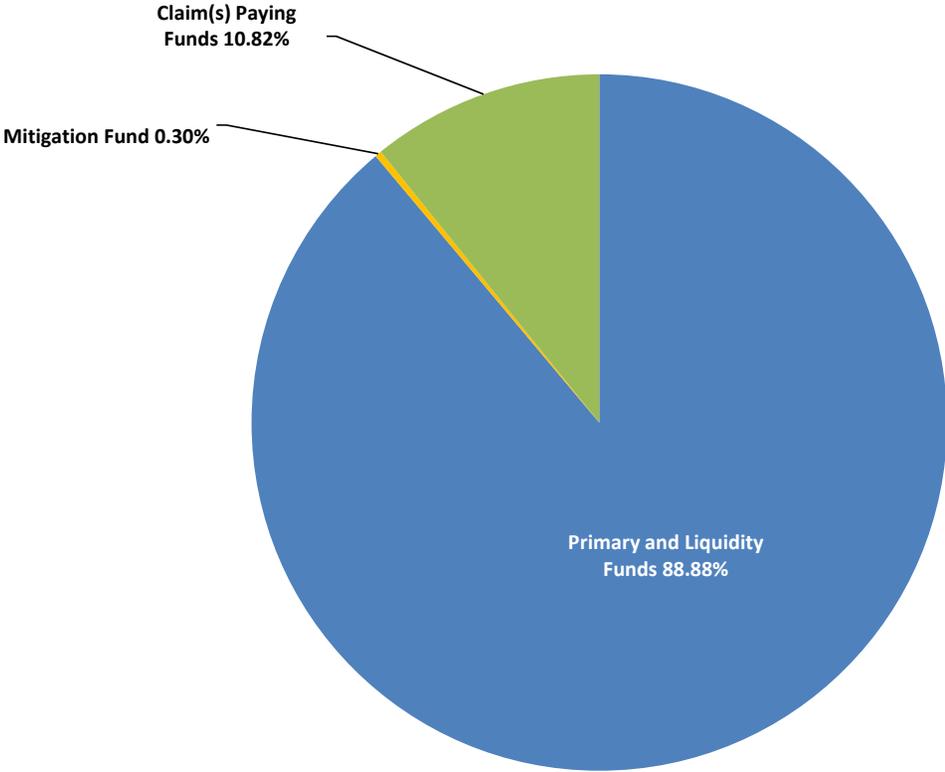
CALIFORNIA EARTHQUAKE AUTHORITY
Mitigation
Budgeted Expenditures and Actual Expenditures
2017 Budget Year
as of March 31, 2017

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	<u>Approved 2017 Budget 1/1/2017</u>	<u>Adjustments</u>	<u>Augmentations</u>	<u>2017 Budget after Augmentations and Adjustments</u>	<u>Actual Expenditures</u>	<u>Augmented & Adjusted Approved Budget (d) vs. Actual Expenditures (e)</u>	<u>Percentage used of Augmented & Adjusted Approved 2017 Budget</u>
Human Resources:							
Compensation and Benefits	\$ 1,602,015	\$ -	\$ -	\$ 1,602,015	\$ 304,405	\$ 1,297,610	19.00%
Travel	79,900	-	-	79,900	758	79,142	0.95%
Other	34,595	-	-	34,595	2,850	31,745	8.24%
Administration & Office	73,798	-	-	73,798	13,421	60,377	18.19%
EDP Software	100	-	-	100	-	100	0.00%
Information Technology	1,200	-	-	1,200	262	938	21.83%
Telecommunications	23,000	-	-	23,000	6,120	16,880	26.61%
Rent/Lease	140,700	-	-	140,700	21,325	119,375	15.16%
Total Operating Expenditures	\$ 1,955,308	\$ -	\$ -	\$ 1,955,308	\$ 349,141	\$ 1,606,167	17.86%
Investment Services	11,200	-	-	11,200	2,090	9,110	18.66%
Legal Services	10,000	-	-	10,000	-	10,000	0.00%
Marketing	384,000	-	-	384,000	-	384,000	0.00%
Seismic - Related	-	-	-	-	-	-	0.00%
Engineering - Related	750,000	-	-	750,000	40,522	709,478	5.40%
Total Other Expenditures	\$ 1,155,200	\$ -	\$ -	\$ 1,155,200	\$ 42,612	\$ 1,112,588	3.69%
Total Expenditures	\$ 3,110,508	\$ -	\$ -	\$ 3,110,508	\$ 391,753	\$ 2,718,755	12.59%

Investments

**California Earthquake Authority
Investment Distribution at Market Value
as of March 31, 2017**

Market Value	\$6,201,082,255
Primary and Liquidity Funds	88.88%
Mitigation Fund	0.30%
Claim(s) Paying Funds	10.82%
Total:	100.00%



Debt

**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 3 year bond CUSIP 13017HAD8	\$ 60,000,000	1.824%	\$ 59,498,463	\$ 60,000,000	31-Mar-2017	A3 Outlook Stable	A Outlook Stable
Series 2014 Revenue Bonds 5 year bond CUSIP 13017HAE6	\$ 250,000,000	2.805%	\$ 247,910,261	\$ 250,000,000	31-Mar-2017	A3 Outlook Stable	A Outlook Stable

DEBT-SERVICE SCHEDULE

The table below shows the annual-debt-service requirements for the Series 2014 Bonds.

Debt	Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
Series 2014 Revenue Bonds 3 year bond	1-Jan-17	\$60,000,000	\$0	\$547,200	\$547,200	
	1-Jul-17	\$0	\$60,000,000	\$547,200	\$60,547,200	
	2017					\$61,094,400
Series 2014 Revenue Bonds 5 year bond	1-Jan-17	\$250,000,000	\$0	\$3,506,250	\$3,506,250	
	1-Jul-17	\$210,000,000	\$40,000,000	\$3,506,250	\$43,506,250	
	2017					\$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					\$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					\$107,945,250

*Moody's rating since May 2015.

**Fitch rating affirmed April 2017.

Claim-Paying Capacity

**California Earthquake Authority
Available Capital Report
as of March 31, 2017**

Cash & Investments (includes capital contributions and premiums)	\$	6,291,107,184
Earthquake Loss Mitigation Fund Cash and Investments	\$	(21,050,322)
Interest & Securities Receivable	\$	19,659,452
Premium Receivable	\$	45,827,437
Risk Capital Surcharge & Capital Contributions Receivable	\$	-
Other Assets	\$	5,430
Revenue Bonds	\$	(670,758,245)
Debt Service (Interest, Principal & Debt Service (Min. Bal.))	\$	(77,026,725)
Unearned Premium Collected	\$	(225,586,434)
Accrued Reinsurance Premium Expense	\$	-
Accounts and Securities Payable, and Accrued Expenses	\$	(6,918,618)
Loss Reserves	\$	(76,414)
CEA Available Capital	<u>\$</u>	<u>5,355,182,744</u>

**California Earthquake Authority
Claim-Paying Capacity
as of March 31, 2017**



Note: Not drawn to scale

Risk-Transfer Programs

**California Earthquake Authority
Current Risk-Transfer Program Summary
as of March 31, 2017**

Traditional Reinsurance Contracts	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	12-Month Premium
2017 January Program Contract 1	January 1, 2017 - December 31, 2017	614,317,300	4.40%	27,029,961
2017 January Program Contract 2	January 1, 2017 - December 31, 2017	290,405,830	3.20%	9,292,987
2017 January Program Contract 3	January 1, 2017 - December 31, 2017	15,000,000	6.25%	937,500
2017 January Program Contract 4	January 1, 2017 - December 31, 2017	25,000,000	5.60%	1,400,000
2016-2017 January Program Contract 1	January 1, 2016 - December 31, 2017	472,799,040	4.40%	20,803,158
2016-2017 January Program Contract 2	January 1, 2016 - December 31, 2017	99,999,970	5.70%	5,699,998
2016-2017 January Program Contract 3	January 1, 2016 - December 31, 2017	49,999,995	5.00%	2,500,000
2016-2017 January Program Contract 4	January 1, 2016 - December 31, 2017	50,000,000	2.60%	1,300,000
2017-2018 January Program Contract 1	January 1, 2017 - December 31, 2018	472,170,373	4.50%	21,247,667
2017-2018 January Program Contract 2	January 1, 2017 - December 31, 2018	240,999,850	3.30%	7,952,995
2017-2018 January Program Contract 3	January 1, 2016 - December 31, 2018	135,000,000	6.35%	8,572,500
2017-2018 January Program Contract 4	January 1, 2016 - December 31, 2018	5,000,000	5.70%	285,000
2016-2017 April Program Contract 1	April 1, 2016 - March 31, 2017	757,031,100	3.00%	22,710,933
2016-2018 April Program Contract 1	April 1, 2016 - March 31, 2018	259,876,500	3.10%	8,056,172
2016-2019 April Program Contract 1	April 1, 2016 - March 31, 2019	124,999,920	3.25%	4,062,497
2015-2017 August Program Contract 2	August 1, 2015 - July 31, 2017	200,000,000	4.50%	9,000,000
2016-2019 August Program Contract 1	August 1, 2016 - July 31, 2019	200,000,000	4.15%	8,300,000
2015-2020 August Program Contract 1	August 1, 2015 - July 31, 2020	139,000,000	4.23%	5,879,700
2016-2017 December Program Contract 1	December 1, 2016 - November 30, 2017	80,000,000	5.75%	4,600,000
2017 January Program Contract 5	January 1, 2017 - December 31, 2017	72,000,000	5.30%	3,816,000
2016-2017 May Program Contract 1	May 1, 2016 - November 30, 2017	100,000,000	3.55%	3,550,000
2016-2018 June Program Contract 1	June 1, 2016 - May 31, 2018	49,999,980	5.40%	2,699,999
2015-2017 August Program Contract 1	August 1, 2015 - July 31, 2017	93,750,000	5.60%	5,250,000
2016-2017 August Program Contract 1	August 1, 2016 - July 31, 2017	93,750,000	5.50%	5,156,250
2015-2017 December Program Contract 1	December 1, 2015 - November 30, 2017	124,999,980	5.50%	6,874,999
2015-2017 December Program Contract 1 ADDL	December 1, 2016 - November 30, 2017	99,988,000	5.50%	5,499,340
2016-2018 December Program Contract 1	December 1, 2016 - November 30, 2018	74,998,000	5.60%	4,199,888
2015-2017 December Program Contract 2	December 1, 2015 - November 30, 2017	49,999,950	5.60%	2,799,997
2015-2018 August Program Contract 1	August 1, 2015 - July 31, 2018	93,750,000	5.80%	5,437,500
2016-2019 August Program Contract 2	August 1, 2016 - July 31, 2019	93,750,000	5.80%	5,437,500
Total Traditional Reinsurance		5,178,585,788		

Transformer Reinsurance Contracts	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	12-Month Premium
2014 - 2017 Transformer Reinsurance Contract 1	December 1, 2014 - November 30, 2017	200,000,000	5.05%	10,126,970
2014 - 2017 Transformer Reinsurance Contract 2	December 1, 2014 - November 30, 2017	200,000,000	3.54%	7,220,177
2015 - 2018 Transformer Reinsurance Contract 1	September 16, 2015 - September 15, 2018	250,000,000	5.05%	12,712,517
2016 - 2019 Transformer Reinsurance Contract 1	December 1, 2016 - November 30, 2019	500,000,000	4.04%	20,287,517
Total Transformer Reinsurance		1,150,000,000		

Total Risk-Transfer Program	\$ 6,328,585,788
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**California Earthquake Authority
Total Risk-Transfer Program Premiums
as of March 31, 2017**

Traditional Reinsurance Contracts	Contract Period	12-Month Rate-on-Line	Year-to-Date Premium
2017 January Program Contract 1	January 1, 2017 - December 31, 2017	4.40%	27,029,961
2017 January Program Contract 2	January 1, 2017 - December 31, 2017	3.20%	9,292,987
2017 January Program Contract 3	January 1, 2017 - December 31, 2017	6.25%	937,500
2017 January Program Contract 4	January 1, 2017 - December 31, 2017	5.60%	1,400,000
2016-2017 January Program Contract 1	January 1, 2016 - December 31, 2017	4.40%	20,803,158
2016-2017 January Program Contract 2	January 1, 2016 - December 31, 2017	5.70%	5,699,998
2016-2017 January Program Contract 3	January 1, 2016 - December 31, 2017	5.00%	2,500,000
2016-2017 January Program Contract 4	January 1, 2016 - December 31, 2017	2.60%	1,300,000
2017-2018 January Program Contract 1	January 1, 2017 - December 31, 2018	4.50%	21,247,667
2017-2018 January Program Contract 2	January 1, 2017 - December 31, 2018	3.30%	7,952,995
2017-2018 January Program Contract 3	January 1, 2017 - December 31, 2018	6.35%	8,572,500
2017-2018 January Program Contract 4	January 1, 2017 - December 31, 2018	5.70%	285,000
2016-2017 April Program Contract 1	April 1, 2016 - March 31, 2017	3.00%	5,677,733
2016-2018 April Program Contract 1	April 1, 2016 - March 31, 2018	3.10%	8,056,172
2016-2019 April Program Contract 1	April 1, 2016 - March 31, 2019	3.25%	4,062,497
2015-2017 August Program Contract 2	August 1, 2015 - July 31, 2017	4.50%	5,250,000
2016-2019 August Program Contract 1	August 1, 2016 - July 31, 2019	4.15%	8,300,000
2015-2020 August Program Contract 1	August 1, 2015 - July 31, 2020	4.23%	5,879,700
2016-2017 December Program Contract 1	December 1, 2016 - November 30, 2017	5.75%	4,600,000
2017 January Program Contract 5	January 1, 2017 - December 31, 2017	5.30%	3,816,000
2016-2017 May Program Contract 1	May 1, 2016 - November 30, 2017	3.55%	3,254,167
2016-2018 June Program Contract 1	June 1, 2016 - May 31, 2018	5.40%	2,699,999
2015-2017 August Program Contract 1	August 1, 2015 - July 31, 2017	5.60%	3,062,500
2016-2017 August Program Contract 1	August 1, 2016 - July 31, 2017	5.50%	3,007,813
2015-2017 December Program Contract 1	December 1, 2015 - November 30, 2017	5.50%	6,302,082
2015-2017 December Program Contract 1 ADDL	December 1, 2016 - November 30, 2017	5.50%	5,041,062
2016-2018 December Program Contract 1	December 1, 2016 - November 30, 2018	5.60%	4,199,888
2015-2017 December Program Contract 2	December 1, 2015 - November 30, 2017	5.60%	2,566,664
2015-2018 August Program Contract 1	August 1, 2015 - July 31, 2018	5.80%	5,437,500
2016-2019 August Program Contract 2	August 1, 2016 - July 31, 2019	5.80%	5,437,500
Total Traditional Reinsurance Premium			193,673,043
Transformer Reinsurance Contracts	Contract Period	12-Month Rate-on-Line	2017 Premium
2014 - 2017 Transformer Reinsurance Contract 1	December 1, 2014 - November 30, 2017	5.05%	7,609,589
2014 - 2017 Transformer Reinsurance Contract 2	December 1, 2014 - November 30, 2017	3.535%	5,326,712
2015 - 2018 Transformer Reinsurance Contract 1	September 16, 2015 - September 15, 2018	5.05%	12,732,742
2016 - 2019 Transformer Reinsurance Contract 1	December 1, 2016 - November 30, 2019	4.04%	20,287,517
Total Transformer Reinsurance Premium			45,956,560
Total Risk-Transfer Program Premium			239,629,603

*Note: Additional risk transfer program contract expected in 2017

Governing Board Memorandum

June 7, 2017

Agenda Item 5: Update to CEA banking resolutions

Recommended Action: Approve resolutions

Background:

At the request of, and on account of a periodic review by, CEA's custody and trustee banks, CEA must update banking resolutions submitted to those banks to establish and confirm the authority of identified CEA executives to perform routine banking transactions on behalf of CEA.

Attachment A and *Attachment B* are resolutions, which require CEA Governing Board approval in order accomplish the above. Upon that approval, banking authority will thereby be conferred on CEA executives listed below:

CEO Glenn Pomeroy
CFO Tim Richison
CITO Todd Coombes
COO Kellie Schneider

Recommendation:

Staff recommends the Board approve the resolutions attached as *Attachment A* and *Attachment B*.

Governing Board Memorandum

June 7, 2017

Agenda Item 6: Report of Independent Audit of CEA Annual Financial Statements (2016)

Recommended Action: No action required—information only

Background:

Plante Moran, PLLC, California Earthquake Authority's independent financial auditor, has performed an audit of CEA's financial statements for the year ended December 31, 2016, prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP).

Report of Audit for GAAP financial statements are found in *Attachment A* and consist of:

- Independent Auditor's Report
- Management's Discussion and Analysis (MD&A)
- Audited Financial Statements and accompanying notes
- Supplementary Information

Analysis:

According to the Independent Auditor's Reports, CEA's 2016 audited GAAP financial statements present fairly, in all material respects, the financial position of CEA, in conformity with accounting principles generally accepted in the United States of America.

Recommended Action: No action required—information only.

Governing Board Memorandum

June 7, 2017

Agenda Item 7: Annual statutory set-aside from investment income for the CEA Earthquake Loss Mitigation Fund

Recommended Action: Approve the annual statutory set-aside from investment income for the CEA Earthquake Loss Mitigation Fund

Background:

California Insurance Code section 10089.37 states, in pertinent part:

The board shall set aside in each calendar year an amount equal to 5 percent of investment income accruing on the authority's invested funds, or five million dollars (\$5,000,000), whichever is less, if deemed actuarially sound by a consulting actuary employed or hired by the authority, to be maintained as a subaccount in the California Earthquake Authority Fund. The authority shall use those funds to fund the establishment and operation of an earthquake Loss Mitigation Fund.

The Governing Board last approved set-aside funding for the CEA Loss Mitigation Fund in June 2016, at which time the Board authorized a set-aside of \$2,140,441.25.

Analysis:

The CEA Earthquake Loss Mitigation Fund is established by law to hold the money to be used for CEA mitigation activities' operational and program expenses. The Board must approve mitigation programming before CEA Earthquake Loss Mitigation Fund moneys can be expended on program activities.

The law requires that the set-aside of monies for the CEA Earthquake Loss Mitigation Fund be reviewed "by a consulting actuary employed or hired by the authority" to assure it will not impair actuarial soundness. CEA Chief Actuary Shawna Ackerman has reviewed the proposed transfer and determined that it will not impair CEA's actuarial soundness (*Attachment A*).

Staff requests Board approval to set aside from CEA's investment income the sum of \$5,000,000 for the CEA Earthquake Loss Mitigation Fund, as calculated and displayed on *Attachment B*.

Recommendation:

Staff recommends the Board approve a set-aside from CEA's investment income the sum of \$5,000,000 for the CEA Loss Mitigation Fund.

MEMORANDUM

DATE: May 22, 2017
TO: Tim Richison, Chief Financial Officer
FROM: Shawna Ackerman, Chief Actuary
RE: 2016 Earthquake Loss Mitigation Fund

Pursuant to California Insurance Code §10089.37, the California Earthquake Authority (CEA) shall set aside in each calendar year an amount equal to the lesser of 5% of its annual investment income or \$5,000,000 for the Earthquake Loss Mitigation Fund, if deemed actuarially sound. The amount under review for calendar year 2016 is \$5,000,000.

The term “actuarially sound” is often applied to rates. When used in this context “actuarially sound” means that the rate covers the expected future costs for the transfer of risk. In this context, the current rate structure considers and provides for a sufficient provision for the mitigation fund.

In the context of the statute for the mitigation fund, the term may also apply to the CEA’s solvency. I have reviewed the financial data provided to me including the provision for the mitigation fund. The CEA available capital at December 31, 2016, is \$5.297 billion and the total claims paying capacity is \$13.242 billion. The mitigation funds available to set aside are approximately 0.09% of the CEA’s available capital and 0.04% of the CEA’s total claims paying capacity. Because the mitigation fund represents a small percentage of the CEA’s total claims paying capacity, the absence of the funds for claims paying will not impair the CEA’s solvency. Additionally, the mitigation funds can increase the CEA’s ability to pay 100% of claims liabilities to the extent that the funds are used to support activities that reduce the CEA’s losses in the event of a damaging earthquake. Therefore, I conclude that the mitigation fund amount as proposed is actuarially sound as contemplated in the statute.

California Earthquake Authority
Calculation of Available Set-Aside Amount for Loss Mitigation Fund
For the Years Ended December 31

Year	Investment Income	5% of Investment Income	A	B	C	(A + B + C)
			Beginning-of-Year Remaining Funds Available for Set Aside	Lesser of 5% of Investment Income or \$5 million **	Funds Set Aside by the Governing Board	End-of-Year Remaining Funds Available for Set Aside
Balance as of December 31, 2000						\$ -
2001	\$ 44,184,990.04	\$ 2,209,249.50	\$ -	\$ 2,209,249.50	\$ (309,275.55)	\$ 1,899,973.95
2002	\$ 24,782,830.64	\$ 1,239,141.53	\$ 1,899,973.95	\$ 1,239,141.53	\$ (2,509,232.25)	\$ 629,883.23
2003	\$ 25,562,896.69	\$ 1,278,144.83	\$ 629,883.23	\$ 1,278,144.83	\$ -	\$ 1,908,028.07
2004	\$ 35,851,094.85	\$ 1,792,554.74	\$ 1,908,028.07	\$ 1,792,554.74	\$ -	\$ 3,700,582.81
2005	\$ 64,786,415.96	\$ 3,239,320.80	\$ 3,700,582.81	\$ 3,239,320.80	\$ (3,700,582.81)	\$ 3,239,320.80
2006	\$ 118,647,844.32	\$ 5,932,392.22	\$ 3,239,320.80	\$ 5,000,000.00	\$ (3,239,320.80)	\$ 5,000,000.00
2007	\$ 125,616,215.18	\$ 6,280,810.76	\$ 5,000,000.00	\$ 5,000,000.00	\$ (5,000,000.00)	\$ 5,000,000.00
2008	\$ 84,700,308.00	\$ 4,235,015.40	\$ 5,000,000.00	\$ 4,235,015.40	\$ (5,000,000.00)	\$ 4,235,015.40
2009	\$ 55,449,955.00	\$ 2,772,497.75	\$ 4,235,015.40	\$ 2,772,497.75	\$ (4,235,015.40)	\$ 2,772,497.75
2010	\$ 40,385,063.00	\$ 2,019,253.15	\$ 2,772,497.75	\$ 2,019,253.15	\$ (2,772,497.75)	\$ 2,019,253.15
2011	\$ 31,693,442.00	\$ 1,584,672.10	\$ 2,019,253.15	\$ 1,584,672.10	\$ (2,019,253.15)	\$ 1,584,672.10
2012	\$ 24,766,000.00	\$ 1,238,300.00	\$ 1,584,672.10	\$ 1,238,300.00	\$ (1,584,672.10)	\$ 1,238,300.00
2013	\$ 21,291,499	\$ 1,064,574.96	\$ 1,238,300.00	\$ 1,064,574.96	\$ (1,238,300.00)	\$ 1,064,574.96
2014	\$ 25,375,330	\$ 1,268,766.51	\$ 1,064,574.96	\$ 1,268,766.51	\$ (1,064,574.96)	\$ 1,268,766.51
2015	\$ 42,808,825	\$ 2,140,441.25	\$ 1,268,766.51	\$ 2,140,441.25	\$ -	\$ 3,409,207.76 *
2016	\$ 110,719,225	\$ 5,535,961.25	\$ 3,409,207.76	\$ 5,000,000.00	\$ (3,409,207.76)	\$ 5,000,000.00
Balance as of December 31, 2016						\$ 5,000,000.00

***Note: The 2014 set-aside amount \$1,268,766.51 was transferred March 2016.**

**By law, "(t)he board shall set aside in each calendar year an amount equal to 5 percent of investment income accruing on the authority's invested funds, or five million dollars (\$5,000,000), whichever is less..."
Insurance Code section 10089.37.

Governing Board Memorandum

June 7, 2017

Agenda Item 8: Update: CEA Insurance & Technology Department

Recommended Action: No action required—information only

Insurance Operations Update:

In the March 15, 2017, CEA Governing Board meeting staff announced an internal reorganization that combined CEA's Insurance Operations team with Information Technology, Agent Training, and the Information Desk (call center), forming the Insurance & Technology Department. The combined team has now collocated and is settling into its new work environment and is experiencing increased collaboration and functional synergy.

CEA Insurance Operations analysts recently completed 2016 year-end review meetings with each Participating Insurer. During each PI meeting, CEA analysts presented a scorecard indicating PI performance of its CEA business, comparing it to the aggregate CEA book of business. Analysts also took the opportunity to discuss issues and opportunities specific to each PI, solicit ideas for improving the CEA policy, propose ways to best work together to get more California homes insured against damaging earthquakes.

Metrics tracked on the scorecard and discussed during PI meetings included:

- Agent-training engagement
- Policies in force
- Endorsements sold (masonry veneer; breakables)
- Deductible options (diversifying beyond the standard 15%)
- Increased policy limits (taking advantage of higher limits on various policy features)

During 2017 mid-year meetings later this year with PIs, the CEA Insurance Operations team will work with each PI to establish agreed goals related to each of the five metrics above and will then track actual results against those goals on future scorecards. This will help focus discussion and efforts on creating and achieving a shared set of objectives related to the CEA book of business.

CEA recognizes the importance of educating agents and other licensed PI representatives who sell CEA products. With this in mind, the Insurance Operations team is working with stakeholders to review and update strategy for agent training. Staff will report progress on this effort at future Board meetings.

During the March 15, 2017, Governing Board meeting, staff previewed a potential January 1, 2019, CEA policy rate and form filing, primarily as a result of changes in the best available earthquake science. Members of the CEA Insurance Operations team are gearing-up for that effort, and with other CEA staff have organized and kicked off—with EP MO help—several rate-and-form-filing projects. Project progress will be reported at future Board meetings.

Information Technology Update:

The Information Technology team continues to focus significant effort and resources on:

- Continuous cybersecurity improvements
- Migrating systems to the cloud
- Master data management and business intelligence
- Websites and online tools
- Centralized Policy Processing (CPP)

CEA systems and information assets were not infected during the recent outbreak of the WannaCry ransomware virus. CEA staff had performed ransomware incident-response exercises before the WannaCry outbreak, which helped inform about ransomware threats and provided practice on CEA response. While WannaCry did not rise to the level of a cybersecurity incident at CEA, staff's preparation and constant monitoring were instrumental in that good outcome and continue to be a high priority.

In addition to the focused efforts above, the CEA Information Technology team is preparing for the January 1, 2019, CEA rate and form filing. Changes will be required in most CEA systems and in the Insuresoft Diamond Policy Administration and Claim System, as well.

For this rate and form filing, CEA Information Technology will be creating and providing extensive policy and claim-testing scripts that will assist CEA, PIs, and software vendors make accurate, efficient changes required for many systems.

The systems-certification process will use these test scripts and automated comparison utilities to report any processing errors and discrepancies encountered during system updates for the rate and form filing.

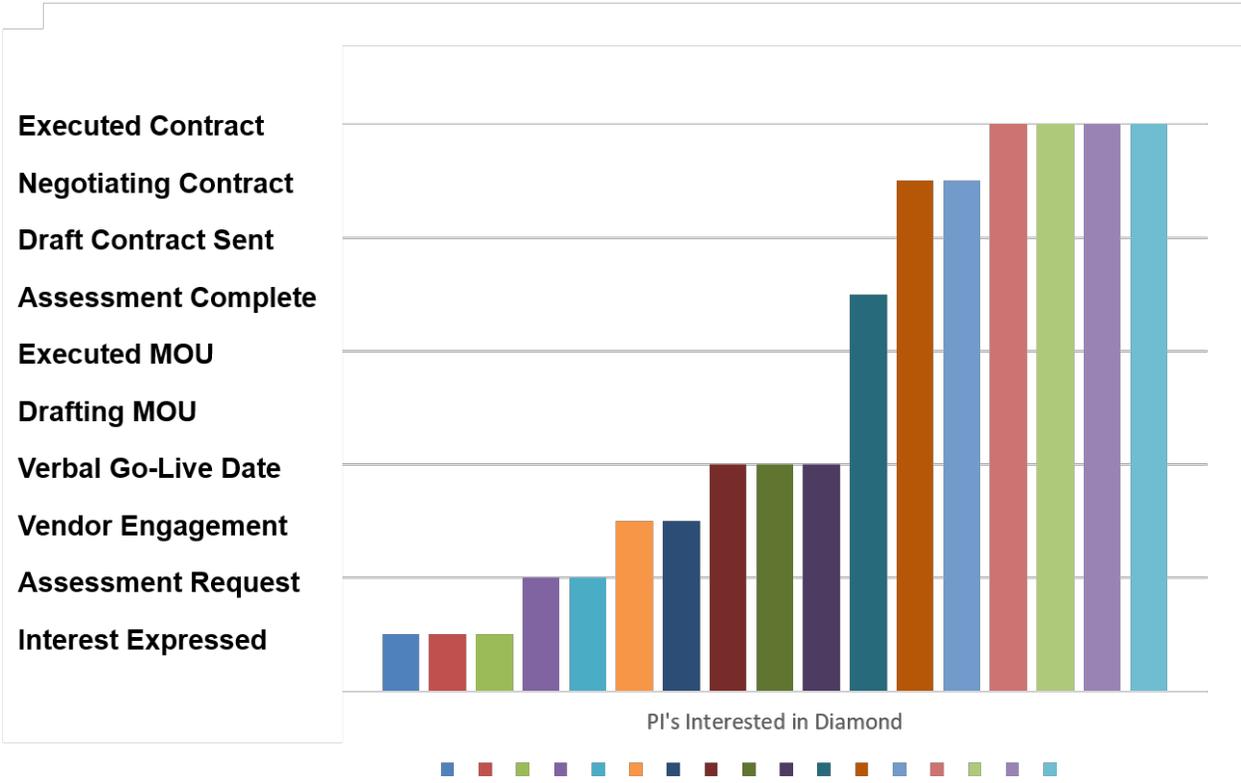
Centralized Policy Processing Update:

CPP Diamond implementation progress continues:

- 3 PIs now in production and using the Insuresoft Diamond Policy Administration and Claim System.
- 4 PIs are scheduled for Diamond implementation in 2017, including one pilot of the accelerated-implementation approach being developed by Insuresoft.
- 5 additional PIs have expressed interest in a 2018 Diamond implementation.

The chart below indicates level of interest and progress of PIs that have engaged with CEA about CPP Diamond. Each bar in the graph represents a PI and that PI's current level of interest and engagement:

Participating Insurer Level of Interest in CPP Diamond



Governing Board Memorandum

June 7, 2017

Agenda Item 9: Update the CEA Procedures and Accounting Manual

Recommended Action: Approve updated the CEA Procedures and Accounting Manual

Background:

CEA participating insurers are using the original CEA *Procedures and Accounting Manual* (the *Manual*), originally published in 1999. Staff has now updated the *Manual* to explain and update procedures on transacting earthquake-insurance business on behalf of CEA—the updates, in a revised format, bring the manual in line with current CEA practices and procedures.

Analysis:

Since CEA implemented the *Manual*, there have been many changes to CEA's business practices and procedures. Because of these changes, CEA staff has updated the *Manual*, which has been internally reviewed and received all necessary internal approvals.

The *Manual* is part of the CEA's *Plan of Operations*, which by law, may be amended only by action of the CEA Governing Board and approval of the Insurance Commissioner. To commence this approval process, staff now seeks Board approval of the attached *Manual*.

Once the Board and Commissioner approve the updated *Manual*, staff will provide it to all CEA participating insurers for immediate implementation and use.

These two attachments will assist in reviewing the *Manual*:

- *Attachment A: The proposed updated Manual.*
- *Attachment B: A comparison of the present version to the proposed updated Manual.*

Recommended Action:

CEA staff recommends that the Board approve the updated 2017 edition of the CEA *Procedures and Accounting Manual* and that the Board authorize staff to send the updated *Manual* to the California Department of Insurance for the Insurance Commissioner's review and approval.



Procedures and Accounting Manual

2017 Version

Submitted for Approval to the CEA Governing Board on June 7, 2017

California Earthquake Authority Procedures and Accounting Manual

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California Earthquake Authority Procedures and Accounting Manual

Section I - Introduction

Since 1985, insurance companies that sell residential property insurance¹ in California must offer earthquake insurance to each residential-property-insurance applicant and, every two years, to existing policyholders. Until November 30, 1996, insurers had available three methods to satisfy the mandatory offer: (1) offer a policy issued by the same insurer, (2) offer a policy issued by an affiliate, or (3) offer a policy issued by a carrier under contract to the insurer.

In 1996, the California Legislature established the California Earthquake Authority (“CEA”) as a publicly-managed, privately-funded public instrumentality of the State of California. Insurers that are accepted for participation in the CEA satisfy their mandatory-offer responsibility by offering a CEA earthquake-insurance policy—and only CEA [participating insurance companies](#) are authorized to offer CEA earthquake-insurance policies.

The CEA is one of the largest providers of residential earthquake insurance in the world. The CEA is financially sound, consistently receives excellent financial ratings, and is an international model for catastrophe insurance. The CEA remains dedicated to continuous improvement and innovation, to provide Californians with earthquake coverage options that best meet their needs.

The California Earthquake Authority Act, Chapter 8.6 (commencing with section 10089.5) of Part 1 of Division 2 of the California Insurance Code, is the Legislative act that established the CEA. The procedures in this manual, which may be amended from time to time by the CEA, together with the documents listed below, set forth procedures which CEA Participating Insurers and Associate Participating Insurers (collectively, “Participating Insurers”) must follow to transact earthquake-insurance business on behalf of the CEA.

Those CEA documents include:

- The California Earthquake Authority Act;
- CEA Insurer Participation Agreement;
- CEA Plan of Operations;
- CEA Claim Manual;
- CEA Eligibility Standards;
- CEA Technical Reporting Instructions;

¹ Insurance Code sec. 10087, subdivision (a), defines a “policy of residential property insurance” as follows:

“Policy of residential property insurance” shall mean a policy insuring individually owned residential structures of not more than four dwelling units, individually owned condominium units, or individually owned mobilehomes, and their contents, located in this state and used exclusively for residential purposes or a tenant's policy insuring personal contents of a residential unit located in this state. “Policy of residential property insurance,” as defined, shall not include insurance for real property or its contents used for any commercial, industrial or business purpose, except a structure of not more than four dwelling units rented for individual residential purposes. A policy that does not include any of the perils insured against in a standard fire policy shall not be included in the definition of “policy of residential property insurance.”

California Earthquake Authority Procedures and Accounting Manual

- CEA Rate Manual(s);
- CEA Participating Insurer Operating Procedures Manual; and
- Any other written notices or directives issued by the CEA.

A copy of any document referred to in this Manual is available by contacting the CEA's Insurance Operations Department.

A Participating Insurer may use its own operational practices except where its practices are in conflict with any provision of this Manual or any provision of any of the above documents. In case of such a conflict, the procedures described in this Manual take precedence over the Participating Insurer's practices.

Questions or controversies that arise in the course of performing the duties of a Participating Insurer in accordance with this Manual must be referred to the CEA.

Each Participating Insurer has executed an Insurer Participation Agreement with the CEA, which sets forth, among other things, the responsibilities owed by the Participating Insurer to the CEA. Under the contract, Participating Insurers, and their agents, adjusters, and employees, are expressly required to act in good faith and in the best interest of the CEA, and each must perform all services relating to CEA policies in an expeditious and efficient manner, and in no case with less care or diligence than would be employed in the conduct of their own business not related to that of the CEA.

If there are any conflicts or inconsistencies between this Manual and an express CEA operational policy or procedure, the express CEA policy or CEA procedure will take precedence.

Section II - Issuing a CEA Policy

A. Applying for CEA Coverage

1. A completed CEA Earthquake Insurance Application is required for all new CEA policies, to ensure all pertinent rating information is obtained and provided. The CEA Earthquake Insurance Application must be completed in accordance with the CEA Earthquake Insurance Application Instructions and must be processed by the Participating Insurer. CEA Earthquake Insurance Applications are not processed at the CEA office; agents, producers, and brokers must coordinate CEA Earthquake Insurance Application processing with the Participating Insurer for handling.
2. CEA Earthquake Insurance Applications, as well as the applicant signature, may be in paper or an electronic format that complies with electronic signature legal requirements.
3. CEA Earthquake Insurance Applications must be rejected by the participating insurer if not in compliance with any of CEA's requirements which include, but are not limited to: property not meeting any CEA Eligibility Standards, incomplete CEA Earthquake Insurance Application information, any material misrepresentation on the Application,

California Earthquake Authority Procedures and Accounting Manual

and failure to obtain a companion policy from the same Participating Insurer that is issuing the CEA policy. In such instances, the Participating Insurer must immediately notify, and return any premium due to, the rejected applicant.

4. Renewal policies, and policies rolled over from a new Participating Insurer's in-force business, do not require a CEA Earthquake Insurance Application. In those cases, the Participating Insurer must provide to the CEA all information requested on the CEA Earthquake Insurance Application from documentation already on file at the Participating Insurer (such as prior inspections or other application data) or obtained directly from the policyholder. The CEA requires that all pertinent rating information be obtained and provided so that the CEA policy may be rated properly.
5. The Participating Insurer must remit CEA policy premium to the CEA under the procedures described in Section III, Administration (CEA Payment Plans).
6. Policyholder payments – including the initial installment – are described in Section III, Administration (Policyholder Payment Plans).

B. CEA Coverage: Effective Dates

1. A CEA policy can be issued at any time during the term of the companion residential property insurance policy. Under no circumstances, however, may the term of the CEA policy exceed one year. The expiration date of the companion policy and the expiration date of the CEA earthquake insurance policy must be the same date.
2. The effective date of a new CEA earthquake insurance policy is governed by the following methods:
 - a. If the CEA Earthquake Insurance Application is received by mail, the earliest of the following dates:
 - i. 12:01 a.m. Pacific Time, the day after a completed, signed CEA Earthquake Insurance Application is received by the participating insurer's agent, producer, broker, or the participating insurer.
 - ii. 12:01 a.m. Pacific Time, the next calendar day after the date of postmark, when a completed, signed CEA Earthquake Insurance Application is received by mail sent to the participating insurer's agent, producer, broker, or to the participating insurer.
 - iii. A future effective date, as stated on the completed, signed CEA Earthquake Insurance Application. A policy effective date more than 90 days following the date of signature of the CEA Earthquake Insurance Application must not be accepted.
 - b. If the CEA Earthquake Insurance Application is received by electronic delivery, the earlier of the following dates:

California Earthquake Authority Procedures and Accounting Manual

- i. At 12:01 a.m. Pacific Time, the next calendar day after an electronically completed, digitally signed CEA Earthquake Insurance Application is received by the participating insurer's agent, producer, broker, or the participating insurer.
 - ii. A future effective date, as stated on the electronically completed, digitally signed CEA Earthquake Insurance Application. A policy effective date more than 90 days following the date of signature of the CEA Earthquake Insurance Application must not be accepted.
- c. If the CEA Earthquake Insurance Application is received by phone or in person, the earlier of the following dates:
 - i. At 12:01 a.m. Pacific Time, the next calendar day after a completed, signed CEA Earthquake Insurance Application is received by the participating insurer's agent, producer, broker, or by the participating insurer.
 - ii. A future effective date, as stated on the completed, signed CEA Earthquake Insurance Application. A policy effective date more than 90 days following the date of signature of the CEA Earthquake Insurance Application must not be accepted.
3. Participating Insurers and their agents, producers, or brokers are not authorized to issue or bind coverage outside these requirements, the eligibility guidelines, or other CEA procedures.
4. A CEA Earthquake Insurance Application must not be back-dated (dated with an effective date earlier than any of the effective dates noted in the requirements stated immediately above).

C. Coverage Limitations after an Earthquake Event

In some cases, Participating Insurers may restrict writing of their own residential-property-insurance products (e.g., homeowners, dwelling fire, mobilehome, renters, or condominium-unit owners) after an earthquake. These situations will affect CEA new-policy sales because California law requires a residential property insurance policy to be in effect from a CEA Participating Insurer in order to purchase or maintain a CEA policy. In such a situation, (1) an applicant who is unable to purchase a residential-property-insurance policy from a CEA Participating Insurer because that insurer has imposed a restriction will also be unable to purchase CEA coverage, until the restriction is lifted, and (2) policyholders who have a current residential property insurance policy with a CEA Participating Insurer may purchase a CEA policy at any time.

D. Policy Issuance

1. Issuance Requirements

California Earthquake Authority Procedures and Accounting Manual

- a. All CEA policies must be issued in accordance with the CEA's filed and approved rating structure, and the subject property must meet all CEA Eligibility Standards.
- b. Instructions for calculating a CEA policy premium are explained in detail in the CEA Rate Manual.
- c. After a completed CEA Earthquake Insurance Application has been accepted, the Participating Insurer must provide the insured with a complete policy package (all applicable CEA policy forms, disclosures, and endorsements) and a CEA policy declarations page.
- d. All CEA-related communications and policy applications, declarations pages, policy forms, disclosures, and endorsements produced by the Participating Insurer must be approved by the CEA. Participating Insurers must send samples of each of their CEA-related documents, in their final form, to the CEA Insurance Operations Department for approval in advance of their first use and distribution.
- e. An agent's, producer's or broker's counter-signature of a CEA policy is not required.

2. CEA Earthquake Policy Disclosure

If an offer of CEA earthquake insurance is accepted, the following disclosure must be provided² to the policyholder in 14-point boldface type:

California Earthquake Authority Policy Disclosure

You have purchased a California Earthquake Authority (CEA) earthquake insurance policy, which can help you cover the cost of repairing damage to your property and possessions caused by an earthquake.

The CEA is not part of your homeowners insurance company.

Please keep in mind these important things about your CEA insurance policy:

1. CEA policy coverages are different from the coverages provided in your homeowners' insurance policy. For example,

² Insurance Code section 10089.28, subdivision(b), effective January 1, 2016. For policies with an effective date before January 1, 2016, the California Earthquake Authority Policy Disclosure can be found in Insurance Code section 10086, subdivision (a), paragraph (3).

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this policy does not cover earthquake damage to swimming pools, and it may provide more limited coverage for chimneys, outbuildings, and masonry fences. These are examples of possible differences between your CEA policy and your homeowners' policy, and you should consult your CEA policy to understand the types of losses that are limited or excluded and those that are covered.

2. If CEA's liability for earthquake losses exceeds the CEA's available resources the CEA may reduce its payment to you or pay you in installments. This policy is not covered by the California Insurance Guarantee Association and therefore the California Insurance Guarantee Association will not pay your claims if the CEA becomes insolvent and is unable to make payments as promised.

3. In certain cases, your CEA policy premium may be subject to future surcharges if the CEA's obligations to pay earthquake losses rise to a pre-defined level. In that case, in addition to your annual premium you may be charged up to an additional 20% of that premium.

3. Endorsements

- a. If there is any **non-material change** to the CEA policy during the policy term, including, but not limited to, a change in limits, coverages, effective dates, or policyholder mailing address, the Participating Insurer must issue a new declarations page displaying all such changes. All premium adjustments resulting from these changes must be submitted to the CEA, at a minimum, once a week and no later than the next weekly Participating Insurer CEA premium deposit after the effective date of the change.
- b. Whenever there is a **material change** to the risk insured by the CEA policy, a new CEA Earthquake Insurance Application and a new policy are required. An example of a material change would be a change in the risk address (location) or a change in policy type (e.g., the policyholder moves to a new home or changes from a homeowners policy to a renters policy). The CEA requires a new CEA Earthquake Insurance Application and a new policy in response to material changes in the risk so that it may appropriately rate the new property, ensure that the risk meets all CEA Eligibility Standards, and provide the policyholder with new policy information.

California Earthquake Authority Procedures and Accounting Manual

- c. Any additional or return premium is calculated on a pro-rata basis.
- d. The CEA always uses a 365-day year when counting the number of days to charge premium, even if the policy or endorsement term contains a leap day; February 29 is not counted as a day for premium calculations.

Section III - Administration

A. Inspection of Records

A Participating Insurer, and its agents, producers, brokers, and claims adjusters must permit representatives of the CEA to inspect the files, records, logs, and accounts on all business relating to the CEA at any reasonable time during normal business hours. All books, records, files, expirations, policies, contracts, agreements, endorsements, supplies, and related material used by the Participating Insurer in the performance of its CEA services will remain the property of the CEA, as provided in the Insurer Participation Agreement.

B. Reporting Specifications Formats

Each Participating Insurer is responsible for reporting policy premium and claims data to the CEA in the standard formats described in the CEA Technical Reporting Instructions (TRI): please refer to (1) Premium Submission Format and (2) Claim Submission Format. Participating Insurers must correct in a timely manner any data that do not pass CEA's data-system edits. Completion of the error-correction process is **critical** in order to maintain fundamental data-reconciliation requirements between the CEA and each Participating Insurer data-management system.

C. Premium Deposit and Collection Procedures

1. Fiduciary Duties of the Participating Insurer

By its execution of the CEA Insurer Participation Agreement, and by that Agreement's express terms, the Participating Insurer is deemed a **fiduciary** in the handling of all CEA monies.

2. Premium-Data Submissions

- a. Each CEA Participating Insurer must report all CEA premiums collected to the CEA insurance-data system according to the specifications in the CEA TRI Premium Submission Format.
- b. Due dates for CEA policy premium data:

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- i. For new CEA policies, the full premium, or the first installment of premium, is due no later than the submission deadline of the week after the effective date of the policy or the date of policy issuance, whichever is later. The final premium payment must be submitted to the CEA no later than 90 days after the CEA-policy cancellation or expiration date.
 - ii. For renewal CEA policies, the full premium, or the first installment of premium, is due no later than the submission deadline of the week after the policy effective date. The final premium payment must be submitted to the CEA no later than 90 days after the CEA-policy cancellation or expiration date.
- c. Submission deadlines are stated in the CEA TRI.

3. Premium Billing – CEA to Participating Insurers

- a. Once the CEA has successfully received premium data submissions, the CEA will, on a weekly basis, email each Participating Insurer with information related to its weekly data submission and monies associated with that submission. Within 24 hours of that email from the CEA, the Participating Insurer must use the Fedwire system to transfer to the CEA's bank account the monies associated with that submission, and the amount of funds so transferred using Fedwire must equal: (1) the total premiums collected, net of refunded and cancelled premiums, as reported in the weekly data submission, less (2) any producer commissions and Participating Insurer operating expense, plus (3) the CEA share of installment fees collected and reported in the weekly data submission.
- b. Participating Insurer Fedwire transfers to the CEA bank account must use the criteria specified in Appendix 1 (CEA Deposit Specifications).

D. Billing and Installment Payments and Fees

1. Policyholder Payment Plans

- a. As required by law, Participating Insurers must offer at least one installment-payment plan to CEA policyholders. The Participating Insurer may offer the installment plans it offers on its own policies or it may design and offer an installment plan specific to CEA policies.
- b. The rules and procedures regarding a policyholder's billing and installment options, including down-payment and initial-installment requirements, must follow the Participating Insurer's established rules and procedures.
- c. A Participating Insurer may follow its own schedule and procedures to establish fees for late and returned CEA premium payments, but no Participating Insurer is permitted to pursue collection proceedings against a CEA policyholder for CEA

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premium and related costs and fees.

2. CEA Payment Plans

- a. Full Pay: A Participating Insurer may choose to offer an installment plan to CEA policyholders but not report and account to CEA for individual installment payments. In such cases, the Participating Insurer must remit to CEA the full CEA premium when the CEA policy is reported. The Participating Insurer must bill, collect, and account for payments in such a way as to recover the full premium *internally*, that is, without sending installment-payment information to the CEA.
- b. Installment Pay: If a CEA-policy premium is subject to payment in two or more installments and the Participating Insurer is reporting premium installments to the CEA, a \$0.50 installment fee is from the Participating Insurer to the CEA for each installment payment submitted. The Participating Insurer may charge an additional fee, up to \$0.50 per installment, to cover its billing costs. In other words, the policyholder may be charged no more than a total of \$1 per installment; of which \$0.50 per installment is payable to the CEA and \$0.50 per installment may be retained by the Participating Insurer. Regardless of the total gross amount of a per-installment fee, the per-installment fee must be divided evenly between the CEA and the Participating Insurer. Each installment submission is computed on a **net premium basis** (that is, the percentage of Participating Insurer operating expense and producer commissions subtracted must correspond to the installment premiums being paid in each installment rather than taken out of solely the first or the last installment).

3. Errors in Premium

- a. If the Participating Insurer determines that a policyholder has paid a CEA policy premium **greater** than the correct policy premium for the insurance placed, the Participating Insurer must return the excess premium to the policyholder and submit corrected record data to the CEA. The CEA will then reimburse the Participating Insurer for the returned (excess) premium.
- b. If the Participating Insurer determines that a policyholder paid a CEA policy premium **less** than the correct policy premium for the insurance placed, the Participating Insurer must correct the policy premium and submit the record data to the CEA. Premiums lower than the correct policy premium must be corrected and submitted to the CEA at the next policy renewal. Policyholders must be notified at renewal when such a correction affects their renewal premium. (See *Appendix 4: Notice of Change in Policy Premium* for more information.)
- c. At its discretion, the CEA may collect a CEA-premium adjustment made necessary by a Participating Insurer's submission error or rating error on prior policy terms.

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E. Claim-Reimbursement Procedures

1. The Participating Insurer must adjust CEA claims in accordance with the CEA Claim Manual and CEA operating procedures. If the CEA Claim Manual or CEA operating procedures fail to address a particular claim-related subject or situation, in whole or in part, and if the CEA has not provided guidance despite the Participating Insurer's request, the Participating Insurer may apply its own reasonable operating practices.
2. To obtain reimbursement from CEA of monies paid to a policyholder for an approved claim and to obtain reimbursement for related claim-expense fees or related salvage- or subrogation-expense fees, the Participating Insurer must submit the claim and claim-related data to the CEA using the TRI Claims Submission Format. The corresponding reimbursement detail will be posted electronically in the CEA insurance-data system (605 Claim Reimbursement Report).
3. The CEA will accept claim-reimbursement submissions every day, and the submissions will post to the CEA insurance-data system on a daily basis.
4. The CEA will issue claim-reimbursement funds using the Fedwire system, electronically depositing the funds directly into the Participating Insurer's designated bank account. Once the Fedwire transfer has been completed, the Fedwire number associated with the related reimbursement is entered into the CEA insurance-data system. The CEA insurance-data system generates a file that states in detail the claim records associated with the wire transfer, including the nine-percent claim-expense-fee reimbursement. The entire procedure should be completed within 15 business days following receipt of the reimbursement submission.
5. The Participating Insurer is not required on behalf of the CEA to advance any claim payment to any CEA policyholder, except payment for claims made under Loss of Use/Additional Living Expense (ALE) coverage in accordance with the CEA insurance policy and CEA guidelines. Participating Insurers may, however, advance other (non-ALE) CEA claim payments in their discretion and obtain reimbursement from the CEA, and this practice, while not required, is encouraged by the CEA.

F. Compensation

1. Commission

- a. Each Participating Insurer is solely responsible for compensating its agents, producers, brokers, adjusters, and other employees for all services and expenses incurred on behalf of the CEA. The terms and amount of such compensation, except as noted below, is to be determined by each Participating Insurer.
- b. As required by the Insurer Participation Agreement and regulations promulgated by the California Insurance Commissioner, the CEA pays to Participating Insurers as

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producer compensation a 10% commission. Participating Insurers are to pay at least a 10% sales commission to licensed producers whose compensation plan includes sales commission. For Participating Insurers whose company practices do not include producer sales-commission payments, the Participating Insurer may allocate the commission received from the CEA within the company's operation.

2. Operating Expense

A Participating Insurer's sole compensation from the CEA for the operating expenses it incurs is calculated on the following basis:

For the Participating Insurer's non-claim-related operating costs, the CEA pays six percent of the net written CEA premium attributable to CEA policies sold by the Participating Insurer, net of the loading for the CEA's financing costs (including, but not limited to, costs of reinsurance, capital-markets transactions, private-placement transactions, or other debt). An example of the CEA-related Operating Expense calculation is illustrated in *Appendix 2 – Operating Expense Calculation Example*. NOTE: When CEA rates change, financing costs as a percentage of gross written premium will change as well.

3. Claim Expense

A Participating Insurer's sole compensation from the CEA for claim-related and loss adjustment expenses it incurs is calculated on the following basis:

For each claim payment under a CEA policy, the CEA will add nine percent of the total amount of the CEA earthquake insurance claim payment as and for payment of the Participating Insurer's claim expenses associated with servicing that CEA earthquake insurance claim. The CEA does not pay claim expenses or loss adjustment fees on claims that close with no payment.

4. Salvage and Subrogation

- a. The Participating Insurer is responsible for salvage and subrogation processing. The CEA requires that the policyholder be made whole, including the deductible, before any salvage is taken by action of the Participating Insurer; in cases where salvage is taken, the Participating Insurer should follow its own company procedures for handling salvage within the claim-handling process.
- b. Monies obtained in excess of what is required to make the policyholder whole must be submitted to the CEA, less what the CEA allows as Participating Insurer expenses for these purposes, as follows:
 - i. Salvage expenses will be 25% of the monies received for salvage.
 - ii. Subrogation expenses will be 15% of the monies received for subrogation.

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5. Retention or Receipt of Compensation

- a. The Participating Insurer is entitled to receive or retain only those fees, allowances, cost reimbursements, and other compensation as may specifically be authorized by the CEA Plan of Operations and the currently effective CEA Insurer Participation Agreement.
- b. Without limiting the general application of 5(a), the Participating Insurer is not entitled to compensation or reimbursement by the CEA for any costs, fees, or expenses incurred by it in connection with any suit, investigation, examination, report, decision, claim, or other proceeding instituted by either the California Department of Insurance or by the CEA respecting any claim of failure of the Participating Insurer to perform its CEA services. The CEA will reimburse the Participating Insurer, however, for those costs, fees, and expenses if it is established by the Insurance Commissioner or a court that the Participating Insurer was not liable and not at fault for the alleged failure to perform its CEA services, provided, however, that the CEA will make no reimbursement in the event of any fully executed, written settlement agreement between the parties of the issues brought before the Insurance Commissioner or court.

6. Repayment of Monies to CEA

The Participating Insurer must repay to the CEA any monies paid it by the CEA in violation of the CEA Plan of Operations, provided that in the case of litigation instituted by either party or other official proceeding to determine any issue arising from such violation, no repayment will be required until an administrative or judicial order finding a violation by the Participating Insurer of any provision of the CEA Insurer Participation Agreement has become final.

G. Training Requirements

1. Agent Training

The CEA offers online and in-person training for Participating Insurer agents, producers, and brokers to assist those agents in handling CEA products. The Participating Insurer must provide CEA-specific training to all employees, agents, and brokers who handle CEA policies, consistent in quality with the level of training that the Participating Insurer provides to its employees, agents, and brokers in handling the Participating Insurer's policies; the training must provide, at a minimum, equivalent CEA subject-matter detail as is available in CEA-sponsored agent-training courses. Training for CEA-related products is available online on the CEA website www.EarthquakeAuthority.com under "Agent Training."

2. Claim-Handling: Training

- a. Fair and consistent claim-handling by its Participating Insurers is a top priority of the

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CEA, and fair and consistent claim-handling must also be a top priority for each Participating Insurer. Participating Insurers are responsible for ensuring that their employed claim representatives, and any and all independent adjusters they hire or contract with, are properly trained to handle residential earthquake claims in California.

- b. On an ongoing basis, but not less often than once every three years—and in any case, within one year after each revision by the CEA of the CEA Claim Manual—all Participating Insurers must provide detailed, CEA-specific training to their claim representatives on the CEA coverages, as described in the CEA Claim Manual.
- c. Before a Participating Insurer is authorized to assign claim representatives to handle any CEA claim, it must require each assigned claim representative to complete training regarding the California Fair Claims Settlement Practices Act, Insurance Adjuster Training for Evaluating Earthquake Damage, and the online training offered by the CEA. CEA online training is available at the CEA website www.EarthquakeAuthority.com under “Adjuster Information.”
- d. Each Participating Insurer must designate a CEA Claim Liaison (and a Backup CEA Claim Liaison) to work closely with the CEA Earthquake Response Manager in coordinating all claim-related activities occurring both before and after earthquakes (such as training, reporting, coordination of personnel, data submission information, and other claim-related information). The CEA Claim Liaison must be California-earthquake-claim accredited (information on the required accreditation process is available in the California Code of Regulations (Title 10, Chapter 5, Subchapter 7.5.1: Insurance Adjuster Training for Evaluating Earthquake Damage). Required activities and responsibilities of the CEA Claim Liaison are described in the CEA Claim Manual.

H. Forms and Supplies

Each Participating Insurer is responsible for printing sufficient CEA policy forms and applications for its needs in servicing CEA insurance business. The wording on all such forms and applications must exactly match the wording approved by the CEA Governing Board for CEA policy forms and applications. All acts associated with obtaining or producing required CEA policy forms and applications are to be done at the Participating Insurer’s sole expense.

I. Documents, Records and Reports; Responsibilities

The books of account, records, reports, and other documents pertaining to the CEA that are in possession of the a Participating Insurer are subject to CEA records-retention and legal-hold policies, and may be subject to document requests submitted to the CEA under the California Public Records Act and to subpoenas and other legal process served on the CEA in the course of litigation-related discovery processes, including electronic-discovery (“e-discovery”) processes. In addition, all such materials must be open and available for examination at all reasonable times upon demand of the Insurance Commissioner. In all matters arising from the

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subject areas detailed in this section, the Participating Insurer must cooperate fully and at its own expense with CEA requests.

J. External and Internal Audits

1. The CEA periodically reviews, audits, and examines each Participating Insurer to determine whether selected actions and methods of that Participating Insurer comply with the law and with CEA requirements and procedures. Participating Insurers are solely responsible for, and must pay upon demand, any costs, fees, and expenses reasonably imposed by the CEA on the Participating Insurer for reviews, audits, and examinations.
2. Consistency in, and appropriate reconciliation of, data resulting from or memorializing transactions between the CEA and Participating Insurer are crucial. To ensure data integrity, the CEA conducts periodic audits of each Participating Insurer's submission files in order, among other purposes, to identify any discrepancies between Participating Insurer data and CEA data. Participating Insurers must submit or make available data in such detail as stated in the CEA-generated notice of audit. Any Participating Insurer that demonstrates consistent, essential differences in its data as compared to CEA data will be subject to increased frequency in required data reconciliation and CEA-generated audit requests in order to correct and maintain the integrity of CEA-related data.
3. The CEA may perform, or hire others to perform, periodic claim audits after an earthquake that results in CEA claim payment. All costs and expenses associated with performing any such audit are to be paid solely by the Participating Insurer upon demand by the CEA and presentation by the CEA, in reasonable detail, of cost and expense records.
4. The Participating Insurer must periodically conduct internal audits of its CEA business, comparable to the internal audits it conducts for its voluntary business, at the frequency and detail-level the CEA reasonably requires. Specifically, each Participating Insurer's internal audits must be conducted so as to establish and maintain compliance with all relevant CEA procedures and ensure that the accounting-record and data controls in place at the Participating Insurer's facilities are designed and operating effectively to achieve the company's financial-reporting objectives and are supported by the following financial-statement assertions:
 - a. Existence. CEA-policy transactions are reviewed to ensure that they were recorded at a specific date and that the recorded transactions represent events that actually occurred during a certain period.
 - b. Completeness. All transactions and other events and circumstances that occurred during a specific period, and that should have been recognized in that period, have been appropriately recorded.
 - c. Rights and Obligations. No part of a CEA policy transaction may constitute either an asset or a liability of the Participating Insurer.
 - d. Valuation or Allocation. CEA-policy transactions and associated data are recorded at appropriate amounts, in conformity with relevant and appropriate

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accounting principles. Transactions are mathematically correct and appropriately summarized and recorded in the Participating Insurer's records.

- e. Presentation and Disclosure. CEA-policy transactions and CEA-policy data are properly described, sorted, and classified.

K. Cancellation, Non-Renewal and Reinstatement

1. All procedures and policies regarding cancellation, reinstatement, and non-renewal of CEA policies must follow the cancellation, reinstatement, and non-renewal requirements stated below, modified only as provided in the explicit terms of the CEA insurance policy. In any case where the CEA has not adopted a rule that governs a procedure and the CEA insurance policy is silent and does not expressly govern the situation, the Participating Insurer should apply its company rules that govern comparable cases.
2. Any CEA policyholder may cancel their CEA policy at any time by an oral or written request or by a return of the CEA policy to the Participating Insurer.
3. A Participating Insurer is authorized to cancel an existing CEA policy effective no earlier than the date of its receipt of the request for cancellation. A cancellation date before the date the request for cancellation is received is authorized in the following circumstances:
 - a. The insured no longer has an insurable interest in the insured property, for example, on account of the sale of that property. To document a sale, a copy of the new grant deed or a copy of the closing escrow statement is sufficient.
 - b. There was nothing at risk during the period the policy was in force (e.g., the insured residential structure was demolished or proposed construction of the insured residential structure never took place). Appropriate written documentation must accompany the cancellation request.
 - c. Coverage for the companion or the earthquake policy was replaced by a policy written by another insurer, with the intent that the companion or CEA policy, or both, be cancelled. A copy of the replacement policy declaration page is sufficient documentation.
4. The Participating Insurer must cancel a CEA policy upon cancellation of the companion policy of residential property insurance. If the companion policy is non-renewed, the Participating Insurer must non-renew the CEA policy as of the effective date of non-renewal of the companion policy.
5. After a policyholder-generated or company-initiated request for cancellation, a new CEA policy may be written, or the prior CEA policy may be reinstated, only after the Participating Insurer confirms and documents its confirmation that the risk continues to meet current, official CEA Eligibility Standards.
6. The Participating Insurer may cancel, rescind from inception (if there has been a misrepresentation of any material fact by the policyholder or their representative), or

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non-renew the CEA policy when the applicant or policyholder has failed to pay premium, failed to pay any lawful surcharges initiated by the CEA, or failed to meet any CEA Eligibility Standard. The Participating Insurer must cancel or non-renew the CEA policy in any instance where there has been a substantial and material change in the nature of a risk, or any change in the risk that renders it uninsurable or otherwise ineligible for coverage by the CEA.

7. Return premiums on cancellations must be calculated and paid on a pro-rata basis from the effective date of the cancellation.
8. A separate notice of cancellation, rescission, non-renewal, or suspension of the CEA policy must be sent to the policyholder when the CEA policy is cancelled, rescinded, non-renewed, or suspended. (NOTE: A separate notice pertaining to the action on the CEA policy is required by this provision, in addition to any notice sent that pertains to the companion policy. All notices must be mailed within timelines required in California Insurance Code.)
9. Cancellation, renewal, non-renewal, and responses to consumer inquiries regarding changes in annual premium must provide the Participating Insurer's company telephone number on which consumers can call the insurer with inquiries or complaints.
10. All notices of cancellation, rescission, or non-renewal of CEA policies must provide a statement of the reason for the action and include a statement of the insured's right to have the matter reviewed by the California Department of Insurance. See Appendix 3: *Non-Renewal Language* for language that the CEA requires Participating Insurers to incorporate into CEA-policy non-renewal notices.
11. If the insured inquires about a change in annual CEA policy premium, California law requires the Participating Insurer to explain in writing the amount of the premium change and provide a written explanation of the change within 15 days after the date of the insured's request. The explanation must include a statement indicating the insured's right to have insurance-related matters reviewed by the California Department of Insurance. See Appendix 4: *Notice of Change in Policy Premium*, which provides CEA-approved language for related circumstances.

L. Cancellation/Reissue Transactions

1. The CEA does not prohibit "mid-term cancellation and reissues" of CEA policies in response to policyholder-generated requests.
2. Notwithstanding a Participating Insurer's operating procedure to the contrary, both oral and written policyholder requests to cancel and reissue a CEA policy are acceptable, subject to complete file documentation that includes the name of the policyholder making the request, a description of the action(s) requested (including requested effective dates), and the date and time of the request.

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3. After a policyholder-generated request for cancellation, a new policy may be written only after the Participating Insurer's confirmation and documentation that the risk continues to meet current, official CEA Eligibility Standards.
4. In cases in which a different CEA policy is being purchased by the policyholder (e.g., in the event of a change from a standard CEA Homeowners policy to a CEA Homeowners Choice policy), the Participating Insurer must cancel the previous policy and reissue the new policy in order to accommodate the change in policy language, terms, and conditions. This requirement applies to changes in policy contract (including new rates or forms) only – it does not apply to the addition or elimination of coverages or limits from policies.
5. Existing CEA policies cannot be transferred from one Participating Insurer to another Participating Insurer. Example: A CEA policyholder cancels their CEA policy and the underlying policy of residential property insurance. The (former) policyholder places a new residential property insurance policy with an insurer who is a CEA Participating Insurer. If the policyholder wishes to buy CEA earthquake insurance, a new CEA policy must be issued by the new Participating Insurer.

M. CEA Escheat Process

Participating Insurers may use their own escheat processes in order to report and remit funds that are subject to escheat to the State of California, unless the Participating Insurer's processes conflict with California Code of Civil Procedure section 1530 or other applicable California law. The Participating Insurer may refer unresolved escheat-related questions to the CEA.

N. Claims

To assist adjusters who are adjusting CEA claims, the CEA has developed and promulgated the CEA Claim Manual. The CEA Claim Manual provides procedures that must be followed by the CEA, and by Participating Insurers and their adjusters and agents, producers and brokers in investigating and settling CEA-earthquake-insurance claims.

O. Post-Earthquake Claim Assessments

1. Participating Insurer Assessments

- a. CEA assessments on Participating Insurers are subject to, and will be made according to, sections 10089.15, 10089.23, 10089.24, 10089.25, 10089.29, 10089.30, and 10089.33 of the California Insurance Code.
- b. Participating Insurers subject to CEA assessments must deposit requested assessment amounts electronically to the CEA bank account using the criteria specified in Appendix 1: CEA Deposit Specifications.

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2. Policyholder Assessments

- a. In the event of a CEA bond issuance or debt-financing arrangement made pursuant to California Insurance Code section 10089.29, the CEA has the authority to annually surcharge all CEA policies to secure funds for the sole purpose of repaying the debts created by the bonds or other debt, together with related expenses. The net surcharge collected must not exceed the sum calculated pursuant to paragraph 3 of subdivision (a) of California Insurance Code section 10089.23.
- b. In no event may the surcharge on any individual CEA policy exceed 20% of the annual basic residential earthquake insurance premium for that policy.
- c. In the event of an approved CEA-policyholder surcharge, the CEA will provide the Participating Insurer with instructions and new rate manuals and rate tables in order to effectively implement the policyholder surcharge for new and renewal policyholders.
- d. At the time the CEA discontinues any CEA-policyholder surcharge it has imposed, and following an assessment, review, and approval of the CEA rating structure by the CEA, the CEA Governing Board, and California Department of Insurance, the CEA will promulgate and implement post-surcharge instructions, rate manuals, and rate tables.

P. Application, Service, and Claim-Dispute Mediation

1. Application and Service Disputes

Participating Insurers are strongly encouraged to follow their own legally compliant dispute-handling procedures when resolving CEA-related application disputes and customer-service complaints. In such cases, Participating Insurers must handle directly all communications with the California Department of Insurance and immediately provide copies of all written records of proceedings to the CEA Insurance Operations Department.

2. Claim Disputes

- a. To assist in resolving CEA-claim disputes, the CEA will rely on the provisions of the earthquake insurance claim mediation program established pursuant to California Insurance Code section 10089.70. Participating Insurers are strongly encouraged to incorporate the requirements of that program into their CEA-claim-handling procedures. Upon its receipt of a notice of demand for mediation, the Participating Insurer must provide a complete report, in writing, to the CEA Claim Director, describing the issue and claim made, settlement demands, offers made, and the

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reasons for the position taken by the Participating Insurer regarding the claim subject to mediation.

- b. All relevant dates pertaining to any pending mediation must be communicated without delay to the CEA Claim Director. The Participating Insurer must furnish a knowledgeable member of its staff to attend the mediation; the CEA, at its option, may cause its representative to attend as well. The Participating Insurer must provide notice of the mediation to the CEA sufficiently in advance of the mediation to enable the CEA to make an informed decision about its participation and whether to attend the mediation session(s).
- c. Participating Insurers must handle directly all claim-related communications with the California Department of Insurance and must immediately provide copies of all related documents and communications to the CEA.

3. Participating Insurer Disputes with the CEA

In the event any Participating Insurer claims to be aggrieved by any action or failure to act by the CEA, the CEA Governing Board will, upon written demand by the Participating Insurer that specifies the details of the action or failure to act, and in compliance with the CEA Plan of Operations and applicable provisions of law, hear and determine all matters that relate to the CEA's action or failure to act. In connection with any meetings, hearings, or other proceedings at which those matters are considered, fundamental rules of fair play will be observed, including adequate notice to the parties, the opportunity to present supporting evidence, and the right to a hearing; technical rules of evidence and procedure need not be followed. Appeals from any resulting decision of the CEA Governing Board will be in compliance with the CEA Plan of Operations and applicable provisions of law.

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Appendix 1- CEA Deposit Specifications:

The Participating Insurer will electronically deposit monies to the CEA bank account via a wire transfer using the Fedwire system, using the criteria specified on Appendix 1: CEA Deposit Specifications:

Destination Bank:	U.S. Bank and Trust
City and State:	Los Angeles, California
ABA Number:	091-000-022
Beneficiary ACT:	California Earthquake Authority
Pledged Revenue Account	
Beneficiary A/C#:	1-047-7393-9301
OBI Text:	[PI Name] - Weekly Premium

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Appendix 2 – Operating Expense Calculation Example

This manual provides that participating insurers will receive compensation of 6% of the base premium (Estimated Gross Premium) for operating costs, excluding producer commission, reinsurance, and capital-market costs. Because the base CEA premium changes as and when CEA rates change, this compensation amount, as a percentage of gross written premiums, will also change.

Effective January 1, 2016, the Operating Expense is calculated as follows:

Estimated Gross Premium	\$ 581,341
Estimated Net Premium = Estimated Gross Premium less Operating Costs, Producer Commission, Reinsurance, and Capital-Market Costs.....	\$ 314,889
Participating Insurer Non-Claim Operating Expense (6% of Net Premium \$314,889 x.06).....	\$ 18,893
Operating Expense divided by Gross Premium.....	(\$18,893 / \$581,341)

Percentage of Gross Premium for Non-Claim-Related Operating Expense is 3.25%.

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Appendix 3 – Non-Renewal Language

The reason for the non-renewal of your California Earthquake Authority (CEA) earthquake policy is the following:

By law, CEA policies may be issued or kept in force only for properties for which the insured maintains a policy of residential property insurance (a homeowners, condominium-unit owners, or renters policy) written by an insurance company that is a participating insurer of the CEA.

According to our records, you have been notified that your [homeowners][condominium-unit owners][renters] insurance policy with [name of Participating Insurer] will not be renewed. Because your insurance policy issued by [name of Participating Insurer] will not be renewed, by law your CEA earthquake insurance policy issued through that Participating Insurer cannot be renewed.

If you again purchase a policy of residential property insurance from a CEA Participating Insurer, you can at that time also purchase a new CEA earthquake insurance policy.

If you have any questions, you can contact our [title of person or department that responds to consumer inquiries], toll-free, at: [Name and phone number of Participating Insurer contact].

If you are not satisfied after speaking with our [title of person or department that responds to consumer inquiries], you have the right to have the matter reviewed by the California Department of Insurance by calling the California Department of Insurance's Consumer Hotline at 800-927-HELP (4357). Persons calling from outside California must call 213-897-8921. Persons requiring a Telecommunication Device for the Deaf should dial 800-482-4TDD (4833). Telephone lines at the California Department of Insurance are open from 8:00 a.m. to 6:00 p.m. Pacific time, Monday through Friday, excluding state holidays.

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Appendix 4 – Notice of Change in Policy Premium

According to our records, the annual premium for your California Earthquake Authority (CEA) earthquake insurance policy [increased][decreased] by \$_____ compared to your prior-year premium, as a result of the following: {Only the reasons that apply are to be included in the notice.}

- [Your annual CEA policy premium is based, in part, on the amount of insurance you purchase. The Coverage A and Coverage B (dwelling and extensions to dwelling) combined limit of insurance of the CEA earthquake policy must be written and purchased in the same amount as the Coverage A limit of insurance of your companion policy of residential property insurance. Because the insured value of your property has changed, the Coverage A limit of insurance on your companion policy of residential property insurance changed from \$_____ to \$_____; for that reason, the limit of insurance of your CEA policy has been adjusted accordingly, resulting in {an increase}{a reduction} in your premium in the amount of \$_____.]
- [You have {purchased}{chosen to delete} the following optional or increased coverage(s): _____. This coverage choice has caused {an increase}{a reduction} in your premium in the amount of \$_____.]
- [You have {reduced}{increased} your dwelling deductible from {5%, 10%, 15%, 20%, 25%}{ } to {5% 10%, 15%, 20%, 25%}{ }. This has resulted in {an increase}{a reduction} in your premium in the amount of \$_____.]
- [You have {reduced}{increased} your personal property deductible from {5%, 10%, 15%, 20%, 25%}{ } to {5% 10%, 15%, 20%, 25%}{ }. This has resulted in {an increase}{a reduction} in your premium in the amount of \$_____.]

If you have any questions you may contact your agent, producer, or broker, or you can contact our [title of person or department that responds to consumer inquiries], toll free, at: [Name and phone number of participating insurer company contact]

If you are not satisfied after speaking with our [title of person or department that responds to consumer inquiries], you have the right to have the matter reviewed by the California Department of Insurance by calling the California Department of Insurance's Consumer Hotline at 800-927-HELP (4357). Persons calling from outside California must call 213-897-8921. Persons requiring a Telecommunication Device for the Deaf should dial 800-482-4TDD (4833). Telephone lines at the California Department of Insurance are open from 8:00 a.m. to 6:00 p.m. (Pacific Time), Monday through Friday, excluding state holidays.

Procedures and Accounting Manual Rewrite 2017
Side by Side

Current February 1999	Proposed 2017
<p>I. GENERAL</p> <p>A. <u>Introduction</u></p> <p>1. The California Earthquake Authority Act, Chapter 8.6 (commencing with Section 10089.5) of Part 1 of Division 2 of the Insurance Code, established the Authority to provide earthquake insurance to the owners of residential property in the State of California.</p> <p>2. The procedures set out in this manual, as amended from time to time by the Authority, together with Chapter 8.6, the Plan of Operations, the Claims Manual, the Eligibility Standards and Rating Manual, and any other written notices or directives issued by the Authority, set forth procedures which the Participating Insurers and Associate Participating Insurers shall follow in transaction of earthquake insurance business on behalf of the Authority.</p> <p>3. Participating Insurers and Associate Participating Insurers may use their own operational practices except where their procedures are in conflict with the above. In that case the Authority Procedures take precedence. Unresolved questions or controversies that arise in the course of performing the duties of a Participating Insurer or Associate Participating Insurer in accordance with this manual shall be referred to the Authority.</p> <p>4. Every Participating Insurer and Associate Participating Insurer has executed an Insurer Participation Agreement with the Authority setting forth the responsibilities owed by the Participating Insurer or Associate Participating Insurer to the Authority. Under this contract, Participating Insurers and Associate Participating Insurers and their agents, adjusters and employees are required to act in good faith and in the best interest of the Authority, and must perform all services relating to California Earthquake Authority policies in an expeditious and efficient manner, and in no case with less care or diligence than would be employed in the conduct of their own business not related to that of the Authority.</p> <p>5. If there are any conflicts or inconsistencies between this manual and the language in the California Earthquake Authority policies, the policy language shall control.</p>	<p>Section I - Introduction</p> <p>Since 1985, insurance companies that sell residential property insurance¹ in California must offer earthquake insurance to each residential-property-insurance applicant and, every two years, to existing policyholders. Until November 30, 1996, insurers had available three methods to satisfy the mandatory offer: (1) offer a policy issued by the same insurer, (2) offer a policy issued by an affiliate, or (3) offer a policy issued by a carrier under contract to the insurer.</p> <p>In 1996, the California Legislature established the California Earthquake Authority (“CEA”) as a publicly-managed, privately-funded public instrumentality of the State of California. Insurers that are accepted for participation in the CEA satisfy their mandatory-offer responsibility by offering a CEA earthquake-insurance policy—and only CEA participating insurance companies are authorized to offer CEA earthquake-insurance policies.</p> <p>The CEA is one of the largest providers of residential earthquake insurance in the world. The CEA is financially sound, consistently receives excellent financial ratings, and is an international model for catastrophe insurance. The CEA remains dedicated to continuous improvement and innovation, to provide Californians with earthquake coverage options that best meet their needs.</p> <p>The California Earthquake Authority Act, Chapter 8.6 (commencing with section 10089.5) of Part 1 of Division 2 of the California Insurance Code, is the Legislative act that established the CEA. The procedures in this manual, which may be amended from time to time by the CEA, together with the documents listed below, set forth procedures which CEA Participating Insurers and Associate Participating Insurers (collectively, “Participating Insurers”) must follow to transact earthquake-insurance business on behalf of the CEA.</p> <p>Those CEA documents include:</p> <ul style="list-style-type: none"> • The California Earthquake Authority Act; • CEA Insurer Participation Agreement; • CEA Plan of Operations; • CEA Claim Manual; • CEA Eligibility Standards; • CEA Technical Reporting Instructions; <p>¹ <i>Insurance Code sec. 10087, subdivision (a), defines a “policy of residential property insurance” as follows:</i></p>

"Policy of residential property insurance" shall mean a policy insuring individually owned residential structures of not more than four dwelling units, individually owned condominium units, or individually owned mobilehomes, and their contents, located in this state and used exclusively for residential purposes or a tenant's policy insuring personal contents of a residential unit located in this state. "Policy of residential property insurance," as defined, shall not include insurance for real property or its contents used for any commercial, industrial or business purpose, except a structure of not more than four dwelling units rented for individual residential purposes. A policy that does not include any of the perils insured against in a standard fire policy shall not be included in the definition of "policy of residential property insurance."

- CEA Rate Manual(s);
- CEA Participating Insurer Operating Procedures Manual; and
- Any other written notices or directives issued by the CEA.

A copy of any document referred to in this Manual is available by contacting the CEA's Insurance Operations Department.

A Participating Insurer may use its own operational practices except where its practices are in conflict with any provision of this Manual or any provision of any of the above documents. In case of such a conflict, the procedures described in this Manual take precedence over the Participating Insurer's practices.

Questions or controversies that arise in the course of performing the duties of a Participating Insurer in accordance with this Manual must be referred to the CEA.

Each Participating Insurer has executed an Insurer Participation Agreement with the CEA, which sets forth, among other things, the responsibilities owed by the Participating Insurer to the CEA. Under the contract, Participating Insurers, and their agents, adjusters, and employees, are expressly required to act in good faith and in the best interest of the CEA, and each must perform all services relating to CEA policies in an expeditious and efficient manner, and in no case with less care or diligence than would be employed in the conduct of their own business not related to that of the CEA.

If there are any conflicts or inconsistencies between this Manual and an express CEA operational policy or procedure, the express CEA policy or CEA procedure will take precedence.

B. Definitions

As used in this manual, the definitions for the following words shall have the meanings given them in Chapter 8.6 (commencing with the Section 10089.5), the Plan of Operations, the Insurer Participation Agreement, or the policies of earthquake property insurance, as the case may be:

- "Advisory Panel"
- "Panel"
- "Associate Participating Insurer"
- "Authority"

Section deleted

<p>"Board" "Calendar year" "Commissioner" "Companion policy" "Covered event" "Deductible" "Department" "Participating Insurer" "Plan" or "the Plan" "Policy of earthquake insurance" "Qualified residential property" for an Insurance Code.</p>	
<p>II. ISSUING A CALIFORNIA EARTHQUAKE AUTHORITY POLICY</p> <p>A. Applications</p> <ol style="list-style-type: none"> 1. Applications are required on all new policies insured by the Authority. The agent shall complete the application in full. A completed application must include the date and time when the application was completed. Under no circumstances shall the application be back dated. 2. The mechanism used to bill the policyholder shall be determined by the Participating Insurer or Associate Participating Insurer. The Participating Insurer or Associate Participating Insurer shall remit to the Authority premium under the procedures described in III.(C). of this manual. 3. Applications shall be forwarded to the Participating Insurer or Associate Participating Insurer, using the same procedures customarily used for the underlying companion policy. 4. Applications shall be rejected by the Participating Insurer and Associate Participating Insurer for noncompliance with the Authority requirements, including, but not limited to, property not meeting eligibility standards, incomplete applications, material misrepresentation, failure to remit policy premiums, and failure to obtain a companion policy from the same Participating Insurer or Associate Participating Insurer. In such instances, the Participating Insurer or Associate Participating Insurer shall rescind or cancel the California Earthquake Authority (CEA) policy as soon as possible and return any premium due, if any, to the rejected applicant. 5. Generally, coverage may be bound for a policy term of one(1) year, however, CEA policies must have the same policy expiration as that of the companion policy. CEA policies may be issued for a term no more than one (1) year but can be issued for a term of less than one (1) year and with effective dates that do not coincide with 	<p>Section II – Issuing a CEA Policy</p> <p>A. Applying for CEA Coverage</p> <ol style="list-style-type: none"> 1. A completed CEA Earthquake Insurance Application is required for all new CEA policies, to ensure all pertinent rating information is obtained and provided. The CEA Earthquake Insurance Application must be completed in accordance with the CEA Earthquake Insurance Application Instructions and must be processed by the Participating Insurer. CEA Earthquake Insurance Applications are not processed at the CEA office; agents, producers, and brokers must coordinate CEA Earthquake Insurance Application processing with the Participating Insurer for handling. <ol style="list-style-type: none"> 2. CEA Earthquake Insurance Applications, as well as the applicant signature, may be in paper or an electronic format that complies with electronic signature legal requirements. 3. CEA Earthquake Insurance Applications must be rejected by the participating insurer if not in compliance with any of CEA’s requirements which include, but are not limited to: property not meeting any CEA Eligibility Standards, incomplete CEA Earthquake Insurance Application information, any material misrepresentation on the Application, and failure to obtain a companion policy from the same Participating Insurer that is issuing the CEA policy. In such instances, the Participating Insurer must immediately notify, and return any premium due to, the rejected applicant. 4. Renewal policies, and policies rolled over from a new Participating Insurer’s in-force business, do not require a CEA Earthquake Insurance Application. In those cases, the Participating Insurer must provide to the CEA all information requested on the CEA Earthquake Insurance Application from documentation already on file at the Participating Insurer (such as prior inspections or other application data) or obtained directly from the policyholder. The CEA

<p>the companion policy, as long as the expiration date of the CEA is the same as the companion policy.</p> <p>6. Coverage availability is subject to a post-earthquake moratorium at the discretion of CEA. A moratorium may be made effective for a period of three hundred and sixty hours following the damaging earthquake. The moratorium area will be initially determined by the CEA to be comprised of those zip codes that lie within a 50-mile radius of the epicenter. The CEA may subsequently revise the moratorium area after consultation with the Governor’s Office of Emergency Services and the State Geologist. The CEA may extend the moratorium for a period of up to an additional three hundred and sixty hours. The moratorium does not apply to renewal coverage.</p> <p>7. Attachment A is the application and attachment B provides detailed instructions for completing the application.</p>	<p>requires that all pertinent rating information be obtained and provided so that the CEA policy may be rated properly.</p> <p>5. The Participating Insurer must remit CEA policy premium to the CEA under the procedures described in Section III, Administration (CEA Payment Plans).</p> <p>6. Policyholder payments – including the initial installment – are described in Section III, Administration (Policyholder Payment Plans).</p> <p>B. CEA Coverage: Effective Dates</p> <p>1. A CEA policy can be issued at any time during the term of the companion residential property insurance policy. Under no circumstances, however, may the term of the CEA policy exceed one year. The expiration date of the companion policy and the expiration date of the CEA earthquake insurance policy must be the same date.</p> <p>2. The effective date of a new CEA earthquake insurance policy is governed by the following methods:</p> <p>a. If the CEA Earthquake Insurance Application is received by mail, the earliest of the following dates:</p> <p>i. 12:01 a.m. Pacific Time, the day after a completed, signed CEA Earthquake Insurance Application is received by the participating insurer’s agent, producer, broker, or the participating insurer.</p> <p>ii. 12:01 a.m. Pacific Time, the next calendar day after the date of postmark, when a completed, signed CEA Earthquake Insurance Application is received by mail sent to the participating insurer’s agent, producer, broker, or to the participating insurer.</p> <p>iii. A future effective date, as stated on the completed, signed CEA Earthquake Insurance Application. A policy effective date more than 90 days following the date of signature of the CEA Earthquake Insurance Application must not be accepted.</p> <p>b. If the CEA Earthquake Insurance Application is received by electronic delivery, the earlier of the following dates:</p> <p>i. At 12:01 a.m. Pacific Time, the next calendar day after an electronically completed, digitally signed CEA Earthquake Insurance Application is received by the participating insurer’s agent, producer, broker, or the participating insurer.</p> <p>ii. A future effective date, as stated on the electronically completed, digitally signed CEA Earthquake Insurance Application. A policy effective date more than 90 days following the date of signature of the CEA Earthquake Insurance Application must not be accepted.</p>
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	<p>c. If the CEA Earthquake Insurance Application is received by phone or in person, the earlier of the following dates:</p> <p>i. At 12:01 a.m. Pacific Time, the next calendar day after a completed, signed CEA Earthquake Insurance Application is received by the participating insurer’s agent, producer, broker, or by the participating insurer.</p> <p>ii. A future effective date, as stated on the completed, signed CEA Earthquake Insurance Application. A policy effective date more than 90 days following the date of signature of the CEA Earthquake Insurance Application must not be accepted.</p> <p>3. Participating Insurers and their agents, producers, or brokers are not authorized to issue or bind coverage outside these requirements, the eligibility guidelines, or other CEA procedures.</p> <p>4. A CEA Earthquake Insurance Application must not be back-dated (dated with an effective date earlier than any of the effective dates noted in the requirements stated immediately above).</p>
<p>N/A</p>	<p>C. Coverage Limitations after an Earthquake Event</p> <p>In some cases, Participating Insurers may restrict writing of their own residential- property-insurance products (e.g., homeowners, dwelling fire, mobilehome, renters, or condominium-unit owners) after an earthquake. These situations will affect CEA new- policy sales because California law requires a residential property insurance policy to be in effect from a CEA Participating Insurer in order to purchase or maintain a CEA policy. In such a situation, (1) an applicant who is unable to purchase a residential-property- insurance policy from a CEA Participating Insurer because that insurer has imposed a restriction will also be unable to purchase CEA coverage, until the restriction is lifted, and (2) policyholders who have a current residential property insurance policy with a CEA Participating Insurer may purchase a CEA policy at any time.</p>
<p>B. <u>Policy Issuance</u></p> <p>1. After a completed application has been accepted and all applicable eligibility and policy conditions have been met to effect coverage for an applicant, the Participating Insurer or Associate Participating Insurer shall provide the insured with a policy and declarations page. The declarations page shall include but not be limited to the information on Attachment C, the policy forms.</p> <p>2. Participating Insurers and Associate Participating Insurers may design their own declarations page, subject to approval by the Authority and the California Department of Insurance. Attachment C provide examples of acceptable forms for the Basic Earthquake Policy.</p>	<p>D. Policy Issuance</p> <p>1. Issuance Requirements</p> <p>a. All CEA policies must be issued in accordance with the CEA’s filed and approved rating structure, and the subject property must meet all CEA Eligibility Standards.</p> <p>b. Instructions for calculating a CEA policy premium are explained in detail in the CEA Rate Manual.</p> <p>c. After a completed CEA Earthquake Insurance Application has been accepted, the Participating Insurer must provide the insured with a complete policy package (all applicable CEA policy forms, disclosures, and endorsements) and a CEA policy declarations page.</p> <p>d. All CEA-related communications and policy applications, declarations pages, policy forms, disclosures, and endorsements produced by the Participating Insurer must be approved by the CEA.</p>

3. An agent's counter-signature of the California Earthquake Authority policy is not required.

4. The following disclosure shall be provided in 14-point boldface type for a policy issued by the California Earthquake Authority:

CALIFORNIA EARTHQUAKE AUTHORITY POLICY DISCLOSURE

THIS POLICY IS BEING PURCHASED FROM THE CALIFORNIA EARTHQUAKE AUTHORITY ("CEA"). THE COVERAGE IN THIS CEA POLICY SUBSTANTIALLY DIFFERS FROM THE COVERAGES PROVIDED IN YOUR HOMEOWNER'S POLICY. THE CEA IS NOT PART OF OR ASSOCIATED WITH YOUR HOMEOWNERS INSURANCE COMPANY. IF LOSSES AS A RESULT OF AN EARTHQUAKE OR A SERIES OF EARTHQUAKES EXCEED THE AVAILABLE RESOURCES OF THE CEA, THIS POLICY IS NOT COVERED BY THE CALIFORNIA INSURANCE GUARANTY ASSOCIATION. THEREFORE, THE CALIFORNIA INSURANCE GUARANTY ASSOCIATION WILL NOT PAY YOUR CLAIMS OR PROTECT YOUR ASSETS IF THE CEA BECOMES INSOLVENT AND IS UNABLE TO MAKE PAYMENTS AS PROMISED. IN ADDITION, YOUR CEA POLICY MAY BE SUBJECT TO FUTURE SURCHARGES OF THE POLICY PREMIUM IN CERTAIN CASES WHERE AN EARTHQUAKE OR SERIES OF

EARTHQUAKES HAS EXCEEDED AVAILABLE RESOURCES TO PAY CLAIMS. IN THAT CASE, THIS MEANS THAT IN ADDITION TO THE ANNUAL PREMIUM, YOU MAY BE CHARGED UP TO AN ADDITIONAL 20% OF THE PREMIUM.

Participating Insurers must send samples of each of their CEA-related documents, in their final form, to the CEA Insurance Operations Department for approval in advance of their first use and distribution.

e. An agent's, producer's or broker's counter-signature of a CEA policy is not required.

2. CEA Earthquake Policy Disclosure

If an offer of CEA earthquake insurance is accepted, the following disclosure must be provided² to the policyholder in 14-point boldface type:

California Earthquake Authority Policy Disclosure

You have purchased a California Earthquake Authority (CEA) earthquake insurance policy, which can help you cover the cost of repairing damage to your property and possessions caused by an earthquake.

The CEA is not part of your homeowners insurance company. Please keep in mind these important things about your CEA insurance policy:

1. CEA policy coverages are different from the coverages provided in your homeowners' insurance policy. For example, this policy does not cover earthquake damage to swimming pools, and it may provide more limited coverage for chimneys, outbuildings, and masonry fences. These are examples of possible differences between your CEA policy and your homeowners' policy, and you should consult your CEA policy to understand the types of losses that are limited or excluded and those that are covered.

2. If CEA's liability for earthquake losses exceeds the CEA's available resources the CEA may reduce its payment to you or pay you in installments. This policy is not covered by the California Insurance Guarantee Association and therefore the California Insurance Guarantee Association will not pay your claims if the CEA becomes insolvent and is unable to make payments as promised.

3. In certain cases, your CEA policy premium may be subject to future surcharges if the CEA's obligations to pay earthquake losses rise to a pre-defined level. In that case, in addition to your annual premium you may be charged up to an additional 20% of that premium.

² Insurance Code section 10089.28, subdivision(b), effective January 1, 2016. For policies with an effective date before January 1, 2016, the California Earthquake Authority Policy Disclosure can be found in Insurance Code section 10086, subdivision (a), paragraph (3).

<p><u>Endorsements</u></p> <ol style="list-style-type: none"> 1. Any changes in the California Earthquake Authority policy during the policy term, including, but not limited to, change in limits, coverage, effective dates, or policyholder address, require the Participating Insurer to issue a new declarations page effecting such changes. All additional premiums, as a result of such changes, must be submitted to CEA in the next weekly premium deposit after the effective date of the change. 2. Whenever there is a material change to the policy, a new application is required. An example of, but not limited to, a material change would be a change in location. 	<p>3. Endorsements</p> <ol style="list-style-type: none"> a. If there is any non-material change to the CEA policy during the policy term, including, but not limited to, a change in limits, coverages, effective dates, or policyholder mailing address, the Participating Insurer must issue a new declarations page displaying all such changes. All premium adjustments resulting from these changes must be submitted to the CEA, at a minimum, once a week and no later than the next weekly Participating Insurer CEA premium deposit after the effective date of the change. b. Whenever there is a material change to the risk insured by the CEA policy, a new CEA Earthquake Insurance Application and a new policy are required. An example of a material change would be a change in the risk address (location) or a change in policy type (e.g., the policyholder moves to a new home or changes from a homeowners policy to a renters policy). The CEA requires a new CEA Earthquake Insurance Application and a new policy in response to material changes in the risk so that it may appropriately rate the new property, ensure that the risk meets all CEA Eligibility Standards, and provide the policyholder with new policy information. c. Any additional or return premium is calculated on a pro-rata basis. d. The CEA always uses a 365-day year when counting the number of days to charge premium, even if the policy or endorsement term contains a leap day; February 29 is not counted as a day for premium calculations.
<p>III. ADMINISTRATION</p> <p>A. <u>Inspection of Records</u></p> <p>A Participating Insurer and Associate Participating Insurer, their producers, claims adjustors, and other agents shall permit representatives of the Authority to inspect the files, records, logs, and accounts on all business relating to the Authority, at any reasonable time during normal business hours. All books, records, files, expirations, policies, contracts, agreements, endorsements, supplies, and related material used by the Participating Insurer and Associate Participating Insurer in the performance of its Authority Services shall remain the property of the Authority.</p>	<p>Section III – Administration</p> <p>A. Inspection of Records</p> <p>A Participating Insurer, and its agents, producers, brokers, and claims adjusters must permit representatives of the CEA to inspect the files, records, logs, and accounts on all business relating to the CEA at any reasonable time during normal business hours. All books, records, files, expirations, policies, contracts, agreements, endorsements, supplies, and related material used by the Participating Insurer in the performance of its CEA services will remain the property of the CEA, as provided in the Insurer Participation Agreement.</p>

<p><u>Statistical Plan</u></p> <p>B. Each Participating Insurer and Associate Participating Insurer shall be responsible for reporting to the California Earthquake Authority in a standard format as described in the following:</p> <ol style="list-style-type: none"> 1. California Earthquake Authority policy data in the Premium Deposit Listing. 2. California Earthquake Authority claims data in the Claims Reimbursement Layout. 	<p>B. Reporting Specifications Formats</p> <p>Each Participating Insurer is responsible for reporting policy premium and claims data to the CEA in the standard formats described in the CEA Technical Reporting Instructions (TRI): please refer to (1) Premium Submission Format and (2) Claim Submission Format. Participating Insurers must correct in a timely manner any data that do not pass CEA’s data-system edits. Completion of the error-correction process is critical in order to maintain fundamental data- reconciliation requirements between the CEA and each Participating Insurer data-management system.</p>
<p>C. Premium Deposit and Collection Procedures</p> <ol style="list-style-type: none"> 1. Through the signing of the Insurer Participation Agreement, the Participating Insurer and Associate Participating Insurer shall be deemed a fiduciary in the handling of all Authority monies. 2. All Authority premiums collected by the fiduciary shall be reported to the CEA Data Repository according to the specifications in the CEA Technical Reporting Instructions. 3. The Authority will accept partial payment of an Authority policy premium only if the Participating Insurer or Associate Participating Insurer offers a policy billing installment option for payment of Authority policy premium and agrees to collect from the policyholder an administrative fee that may be authorized by the Governing Board for each installment. The Authority-imposed administrative fee will be divided evenly between the Authority and the Participating Insurer or Associate Participating Insurer. Otherwise, the full premium for the policy shall be collected for the Authority prior to the effective date of the Authority policy. The rules and procedures regarding a policy billing installment option will follow the Participating Insurer’s or Associate Participating Insurer’s established rules and procedures. Other than a policy billing fee for earthquake insurance established prior to December 2, 1996, a Participating Insurer or Associate Participating Insurer may only charge the Authority-imposed billing fee for Authority policies. <p>For new policies, the full premium or first installment, when the policy is billed in installments, is due the Monday after the effective date of the policy or the date of policy issuance, whichever is later. For renewal policies, the full premium or first installment, when the policy is billed in installments, is due the Monday after the policy effective date. Subsequent</p>	<p>C. Premium Deposit and Collection Procedures</p> <ol style="list-style-type: none"> 1. Fiduciary Duties of the Participating Insurer <p>By its execution of the CEA Insurer Participation Agreement, and by that Agreement’s express terms, the Participating Insurer is deemed a fiduciary in the handling of all CEA monies.</p> 2. Premium-Data Submissions <ol style="list-style-type: none"> a. Each CEA Participating Insurer must report all CEA premiums collected to the CEA insurance-data system according to the specifications in the CEA TRI Premium Submission Format. b. Due dates for CEA policy premium data: <ol style="list-style-type: none"> i. For new CEA policies, the full premium, or the first installment of premium, is due no later than the submission deadline of the week after the effective date of the policy or the date of policy issuance, whichever is later. The final premium payment must be submitted to the CEA no later than 90 days after the CEA-policy cancellation or expiration date. ii. For renewal CEA policies, the full premium, or the first installment of premium, is due no later than the submission deadline of the week after the policy effective date. The final premium payment must be submitted to the CEA no later than 90 days after the CEA-policy cancellation or expiration date. c. Submission deadlines are stated in the CEA TRI. 3. Premium Billing – CEA to Participating Insurers <ol style="list-style-type: none"> a. Once the CEA has successfully received premium data submissions, the CEA will, on a weekly basis, email each Participating Insurer with information related to its weekly data submission and monies associated with that submission. Within 24 hours of that email from the CEA, the Participating Insurer must use the Fedwire system to transfer to the CEA’s bank account the monies associated with that submission, and the amount of funds so transferred using Fedwire must equal: (1) the total premiums collected, net of refunded and

installments are due to the Authority the same week of every subsequent month for a policy that is billed in installments.

4. If the fiduciary identifies a situation in which a policyholder was given, in error, a California Earthquake Authority policy and premium was collected in excess of the correct California Earthquake Authority policy premium for the insurance placed, the fiduciary shall return this excess premium to the policyholder. The fiduciary will be reimbursed by the CEA for the excess premiums.
5. On the first business day of each week each fiduciary must issue an ACH or FED wire to the California Earthquake Authority's bank account. The amount of the monetary transaction shall equal:
 - a.) the total premiums collected net of refunded and cancelled premiums as reported in the week's data submission,
 - b.) less any producer commissions according to III. E. 2. b. of this manual
 - c.) less Participating Insurer or Associate Participating Insurer operation costs according to III. E.2.a.
 - d.) plus the CEA share of installment fees collected and reported in the week's data submission.
6. The fiduciary shall electronically deposit the monies to the CEA bank account. The following are the instructions for electronic deposit to the CEA bank account.

Destination Bank: State Street Bank & Trust Co.
City and State: Boston, Ma
ABA Number: 011 000 028
Beneficiary ACT: California Earthquake Authority Revenue Account
Beneficiary A/C #: 59854588
Attention: Vice President

7. The Premium Deposit Listing (Attachment D) should be transmitted to the Authority's Data Services Vendor. The Premium Deposit Listing documents the previous week's deposits to the California Earthquake bank account.

cancelled premiums, as reported in the weekly data submission, less (2) any producer commissions and Participating Insurer operating expense, plus (3) the CEA share of installment fees collected and reported in the weekly data submission.

- b. Participating Insurer Fedwire transfers to the CEA bank account must use the criteria specified in Appendix 1 (CEA Deposit Specifications).

N/A (Installment information moved and re-worded from prior section.)

D. Billing and Installment Payments and Fees

1. Policyholder Payment Plans

a. As required by law, Participating Insurers must offer at least one installment-payment plan to CEA policyholders. The Participating Insurer may offer the installment plans it offers on its own policies or it may design and offer an installment plan specific to CEA policies.

b. The rules and procedures regarding a policyholder's billing and installment options, including down-payment and initial-installment requirements, must follow the Participating Insurer's established rules and procedures.

c. A Participating Insurer may follow its own schedule and procedures to establish fees for late and returned CEA premium payments, but no Participating Insurer is permitted to pursue collection proceedings against a CEA policyholder for CEA premium and related costs and fees.

2. CEA Payment Plans

a. Full Pay: A Participating Insurer may choose to offer an installment plan to CEA policyholders but not report and account to CEA for individual installment payments. In such cases, the Participating Insurer must remit to CEA the full CEA premium when the CEA policy is reported. The Participating Insurer must bill, collect, and account for payments in such a way as to recover the full premium internally, that is, without sending installment-payment information to the CEA.

b. Installment Pay: If a CEA-policy premium is subject to payment in two or more installments and the Participating Insurer is reporting premium installments to the CEA, a \$0.50 installment fee is from the Participating Insurer to the CEA for each installment payment submitted. The Participating Insurer may charge an additional fee, up to \$0.50 per installment, to cover its billing costs. In other words, the policyholder may be charged no more than a total of \$1 per installment; of which \$0.50 per installment is payable to the CEA and \$0.50 per installment may be retained by the Participating Insurer. Regardless of the total gross amount of a per-installment fee, the per-installment fee must be divided evenly between the CEA and the Participating Insurer. Each installment submission is computed on a net premium basis (that is, the percentage of Participating Insurer operating expense and producer commissions subtracted must correspond to the installment premiums being paid in each installment rather than taken out of solely the first or the last installment).

3. Errors in Premium

	<p>a. If the Participating Insurer determines that a policyholder has paid a CEA policy premium greater than the correct policy premium for the insurance placed, the Participating Insurer must return the excess premium to the policyholder and submit corrected record data to the CEA. The CEA will then reimburse the Participating Insurer for the returned (excess) premium.</p> <p>b. If the Participating Insurer determines that a policyholder paid a CEA policy premium less than the correct policy premium for the insurance placed, the Participating Insurer must correct the policy premium and submit the record data to the CEA. Premiums lower than the correct policy premium must be corrected and submitted to the CEA at the next policy renewal. Policyholders must be notified at renewal when such a correction affects their renewal premium. (See Appendix 4: Notice of Change in Policy Premium for more information.)</p> <p>c. At its discretion, the CEA may collect a CEA-premium adjustment made necessary by a Participating Insurer’s submission error or rating error on prior policy terms.</p>
<p>D. Claim Reimbursement Procedures</p> <p>The Participating Insurer and Associate Participating Insurer will adjust the claims for the CEA policy using their own operational practices except where their procedures are in conflict with the CEA Claims Manual. The Participating Insurer and Associate Participating Insurer must pay the insured for ALE and request reimbursement for those monies from the CEA. It is the option of the Participating Insurer and Associate Participating Insurer whether or not additional monies is paid to the insured before reimbursement is made from CEA. The Participating Insurer and Associate Participating Insurer can adjust the claim, file for reimbursement of the claim amount from CEA, and then make payment to the insured.</p> <p>In order to obtain reimbursement of those monies paid to Insured for claims and to obtain reimbursement for expenses listed in E. 2. c. and E. 3., the Participating Insurer and Associate Participating Insurer must submit to the Authority the Claims data on the Claims reimbursement layout. The invoice detail will be transmitted electronically using the standard format as is exhibited in Attachment F.</p> <p>This reimbursement transmission will be accepted by CEA on any business day. However, posting of the reimbursement transmission to the data repository will be done after posting of that week’s premium transmissions has been completed.</p> <p>The California Earthquake Authority will issue the claim reimbursement funds transfer and send it directly to the Participating Insurer or Associate Participating Insurer. The time frame for the entire procedure is less than 1 week following receipt of the reimbursement transmission. The reimbursement will be electronically deposited into the</p>	<p>E. Claim Reimbursement Procedures</p> <ol style="list-style-type: none"> 1. The Participating Insurer must adjust CEA claims in accordance with the CEA Claim Manual and CEA operating procedures. If the CEA Claim Manual or CEA operating procedures fail to address a particular claim-related subject or situation, in whole or in part, and if the CEA has not provided guidance despite the Participating Insurer’s request, the Participating Insurer may apply its own reasonable operating practices. 2. To obtain reimbursement from CEA of monies paid to a policyholder for an approved claim and to obtain reimbursement for related claim-expense fees or related salvage- or subrogation-expense fees, the Participating Insurer must submit the claim and claim-related data to the CEA using the TRI Claims Submission Format. The corresponding reimbursement detail will be posted electronically in the CEA insurance-data system (605 Claim Reimbursement Report). 3. The CEA will accept claim-reimbursement submissions every day, and the submissions will post to the CEA insurance-data system on a daily basis. 4. The CEA will issue claim-reimbursement funds using the Fedwire system, electronically depositing the funds directly into the Participating Insurer’s designated bank account. Once the Fedwire transfer has been completed, the Fedwire number associated with the related reimbursement is entered into the CEA insurance-data system. The CEA insurance-data system generates a file that states in detail the claim records associated with the wire transfer, including the nine-percent claim-expense-fee reimbursement. The entire procedure should be completed within 15 business days following receipt of the reimbursement submission. 5. The Participating Insurer is not required on behalf of the CEA to advance any claim payment to any CEA policyholder, except

<p>Participating Insurer's or Associate Participating Insurer's designated bank account.</p>	<p>payment for claims made under Loss of Use/Additional Living Expense (ALE) coverage in accordance with the CEA insurance policy and CEA guidelines. Participating Insurers may, however, advance other (non- ALE) CEA claim payments in their discretion and obtain reimbursement from the CEA, and this practice, while not required, is encouraged by the CEA.</p>
<p>E. <u>Compensation</u></p> <p>1. Each Participating Insurer and Associate Participating Insurer is responsible for compensating its producers, adjusters, employees, and other agents for all services and expenses incurred on behalf of the Authority. The terms and amount of such compensation, except as noted below, shall be determined by each Participating Insurer and Associate Participating Insurer.</p> <p>Note: Producers shall be compensated at the rate of no less than the amount currently paid by the sale of a residential fire policy written by the California FAIR Plan. That amount is currently 10%. The amount of the compensation shall be based on insurance premium inclusive of reinsurance and capital market cost.</p> <p>2. Participating Insurer and Associate Participating Insurer will be compensated on the following basis:</p> <p>a. No more than 6% percent of the base premium for operating costs, excluding claim expenses, reinsurance and capital market cost.</p> <p>b. Compensation for producers at the rate of 10% of the written premium.</p> <p>c. An additional 9% of the claim amount paid will be for reimbursement of claim expenses associated with the servicing of Authority earthquake claims.</p> <p>3. The Participating Insurer and Associate Participating Insurer will be responsible for normal salvage and subrogation process. Any monies obtained from this process will be remitted to the policyholder until the policyholder has been made whole. Monies obtained in excess of making the policyholder whole will be remitted to the Authority net of expenses listed below:</p> <p>a. Salvage expenses will be 25% of the monies received for this process.</p> <p>b. Subrogation expenses will be 15% of the monies received for this process.</p>	<p>F. <u>Compensation</u></p> <p>1. <u>Commission</u></p> <p>a. Each Participating Insurer is solely responsible for compensating its agents, producers, brokers, adjusters, and other employees for all services and expenses incurred on behalf of the CEA. The terms and amount of such compensation, except as noted below, is to be determined by each Participating Insurer.</p> <p>b. As required by the Insurer Participation Agreement and regulations promulgated by the California Insurance Commissioner, the CEA pays to Participating Insurers as producer compensation a 10% commission. Participating Insurers are to pay at least a 10% sales commission to licensed producers whose compensation plan includes sales commission. For Participating Insurers whose company practices do not include producer sales-commission payments, the Participating Insurer may allocate the commission received from the CEA within the company's operation.</p> <p>2. <u>Operating Expense</u></p> <p>Participating Insurers will be compensated on the following basis:</p> <p>For the Participating Insurer's non-claims-related operating costs, 6% of the net written CEA premium attributable to the Participating Insurer, not including loading for financing costs (including, but not limited to, costs of reinsurance, capital markets transactions, and private placement transactions or other debt). Because the base premium changes when rates change, this amount as a percentage of gross written premium will change. An example of the Operating Expense calculation is illustrated in Appendix 2 – Operating Expense Calculation Example.</p> <p>3. <u>Claim Expense</u></p> <p>The CEA will add 9% of the total amount of the CEA earthquake insurance claim reimbursement for the Participating Insurer's claim expenses associated with servicing a CEA earthquake insurance claim. No claim expense/loss adjustment fee will be paid on claims that close with no payment.</p>

4. The Participating Insurer and Associate Participating Insurer shall be entitled to

retain or receive only such fees, allowances, cost reimbursements or other compensation as are specifically authorized by the above. Without limiting the generality of the foregoing, the Participating Insurer and Associate Participating Insurer shall not be entitled to receive compensation or reimbursement for any costs, fees or expenses incurred by it in connection with any suit, investigation, inspection examination, report, decision, claim or other proceeding by the Department or by the Authority respecting the failure by the Participating Insurer to perform its Authority Services, provided that the Participating Insurer or Associate Participating Insurer shall be reimbursed for said costs, fees or expenses if the alleged failure of the Participating Insurer or Associate Participating Insurer is not established by administrative or judicial action ultimately liable or at fault for the alleged failure.

5. The Participating Insurer or Associate Participating Insurer shall repay to the Authority any moneys paid to it by the Authority in violation of this Plan, provided that such repayment shall not be required until an administrative or judicial order finding a violation of the Insurer Participation Agreement by the Participating Insurer or Associate Participating Insurer has become final.

4. Salvage and Subrogation

- a. The Participating Insurer will be responsible for any salvage and subrogation processing. The CEA's position is that the policyholder should be made whole, including the deductible, before any salvage is taken by the Participating Insurer. In cases where salvage is taken, follow Participating Insurer company procedures for handling salvage within the claims handling process.
- b. Monies obtained in excess of making the policyholder whole will be submitted to the CEA less the PI expense allowances listed below for these purposes:
 - i. Salvage expenses will be 25% of the monies received for this process.
 - ii. Subrogation expenses will be 15% of the monies received for this process.

5. Retention or Receipt of Compensation

- a. The Participating Insurer will be entitled to retain or receive only such fees, allowances, cost reimbursements or other compensation as are specifically authorized by the Plan of Operations and the CEA Insurer Participation Agreement.
- b. Without limiting the general application of the foregoing, the Participating Insurer will not be entitled to receive compensation or reimbursement for any costs, fees, or expenses incurred by it in connection with any suit, investigation, examination, report, decision, claim or other proceeding by the California Department of Insurance or by the CEA respecting the failure by the Participating Insurer to perform its CEA services. The Participating Insurer, however, will be reimbursed for those costs, fees, and expenses if it is established by the Insurance Commissioner or a court that the Participating Insurer was not liable or at fault for the alleged failure to perform, provided, however that no reimbursement will be made to the Participating Insurer in the event of any written settlement agreement between the parties of the issues brought before the Insurance Commissioner or court.

6. Repayment of Monies to CEA

The Participating Insurer will repay to the CEA any monies paid to it by the CEA in violation of the Plan of Operations, provided that such repayment will not be required until an administrative or judicial order finding a violation of the CEA

	<p>Insurer Participation Agreement by the Participating Insurer has become final.</p>
<p>F. <u>Named Representatives</u></p> <p>There shall be a named representative appointed by the Participating Insurer and Associate Participating Insurer for each of the following activities:</p> <ol style="list-style-type: none"> 1. Executive 2. General(Overview) 3. Underwriting 4. Policyholder Service 5. Data Calls 6. Accounting 7. Assessments and Surcharges 8. Claims <p>The Participating Insurer and Associate Participating Insurer shall identify the named representative(s) by completing and filing with the Authority the Participating Insurer Key Contacts, Attachment E.</p>	<p>N/A – Moving to Operations and Procedures Manual</p>
<p>G. <u>Training Requirements</u></p> <p>Participating Insurer and Associate Participating Insurer shall provide training to all employees and agents handling Authority policies. Such training shall be consistent with the level of training that Participating Insurers and Associate Participating Insurers provide to their employees and agents handling the companion policies.</p>	<p>G. Training Requirements</p> <p>1. Agent Training</p> <p>The CEA offers on-line and in-person training for agents for assistance in handling CEA products. Participating Insurer must provide training to all employees and agents handling CEA policies. Training must be consistent in quality with the level of training that Participating Insurers provide to their employees and agents in handling the companion policies. Training must provide, at a minimum, equivalent CEA subject-matter detail as is available in CEA agent training courses. Training for CEA-related</p>

products is available on-line on the CEA website under Agent Training at www.earthquakeauthority.com.

2. Claim-Handling: Training

- a. Fair and consistent claim-handling by its Participating Insurers is a top priority of the CEA, and fair and consistent claim-handling must also be a top priority for each Participating Insurer. Participating Insurers are responsible for ensuring that their employed claim representatives, and any and all independent adjusters they hire or contract with, are properly trained to handle residential earthquake claims in California.
- b. On an ongoing basis, but not less often than once every three years—and in any case, within one year after each revision by the CEA of the CEA Claim Manual—all Participating Insurers must provide detailed, CEA-specific training to their claim representatives on the CEA coverages, as described in the CEA Claim Manual.
- c. Before a Participating Insurer is authorized to assign claim representatives to handle any CEA claim, it must require each assigned claim representative to complete training regarding the California Fair Claims Settlement Practices Act, Insurance Adjuster Training for Evaluating Earthquake Damage, and the online training offered by the CEA. CEA online training is available at the CEA website www.EarthquakeAuthority.com under “Adjuster Information.”
- d. Each Participating Insurer must designate a CEA Claim Liaison (and a Backup CEA Claim Liaison) to work closely with the CEA Earthquake Response Manager in coordinating all claim-related activities occurring both before and after earthquakes (such as training, reporting, coordination of personnel, data submission information, and other claim-related information). The CEA Claim Liaison must be California-earthquake- claim accredited (information on the required accreditation process is available in the California Code of Regulations (Title 10, Chapter 5, Subchapter 7.5.1: Insurance Adjuster Training for Evaluating Earthquake Damage). Required activities and responsibilities of the CEA Claim Liaison are described in the CEA Claim Manual.

<p>H. <u>Forms and Supplies</u></p> <p>The Participating Insurer and Associate Participating Insurer may utilize their own printing facilities to duplicate Authority policy forms and applications, provided that such forms and applications match exactly the wording approved by the Board. Any expense associated with obtaining/producing the Authority policy forms and applications shall be done at the Participating Insurer's or Associate Participating Insurer's expense.</p>	<p>H. Forms and Supplies</p> <p>Each Participating Insurer is responsible for printing sufficient CEA policy forms and applications for its needs in servicing CEA insurance business. The wording on all such forms and applications must exactly match the wording approved by the CEA Governing Board for CEA policy forms and applications. All acts associated with obtaining or producing required CEA policy forms and applications are to be done at the Participating Insurer's sole expense.</p>
<p>I. <u>Records and Reports</u></p> <p>The books of account, records, reports, and other documents of the Authority, and the Participating Insurer and Associate Participating Insurer, are subject to the Public Records Act, and shall be open and free for examination by the Commissioner at all reasonable times.</p>	<p>I. Documents, Records and Reports - Responsibilities</p> <p>The books of account, records, reports, and other documents pertaining to the CEA that are in possession of the a Participating Insurer are subject to CEA records-retention and legal-hold policies, and may be subject to document requests submitted to the CEA under the California Public Records Act and to subpoenas and other legal process served on the CEA in the course of litigation-related discovery processes, including electronic-discovery ("e-discovery") processes. In addition, all such materials must be open and available for examination at all reasonable times upon demand of the Insurance Commissioner. In all matters arising from the subject areas detailed in this section, the Participating Insurer must cooperate fully and at its own expense with CEA requests.</p>
<p>J. <u>External and Internal Audits</u></p> <ol style="list-style-type: none"> 1. Periodic audits of all Participating Insurer and Associate Participating Insurer shall be performed by the CEA Auditors. All associated expenses incurred for this process shall be paid by the Participating Insurer or Associate Participating Insurer. These will measure compliance with all Authority procedures. In addition, these audits will measure the proper accounting for all premiums and assessments due to the Authority. 2. Periodic claim audits shall be performed after a seismic event that has resulted in claim payments. The expenses associated with performing the audit will be paid by the Participating Insurer or Associate Participating Insurer. 3. Each Participating Insurer and Associate Participating Insurer should perform internal audits, so as to maintain compliance with all authority procedures, and ensure that the accounting controls in place at the Participating Insurer or Associate Participating Insurer and its facilities are meeting the following audit objectives: <ol style="list-style-type: none"> a. Completeness 	<p>J. External and Internal Audit</p> <ol style="list-style-type: none"> 1. The CEA periodically reviews, audits, and examines each Participating Insurer to determine whether selected actions and methods of that Participating Insurer comply with the law and with CEA requirements and procedures. Participating Insurers are solely responsible for, and must pay upon demand, any costs, fees, and expenses reasonably imposed by the CEA on the Participating Insurer for reviews, audits, and examinations. 2. Consistency and reconciliation of data between the CEA and the Participating Insurer is crucial. To ensure data integrity, the CEA shall conduct periodic audits of Participating Insurer submission files to identify any discrepancies between company data and CEA data. Participating Insurers shall be required to submit data as detailed and required in the audit request. Participating Insurers demonstrating fundamental differences in data will be subject to increased frequency in data reconciliation and audit requests in order to correct and maintain integrity of CEA information. 3. Periodic claim audits may be performed after a seismic event. The expenses associated with performing the audit will be paid by the Participating Insurer.

<ul style="list-style-type: none"> b. Existence and occurrence c. Presentation and disclosure d. Rights and obligations e. Valuation f. Safeguarding of assets 	<p>4. The Participating Insurer must conduct internal audits of its CEA business, comparable to internal audits made by it of its voluntary business, at the times and in the detail the CEA reasonably requires. Each insurer should also perform internal audits, so as to maintain compliance with all CEA procedures, and ensure that the accounting and data controls in place at the Participating Insurer and its facilities are designed and operating effectively to achieve the company's financial reporting objectives and are supported by the following financial statement assertions:</p> <ul style="list-style-type: none"> a. Existence – CEA policy transactions are reviewed to ensure that they were recorded at a specific date and that the recorded transactions represent events that actually occurred during a certain period. b. Completeness – All transactions and other events and circumstances that occurred during a specific period, and should have been recognized in that period, have been recorded. c. Rights and Obligations – CEA policy transactions are not the assets or liabilities of the Participating Insurer. d. Valuation or Allocation – CEA policy transactions and associated data are recorded at appropriate amounts in conformity with relevant and appropriate accounting principles. Transactions are mathematically correct, appropriately summarized, and recorded in the Participating Insurer records. e. Presentation and Disclosure – CEA policy transactions and data are properly described, sorted, and classified.
<p>K. <u>Cancellation & Non-Renewal</u></p> <p>All procedures and policies regarding cancellation, reinstatement, and non-renewal shall follow the cancellation, reinstatement, and non-renewal requirements provided in the policy. In those cases where the policy is silent or does not expressly govern the situation, the Participating Insurer or Associate Participating Insurer company rules that govern those cases will apply. The Participating Insurer or Associate Participating Insurer rules regarding cancellation, reinstatement, and non-renewal shall be on file with the Authority and available for public inspection. The Participating Insurer and Associate Participating Insurer may cancel an Authority policy for non-payment of premium on a pro-rata basis. The Participating Insurer and Associate Participating Insurer may request unearned premium be returned to the Participating Insurer and the Associate Participating Insurer by listing the policy as canceled on the Premium Deposit Listing with a credit amount. <i>If a CEA policy is cancelled or non-renewed because the companion policy is cancelled or non-renewed, notice of cancellation or</i></p>	<p>K. <u>Cancellation, Non-Renewal and Reinstatement</u></p> <p>1. All procedures and policies regarding cancellation, reinstatement, and non-renewal of CEA policies must follow the cancellation, reinstatement, and non-renewal requirements stated below, modified only as provided in the explicit terms of the CEA insurance policy. In any case where the CEA has not adopted a rule that governs a procedure and the CEA insurance policy is silent and does not expressly govern the situation, the Participating Insurer should apply its company rules that govern comparable cases.</p> <p>2. Any CEA policyholder may cancel their CEA policy at any time by an oral or written request or by a return of the CEA policy to the Participating Insurer.</p> <p>3. A Participating Insurer is authorized to cancel an existing CEA policy effective no earlier than the date of its receipt of the request for cancellation. A cancellation date before the date the request for cancellation is received is authorized in the following circumstances:</p> <ul style="list-style-type: none"> a. The insured no longer has an insurable interest in the insured property, for example, on account of the sale of that property. To

non-renewal of the CEA policy, as well as the companion policy, shall be sent to the policyholder.

document a sale, a copy of the new grant deed or a copy of the closing escrow statement is sufficient.

b. There was nothing at risk during the period the policy was in force (e.g., the insured residential structure was demolished or proposed construction of the insured residential structure never took place). Appropriate written documentation must accompany the cancellation request.

c. Coverage for the companion or the earthquake policy was replaced by a policy written by another insurer, with the intent that the companion or CEA policy, or both, be cancelled. A copy of the replacement policy declaration page is sufficient documentation.

4. The Participating Insurer must cancel a CEA policy upon cancellation of the companion policy of residential property insurance. If the companion policy is non-renewed, the Participating Insurer must non-renew the CEA policy as of the effective date of non-renewal of the companion policy.

5. After a policyholder-generated or company-initiated request for cancellation, a new CEA policy may be written, or the prior CEA policy may be reinstated, only after the Participating Insurer confirms and documents its confirmation that the risk continues to meet current, official CEA Eligibility Standards.

6. The Participating Insurer may cancel, rescind from inception (if there has been a misrepresentation of any material fact by the policyholder or their representative), or non-renew the CEA policy when the applicant or policyholder has failed to pay premium, failed to pay any lawful surcharges initiated by the CEA, or failed to meet any CEA Eligibility Standard. The Participating Insurer must cancel or non-renew the CEA policy in any instance where there has been a substantial and material change in the nature of a risk, or any change in the risk that renders it uninsurable or otherwise ineligible for coverage by the CEA.

7. Return premiums on cancellations must be calculated and paid on a pro-rata basis from the effective date of the cancellation.

8. A separate notice of cancellation, rescission, non-renewal, or suspension of the CEA policy must be sent to the policyholder when the CEA policy is cancelled, rescinded, non-renewed, or suspended. (NOTE: A separate notice pertaining to the action on the CEA policy is required by this provision, in addition to any notice sent that pertains to the companion policy. All notices must be mailed within timelines required in California Insurance Code.)

9. Cancellation, renewal, non-renewal, and responses to consumer inquiries regarding changes in annual premium must provide the Participating Insurer's company telephone number on which consumers can call the insurer with inquiries or complaints.

10. All notices of cancellation, rescission, or non-renewal of CEA policies must provide a statement of the reason for the action and include a statement of the insured's right to have the matter reviewed by the California Department of Insurance. See

Appendix 3: Non-Renewal Language for language that the CEA requires Participating Insurers to incorporate into CEA-policy non-renewal notices.

11. If the insured inquires about a change in annual CEA policy premium, California law requires the Participating Insurer to explain in writing the amount of the premium change and provide a written explanation of the change within 15 days after the date of the insured's request. The explanation must include a statement indicating the insured's right to have insurance-related matters reviewed by the California Department of Insurance. See Appendix 4: Notice of Change in Policy Premium, which provides CEA- approved language for related circumstances.

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<p>N/A</p>	<p>L. Cancellation/Reissue Transactions</p> <ol style="list-style-type: none"> 1. The CEA does not prohibit “mid-term cancellation and reissues” of CEA policies in response to policyholder-generated requests. 2. Notwithstanding a Participating Insurer’s operating procedure to the contrary, both oral and written policyholder requests to cancel and reissue a CEA policy are acceptable, subject to complete file documentation that includes the name of the policyholder making the request, a description of the action(s) requested (including requested effective dates), and the date and time of the request. 3. After a policyholder-generated request for cancellation, a new policy may be written only after the Participating Insurer’s confirmation and documentation that the risk continues to meet current, official CEA Eligibility Standards. 4. In cases in which a different CEA policy is being purchased by the policyholder (e.g., in the event of a change from a standard CEA Homeowners policy to a CEA Homeowners Choice policy), the Participating Insurer must cancel the previous policy and reissue the new policy in order to accommodate the change in policy language, terms, and conditions. This requirement applies to changes in policy contract (including new rates or forms) only – it does not apply to the addition or elimination of coverages or limits from policies. 5. Existing CEA policies cannot be transferred from one Participating Insurer to another Participating Insurer. Example: A CEA policyholder cancels their CEA policy and the underlying policy of residential property insurance. The (former) policyholder places a new residential property insurance policy with an insurer who is a CEA Participating Insurer. If the policyholder wishes to buy CEA earthquake insurance, a new CEA policy must be issued by the new Participating Insurer.
<p>N/A</p>	<p>M. CEA Escheat Process</p> <p>Participating Insurers may use their own escheat processes in order to report and remit funds that are subject to escheat to the State of California, unless the Participating Insurer’s processes conflict with California Code of Civil Procedure section 1530 or other applicable California law. The Participating Insurer may refer unresolved escheat-related questions to the CEA.</p>

<p>L. <u>Claims</u></p> <p>The Authority has developed its own Claims Manual. This Claims Manual provides detailed claims procedures to be followed by the Authority, Participating Insurer, Associated-Participating Insurer, the adjusters, and the producing agents.</p>	<p>N. Claims</p> <p>To assist adjusters who are adjusting CEA claims, the CEA has developed and promulgated the CEA Claim Manual. The CEA Claim Manual provides procedures that must be followed by the CEA, and by Participating Insurers and their adjusters and agents, producers and brokers in investigating and settling CEA-earthquake-insurance claims.</p>
<p>M. <u>Assessments</u></p> <ol style="list-style-type: none"> 1. Participating Insurer and Associated-Participating Insurer Authority assessments will be made according to section 10089.23 and 10089.30 of the Insurance Code. 2. Policyholder In the event of a bond issuance or debt financing arrangement pursuant to section 10089.29 of the Insurance Code, the authority shall have the authority annually to surcharge all Authority policies to secure funds solely to repay the bonded indebtedness or other debt. The net surcharge collected shall not exceed the sum calculated pursuant to paragraph 3 of subdivision (a) of Section 10089.23, and in no event exceed one billion dollars (\$1,000,000,000), plus costs of issuance and sale of those revenue bonds issuers and providers of credit support and letters of credit for and interest on those revenue bonds or other debt. In no event shall the surcharge on any individual Authority policy exceed 20% of the annual basic residential earthquake insurance premium in any one year for the policy. 	<p>O. Post-Earthquake Claim Assessments</p> <ol style="list-style-type: none"> 1. Participating Insurer Assessments <ol style="list-style-type: none"> a. CEA assessments will be made according to section §10089.15, §10089.23, §10089.24, §10089.25, §10089.29, §10089.30, and §10089.33 of the Insurance Code. b. Participating Insurers subject to CEA assessments must deposit requested assessment amounts electronically to the CEA bank account using the criteria specified in Appendix 1: CEA Deposit Specifications. 2. Policyholder Assessments <ol style="list-style-type: none"> a. In the event of a CEA bond issuance or debt-financing arrangement made pursuant to California Insurance Code section 10089.29, the CEA has the authority to annually surcharge all CEA policies to secure funds for the sole purpose of repaying the debts created by the bonds or other debt, together with related expenses. The net surcharge collected must not exceed the sum calculated pursuant to paragraph 3 of subdivision (a) of California Insurance Code section 10089.23. b. In no event may the surcharge on any individual CEA policy exceed 20% of the annual basic residential earthquake insurance premium for that policy. c. In the event of an approved CEA-policyholder surcharge, the CEA will provide the Participating Insurer with instructions and new rate manuals and rate tables in order to effectively implement the policyholder surcharge for new and renewal policyholders. d. At the time the CEA discontinues any CEA-policyholder surcharge it has imposed, and following an assessment, review, and approval of the CEA rating structure by the CEA, the CEA Governing Board, and California Department of Insurance, the CEA will promulgate and implement post-surcharge instructions, rate manuals, and rate tables.

N. Application and Claims Dispute Mediation

For application and claim disputes, the Authority shall rely on the provisions of the mediation program established pursuant to 10089.70.

P. Application, Service, and Claim Dispute Mediation

1. Application and Service Disputes

Participating Insurers are strongly encouraged to follow their own legally compliant dispute-handling procedures when resolving CEA-related application disputes and customer-service complaints. In such cases, Participating Insurers must handle directly all communications with the California Department of Insurance and immediately provide copies of all written records of proceedings to the CEA Insurance Operations Department.

2. Claim Disputes

a. To assist in resolving CEA-claim disputes, the CEA will rely on the provisions of the earthquake insurance claim mediation program established pursuant to California Insurance Code section 10089.70. Participating Insurers are strongly encouraged to incorporate the requirements of that program into their CEA-claim-handling procedures. Upon its receipt of a notice of demand for mediation, the Participating Insurer must provide a complete report, in writing, to the CEA Claim Director, describing the issue and claim made, settlement demands, offers made, and the reasons for the position taken by the Participating Insurer regarding the claim subject to mediation.

b. All relevant dates pertaining to any pending mediation must be communicated without delay to the CEA Claim Director. The Participating Insurer must furnish a knowledgeable member of its staff to attend the mediation; the CEA, at its option, may cause its

representative to attend as well. The Participating Insurer must provide notice of the mediation to the CEA sufficiently in advance of the mediation to enable the CEA to make an informed decision about its participation and whether to attend the mediation session(s).

c. Participating Insurers must handle directly all claim-related communications with the California Department of Insurance and must immediately provide copies of all related documents and communications to the CEA.

<p>O. <u>Participating Insurer and Associate Participating Insurer Dispute</u></p> <p>In the event the Participating Insurer or Associate Participating Insurer shall be aggrieved by any action or failure to act by the Authority, the Board shall, on written demand by the Participating Insurer or Associate Participating Insurer that specifies the details of the action or failure to act, hear and determine all matters that relate to the Authority's actions or failure to act. In connection with any meetings, hearings or other proceedings at which those matters are considered, fundamental rules of fair play shall be observed, including adequate notice to the Participating Insurer or Associate Participating Insurer, the opportunity to present evidence on its behalf and in support of its position, and the right to a full and fair hearing before the Board. Technical rules of evidence and procedure shall be dispensed with unless requested by either party. Appeals from the decision of the Board, will be forwarded to and considered by the Insurance Commissioner.</p>	<p>3. Participating Insurer Disputes with the CEA</p> <p>In the event any Participating Insurer claims to be aggrieved by any action or failure to act by the CEA, the CEA Governing Board will, upon written demand by the Participating Insurer that specifies the details of the action or failure to act, and in compliance with the CEA Plan of Operations and applicable provisions of law, hear and determine all matters that relate to the CEA's action or failure to act. In connection with any meetings, hearings, or other proceedings at which those matters are considered, fundamental rules of fair play will be observed, including adequate notice to the parties, the opportunity to present supporting evidence, and the right to a hearing; technical rules of evidence and procedure need not be followed. Appeals from any resulting decision of the CEA Governing Board will be in compliance with the CEA Plan of Operations and applicable provisions of law.</p>
<p>Appendix/Attachments are not all available – some were original policy forms.</p>	<p>Section IV - Appendices</p>
<p>N/A</p>	<p>Appendix 1- CEA Deposit Specifications:</p> <p>The Participating Insurer will electronically deposit monies to the CEA bank account via a wire transfer using the Fedwire system, and using the criteria specified on Appendix 1 - CEA Deposit Specifications:</p> <p>Destination Bank: US Bank and Trust City and State: Los Angeles, CA ABA Number: 091-000-022 Beneficiary ACT: California Earthquake Authority Pledged Revenue Account Beneficiary A/C#: 1-047-7393-9301</p> <p>OBI Text: PI Name- Weekly Premium</p>

<p>N/A</p>	<p>Appendix 2 – Operating Expense Calculation Example</p> <p>This manual provides that participating insurers will receive compensation of 6% of the base premium (Estimated Gross Premium) for operating costs, excluding producer commission, reinsurance, and capital-market costs. Because the base CEA premium changes as and when CEA rates change, this compensation amount, as a percentage of gross written premiums, will also change.</p> <p>Effective January 1, 2016, the Operating Expense is calculated as follows:</p> <p>Estimated Gross Premium\$ 581,341</p> <p>Estimated Net Premium = Estimated Gross Premium less Operating Costs, Producer Commission, Reinsurance, and Capital-Market Costs..... \$ 314,889</p> <p>Participating Insurer Non-Claim Operating Expense (6% of Net Premium \$314,889 x .06)..... \$ 18,893</p> <p>Operating Expense divided by Gross Premium.....(\$18,893 / \$581,341)</p> <p>Percentage of Gross Premium for Non-Claim-Related Operating Expense is 3.25%.</p>
<p>N/A</p>	<p>Appendix 3 – Non-Renewal Language</p> <p>The reason for the non-renewal of your California Earthquake Authority (CEA) earthquake policy is the following:</p> <p>By law, CEA policies may be issued or kept in force only for properties for which the insured maintains a policy of residential property insurance (a homeowners, condominium-unit owners, or renters policy) written by an insurance company that is a participating insurer of the CEA.</p> <p>According to our records, you have been notified that your [homeowners][condominium-unit owners][renters] insurance policy with [name of Participating Insurer] will not be renewed. Because your insurance policy issued by [name of Participating Insurer] will not be renewed, by law your CEA earthquake insurance policy issued through that Participating Insurer cannot be renewed.</p> <p>If you again purchase a policy of residential property insurance from a CEA Participating Insurer, you can at that time also purchase a new CEA earthquake insurance policy.</p> <p>If you have any questions, you can contact our [title of person or department that responds to consumer inquiries], toll-free, at: [Name and phone number of Participating Insurer contact].</p> <p>If you are not satisfied after speaking with our [title of person or department that responds to consumer inquiries], you have the right to have the matter reviewed by the California Department of Insurance by</p>

	<p>calling the California Department of Insurance’s Consumer Hotline at 800-927-HELP (4357). Persons calling from outside California must call 213-897-8921. Persons requiring a Telecommunication Device for the Deaf should dial 800-482-4TDD (4833). Telephone lines at the California Department of Insurance are open from 8:00 a.m. to 6:00 p.m. Pacific time, Monday through Friday, excluding state holidays.</p>
<p>N/A</p>	<p>Appendix 4 – Notice of Change in Policy Premium</p> <p>According to our records, the annual premium for your California Earthquake Authority (CEA) earthquake insurance policy [increased][decreased] by \$_____ compared to your prior-year premium, as a result of the following: {Only the reasons that apply are to be included in the notice.}</p> <ul style="list-style-type: none"> •[Your annual CEA policy premium is based, in part, on the amount of insurance you purchase. The Coverage A and Coverage B (dwelling and extensions to dwelling) combined limit of insurance of the CEA earthquake policy must be written and purchased in the same amount as the Coverage A limit of insurance of your companion policy of residential property insurance. Because the insured value of your property has changed, the Coverage A limit of insurance on your companion policy of residential property insurance changed from \$_____ to \$_____; for that reason, the limit of insurance of your CEA policy has been adjusted accordingly, resulting in {an increase}{a reduction} in your premium in the amount of \$_____.] •[You have {purchased}{chosen to delete} the following optional or increased coverage(s): _____. This coverage choice has caused {an increase}{a reduction} in your premium in the amount of \$_____.] •[You have {reduced}{increased} your dwelling deductible from {5%, 10%, 15%, 20%, 25%}{ } to {5% 10%, 15%, 20%, 25%}{ }. This has resulted in {an increase}{a reduction} in your premium in the amount of \$_____.] •[You have {reduced}{increased} your personal property deductible from {5%, 10%, 15%, 20%, 25%}{ } to {5% 10%, 15%, 20%, 25%}{ }. This has resulted in {an increase}{a reduction} in your premium in the amount of \$_____.] <p>If you have any questions you may contact your agent, producer, or broker, or you can contact our [title of person or department that responds to consumer inquiries], toll free, at: [Name and phone number of participating insurer company contact]</p> <p>If you are not satisfied after speaking with our [title of person or department that responds to consumer inquiries], you have the right to have the matter reviewed by the California Department of Insurance by</p>

	<p>calling the California Department of Insurance's Consumer Hotline at 800-927-HELP (4357). Persons calling from outside California must call 213-897-8921. Persons requiring a Telecommunication Device for the Deaf should dial 800-482-4TDD (4833). Telephone lines at the California Department of Insurance are open from 8:00 a.m. to 6:00 p.m. (Pacific Time), Monday through Friday, excluding state holidays.</p>
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Draft

Governing Board Memorandum

June 7, 2017

Agenda Item 10: CEA-supported mitigation-related projects and activities

Recommended Actions: No action required—information only

The CEA Mitigation Department manages multiple projects, focusing on expanding mitigation resources to homeowners and technical professionals, as well as developing and collecting data to broaden mitigation efforts.

1. Guidelines Development

ATC 110, the earthquake-guidelines-development project, will create additional statewide retrofit standards that can be applied to reduce earthquake damage to single-family dwellings.

In addition to creating a uniform seismic-retrofit-design methodology 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.

The CEA is funding the project, and CEA chief mitigation officer Janiele Maffei and FEMA's Mike Mahoney are jointly managing the project.

2. FEMA P-50/P-50-1 Training, Simplified Seismic Assessment Certification, and QuakeGrade™

A. FEMA P-50/P-50-1 Training:

CEA contributed funds to developing the FEMA P-50 and FEMA P-50-1 tool. While the tool has been available for use by home inspectors, so far it has not been widely distributed or used.

CEA took the initiative in 2015 to bring the FEMA P-50 tool and related training to California home inspectors for these reasons:

- To help homeowners interested in retrofits learn associated risks and vulnerabilities.
- To provide home buyers information at time of sale regarding potential seismic risks in light of structure vulnerabilities.

- To provide additional inspection resources in support of CEA’s Hazard Reduction Discount program.

As of May 2017, 240 home inspectors have completed FEMA P-50 training. In collaboration with the California Real Estate Inspection Association (CREIA) and the American Society of Home Inspectors (ASHI), training outreach targets home inspectors specifically, since the tool serves as a natural extension of services they already provide.

B. Simplified Seismic Assessment Certification

With CEA assistance, CREIA is working with Applied Technology Council (ATC) to develop a training curriculum to support CREIA’s implementing a Simplified Seismic Assessor (SSA) certification. It is anticipated the program and certification process will be in place by year-end 2017.

C. Mobile Application: QuakeGrade™

At the 2017 CREIA conference May 5–7 in Burlingame, CEA launched a web-based application, based on FEMA P50, for use by home inspectors: QuakeGrade™. The application runs on PCs, laptops, and both iOS and Android-based mobile devices.

QuakeGrade™ collects data input as the inspector conducts a simplified seismic assessment, covering structural and geological conditions of the house. Using these data, the application calculates a seismic-vulnerability score and generates a report of the inspected house’s seismic vulnerabilities, identifying potential mitigation options that could improve the seismic-vulnerability score.

There is potential for the application to incorporate the CEA Hazard Reduction Discount (HRD) form. That plan is under internal discussion and will be coordinated to assure compliance with any future CEA rate-and-form filing.

3. CRMP Earthquake Brace + Bolt Program:

Background:

Homeowners in CRMP’s Earthquake Brace + Bolt (EBB) program ZIP Codes are eligible for an incentive payment of up to \$3,000 to help pay costs associated with seismically retrofitting their houses. EBB is operated by the California Residential Mitigation Program, a joint powers authority whose members are the CEA and the California Governor’s Office of Emergency Services.

The initial CRMP EBB pilot program ran in 2013 and 2014 in four ZIP Codes; eight retrofits were completed.

In 2015, CRMP EBB was available in 28 ZIP Codes, in seven cities: Oakland, San Francisco, San Leandro, Los Angeles, Pasadena, Santa Monica, and Napa. 526 retrofits were completed.

For the 2016 CRMP EBB program, funds provided by CEA from its Loss Mitigation Fund allowed for 600 retrofits in more than 100 ZIP Codes. In addition, the 2015–2016 state budget included a \$3,000,000 appropriation to the California Department of Insurance, with direction that the Department grant those funds to CEA, which would then contribute the funds to CRMP EBB.

Additional information and analysis:

The 2016 EBB program is expected to wrap up this month (May 2017). As of May 24, these 2016 retrofits have been completed or are in progress:

- Completed: 1,535
- Permits received (but no completed retrofit): 85

CRMP EBB is on track to reach its 2016 goal of 1,600 retrofits.

Napa Earthquake Brace + Bolt (CRMP):

CRMP's Napa Earthquake Brace + Bolt program (Napa EBB) launched in February 2017.

Napa EBB is funded by the FEMA Hazard Mitigation Grant Program and by a partial CRMP EBB-funding match provided with CEA support. Napa EBB will provide retrofit grants for 100 houses.

Program results as of May 24, 2017:

- Completed retrofits: 73
- Permits received: 12
- Extensions granted: 27

CRMP expects that the Napa EBB program will reach its goal of 100 retrofits.

2017 CRMP EBB:

The 2016–2017 state budget included an appropriation of \$3,000,000 to the California Department of Insurance for CRMP's EBB program, with direction that those funds be granted to CEA, which would contribute them to the CRMP EBB program. With the infusion of state-sourced funds, the goal for 2017 CRMP EBB is 2,000 retrofits.

- Homeowner registration for 2017 CRMP EBB was open from January 25 through February 27, in 33 cities and more than 140 ZIP Codes.
- A total of 5,760 California homeowners registered for the 2017 program.
- A random selection process was conducted on March 16, accepting 4,000 qualifying homeowners into the program. Remaining homeowners are on a waiting list and were informed they would be invited into the program in July.

As of May 24, 2017, 250 retrofits have been completed for the 2017 program year.

2018 CRMP EBB:

The CRMP governing board at its May 2017 meeting approved additional cities for the 2018 EBB program: Glendale, Monrovia, San Fernando, Sierra Madre, Colton, La Verne, Montecito, Santa Paula, Fillmore and Los Gatos. Five additional Los Angeles ZIP Codes are added (91607, 90025, 91352, 90043, 90037).

While state funding is not anticipated for 2017, in keeping with the program’s goal of continued annual growth, EBB’s goal is to complete more than 2,000 retrofits in 2018.

Future Funding Opportunities:

CRMP continues to look beyond present funding sources, including the CEA Earthquake Loss Mitigation Fund, for additional EBB funding: more EBB funding means more incentive payments for more homeowners.

The number of houses statewide that need retrofits far exceeds funding now available or identified.

CEA is currently considering applying to the FEMA Hazard Mitigation Grant Program to fund additional retrofits.

6. CEA Brace + Bolt Program:

Background:

The pilot program *CEA Brace + Bolt* (“CEA BB”) provides each selected CEA policyholder up to \$3,000 toward a retrofit, as a grant to encourage strengthening their older houses located in CEA-identified high-seismic-activity areas. Once the brace-and-bolt retrofit is complete and verified, the policyholder will qualify for CEA’s new 20 percent Hazard Reduction Discount on their earthquake premium.

Based on a sound financial principle, CEA has determined that retrofitting sufficient numbers of older houses in California’s higher-seismic-risk areas can reduce on a long-term basis CEA’s need for, and therefore its cost of, risk-transfer.

Operating within CEA Governing Board-approved program rules, the CEA BB program offers benefits to eligible CEA policyholders who:

- own a pre-1940 house in one of the 10 selected ZIP Codes whose typical structural characteristics qualify for a code-compliant brace-and-bolt retrofit; and
- have insured their house with CEA for at least three years.

The 10 ZIP Codes, five each in Northern and Southern California, are:

Northern California	Southern California
94501	90027
94602	90048
94611	91030
94705	91104
94707	91108

Additional information and analysis:

The CEA Brace + Bolt (CEA BB) pilot program launched with invitations mailed in October 2016 to about 3,200 CEA policyholders.

As of May 24, 2017, in progress were:

- Completed retrofits 34
- Permits received 12
- Extensions 17

Working to increase program interest and the number of completed retrofits, staff is considering various strategies, including a CEA-organized/managed construction service to provide retrofit inspections and work. A Request for Proposals (RFP) will be issued this summer to gauge interest and identify pricing and other relevant factors.

Recommendation: No action required—information only.

Governing Board Memorandum

June 7, 2017

Agenda Item 11: CEA Research Program: Projects

Recommended Actions: No action required—information only

Background:

With Governing Board support and approval, CEA launched a new Research Program in 2017. The program includes three tiers of funding for multiple research disciplines relevant to CEA's mission to provide access to earthquake insurance for those who own or rent residences in California.

Analysis and Discussion:

- Grant Program (Three Tiers)

Tier 1: Individual graduate/post-graduate student grants will be funded annually, with a primary focus on research, with an ancillary purpose of advancing professional development and related higher education. Those supported graduates/post-graduates who later move to research institutions, whether domestically or abroad, have the potential to increase California's and CEA's links to advanced research on earthquake-associated behaviors as well as earthquake damage and insured loss.

Tier 2: The primary focus of the biennial research-grant program is research. Tier 2 grants advance development of institutional knowledge and expertise that will serve policymakers and the insurance industry, including CEA.

The Tier 2 grant will be geared toward early-career professionals with six years or fewer in their chosen career. Whether they continue at or move to research institutions domestically or abroad, or move into the private sector, this pool of experts will have the potential to increase California's and CEA's links to advanced research on earthquake-associated behaviors as well as earthquake damage and insured loss.

Tier 3: Special Research Projects will continue, based on CEA's current competitive-procurement process.

CEA Research and Legal staff have been collaborating on draft policies and procedures for the program. Anticipated rollout of the program is end of 2017.

- CEA Research Forum

The three-tiered CEA Grant Program will be amplified and extended through the new CEA Research Forum, which includes academic and professional earthquake communities. The first forum was held February 1 and 2, 2017, at the Sacramento Convention Center. The 2018 Research Forum is being planned for January 2018.

- Research Projects

1. Cripple Wall Performance Effects

With the execution of a detailed, negotiated contract, the Cripple Wall Performance Effects research project launched with an initial meeting by CEA and Pacific Earthquake Engineering Research (PEER) Center staff on December 13, 2016.

The project consists of seven tasks extending over a 42-month timeline:

Task 1: Literature Review

Task 1.1: Preliminary Report and Workshop

Task 1.2: Final Report

Task 2: Analyzing Building Inventory and Defining Representative “Index Buildings.”

Task 2.1: Develop Initial List of Building Variants

Task 2.2: Refine Variant List

Task 2.3: Develop Index Buildings to be Tested and Modeled

Task 3: Selecting Ground-Motion Records and Developing Loading Protocols

Task 3.1: Selecting and Scaling Ground-Motion Records

Task 3.2: Adoption of Loading Protocol

Task 4: Experimental Program

Task 4.1: Development of an Experimental Database and Validation of Numerical Models.

Task 4.2: Dynamic Shake Table Tests of Diaphragm-Cripple Wall Subassemblies.

Task 4.3: Hybrid Tests to Understand the Damage propagation During Shaking

Task 4.4: Quasi-Static Component and Subassembly Tests

Task 4.5: Development of a Comprehensive Shake Table Test Plan of a Full-Size Cripple Wall Supported House

Task 5: Analytical Modeling.

Task 5.1: Model Validation and Calibration

Task 5.2: Sensitivity Analyses of Short-Period Response

Task 5.3: Development of Index House Numerical Models

Task 5.4: Conduct Nonlinear Analyses

Task 6: Development of Fragility-Modification Functions

Task 6.1: Loss Model Calibration Framework

Task 6.2: Fragility Function Database

Task 6.3: Contractor-Estimator Workshop

Task 6.4: Engineering Demand Parameter (EDP) Function Database

Task 6.5: Damage Function Development

Task 6.6: PEER-Proprietary Model Calibration

Task 6.7: Damage Function Adjustment Factors

Task 7: Synthesizing and Reporting

Task 7.1: Progress Reports

Task 7.2: Report 1 for Portfolio Modelers

Task 7.3: Report 2 for Lay Audience

Task 7.4: Repository of the Data

2. [Update of CUREE General Guidelines and Development of Additional Engineering Guidelines](#)

CEA and its participating-insurer (PI) claim adjusters rely on and use the Consortium of Universities for Research in Earthquake Engineering (CUREE) Publication No. EDA-02 (*General Guidelines for the Assessment and Repair of Earthquake Damage in Residential Woodframe Buildings*) in connection with both CEA and California Department of Insurance mandated training for earthquake-damage/loss assessment and in performing post-earthquake damage/loss assessments.

The CUREE Guidelines are an integral part of the evaluation and communication process when earthquake-loss claims are submitted by claim adjusters to CEA.

- When a claim adjuster investigates a claim and there is evidence of earthquake damage, the adjuster must complete the CUREE Guidelines “General Damage Earthquake Inspection Checklist,” which ensures consistent, complete inspections across all CEA PIs.
- That Checklist must be used by both employed and independently contracted adjusters.
- Optional forms include Attic and Crawlspace Checklists and an Occupant Questionnaire.
- Additionally, CEA encourages PIs to use the CUREE Guidelines to train claim adjusters to evaluate earthquake damage and loss to CEA-insured residential structures.

CEA posted an RFQ/P on April 13, 2017, seeking to contract with parties to coordinate and manage a needed update to the current CUREE Guidelines, as well as to develop companion Engineering Guidelines for the engineering community, to provide objective guidance regarding engineering aspects of the assessment and repair of earthquake damage to single-family woodframe dwellings.

Responses from potential contractors are due by June 30, 2017. CEA staff anticipates announcing the proposer that to be given an opportunity to negotiate a contract in early August.

Recommendation: No action required—information only.

Governing Board Memorandum

June 7, 2017

Agenda Item 12: Potential establishment by CEA of a nonprofit charitable foundation to support financial-incentives and mitigation activities

Recommended Actions: No action required—information only

Background:

Established by law, CEA’s Earthquake Loss Mitigation Fund holds monies available to carry out mitigation programs for all Californians, presently:

- Funding most Earthquake Brace + Bolt (EBB) grants
- Paying personnel and administrative costs for all EBB grants
- Funding research on retrofit-performance of single-family houses
- Paying to support and develop new “pre-engineered standards,” to enable cost-effective retrofits of more types of seismically vulnerable houses

While EBB as a start-up program has made good progress over the past four years, completing more than 2,500 seismic retrofits, the number of houses in need of EBB strengthening far exceeds the level of funding available or identified at this time. CEA estimates that more than **1.2 million older houses** in high-seismic-hazard areas in both Northern and Southern California are particularly vulnerable to earthquakes because of their construction types—amounting to approximately a \$3 billion challenge.

These older houses are not bolted to their foundations, and they commonly have unbraced “cripple walls” (low stud-walls between the foundation and first floor) forming a crawl space. In a strong earthquake, the crawl space is vulnerable to collapse, dropping the house to the ground or causing it to slide off its foundation.

This resulting damage can be extremely costly to the homeowner. For example, as a result of the moderate (6.0 M) 2014 South Napa earthquake, owners of houses that suffered this type of damage received construction estimates of up to \$300,000 for repairs, including the extensive and expensive work involved in lifting the house while the foundation is rebuilt beneath it.

Basic code-compliant retrofits of pre-1979 houses—that is, completing the steps highlighted in the California Insurance Code in connection with earthquake-insurance pricing (bolting frame to foundation, bracing cripple walls with plywood or equivalent)—can greatly reduce the likelihood of this expensive and dangerous damage to family homes. Typically, the retrofits are both quick

to accomplish and reasonable in cost. And if the homeowner of the retrofitted house is a CEA customer, the price of the CEA earthquake insurance policy is reduced by up to 20 percent.

Proposal

As a means to promote and expand funding, participation, and support beyond CEA's Earthquake Loss Mitigation Fund for retrofit grants and related mitigation projects, CEA proposes to establish a nonprofit charitable foundation. The Foundation's operations would be completely transparent, and its functions would include receiving tax-favored contributions from a variety of sources, and then disbursing from accumulated funds sums earmarked for clearly defined grant programs and other appropriate mitigation-related purposes such as relevant, productive research.

The CEA Governing Board would be asked to authorize staff to form the foundation—and would determine and formally approve, through evaluating and authorizing the foundation's basic documentation and business planning—the foundation's purpose, board composition, and mode of operating.

For the Board's information and to aid the Board's deliberations in that regard, staff will present in September 2017 the basic foundation-establishment documentation. Until the Board has seen and approved such documents, neither staff nor CEA's legal representatives will take no action to actually establish (or operate) the foundation, receive contributions, or apply for its hoped-for tax-exempt status.

Recommendation:

No action required—information provided for discussion purposes only.

Governing Board Memorandum

June 7, 2017

Agenda Item 13: CEA Enterprise Risk Management Program: Progress update in developing the CEA enterprise risk management framework and program plan

Recommended Action: No action required—information only

The CEA Enterprise & Strategic Risk Advisor and members of the CEA Enterprise Risk Management (ERM) Committee are continuing their work in developing an enterprise-wide risk-management framework and program plan.

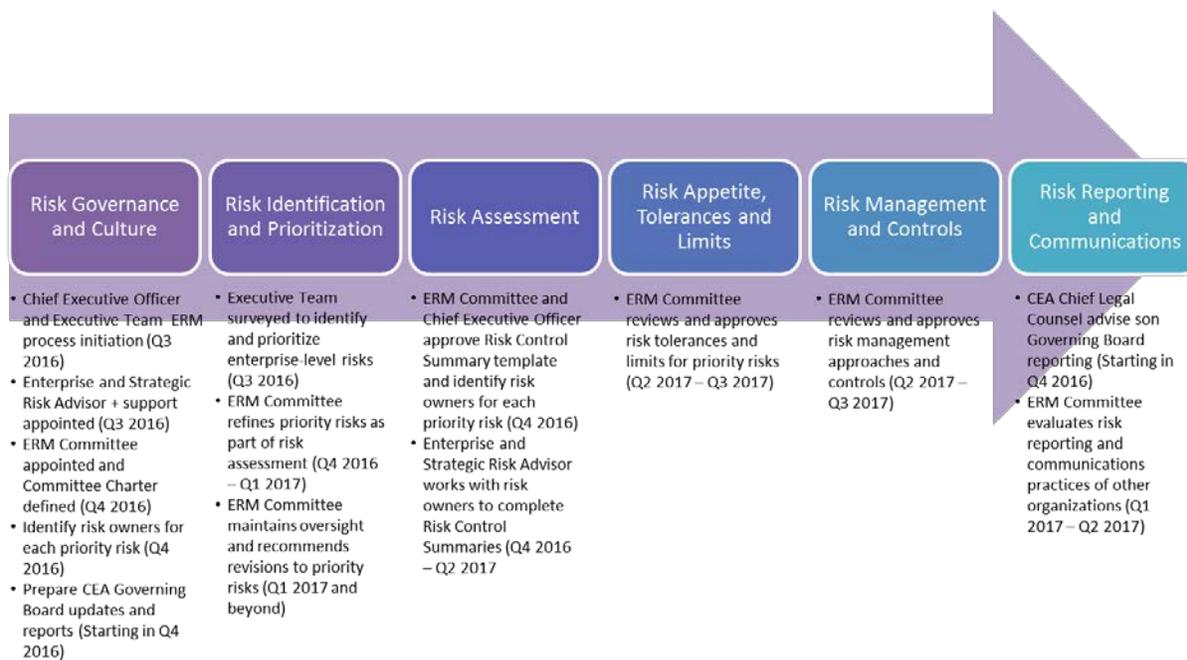
The Enterprise & Strategic Risk Advisor began work on August 1, 2016, and has been supported by the CEA Enterprise Project Management Office (EPMO) in setting up the ERM program plan and by advisory services offered without additional charge by one of the CEA's reinsurance intermediaries. The CEA Chief Executive Officer has also named five members of the CEA Executive Team to serve on the ERM Committee, with the Enterprise & Strategic Risk Advisor chairing the committee in a non-voting capacity.

Since the March 17, 2017, CEA Governing Board meeting, program work has continued to focus on developing risk-control summaries for each priority risk identified by the CEA Executive Team and to integrate that information into an enterprise-wide risk-management framework and program plan for the rest of 2017 and beyond.

The enterprise-wide risk-management framework is being developed in accordance with the Own Risk and Solvency Assessment (ORSA) guidance provided by the National Association of Insurance Commissioners. CEA's ERM Framework incorporates the following key principles:

- Risk Culture and Governance
- Risk Identification and Prioritization
- Risk Appetite, Tolerances, and Limits
- Risk Management and Controls
- Risk Reporting and Communication.

Below is a graphical summary of the activities undertaken to date by CEA staff in each of the five areas.



The 16 priority risks that are part of the CEA’s ERM Program are as follows:

Financial Risks	Insurance Risks	Operational Risks	Strategic Risks
<ul style="list-style-type: none"> • Risk Transfer • Investments • Accounting 	<ul style="list-style-type: none"> • Policy Contracting and Servicing • Claim Handling • Earthquake Science and Modeling • EBB programs 	<ul style="list-style-type: none"> • Business Continuity • Cyber/Data Breach • Litigation • Workforce • Succession Planning • Information Systems 	<ul style="list-style-type: none"> • Legislative/Regulatory • Reputation • CEA research programs

The CEA Executive Team and ERM Committee have identified the occurrence of a major earthquake in California as an overarching risk consideration. In light of that consideration, risk owners have been asked to consider the risk drivers, checkpoints and limits, controls, and response for each priority risk in both normal (steady-state) conditions and for each of four potential earthquake scenarios:

1. An expected event, such as the 2014 South Napa earthquake
2. A major historical event like the 1994 Northridge earthquake
3. A major event, such as the 2008 ShakeOut scenario for southern California or a Hayward fault earthquake in the San Francisco Bay Area
4. A multiple-earthquake sequence, such as events occurring sequentially in the Canterbury region of New Zealand in 2010–2011

The ERM Committee is also developing an ERM program plan for 2017/2018. It will detail the ongoing work that CEA will undertake to build out the CEA’s ERM Framework, dashboard analytics, and risk-capital and solvency assessments, and to address post-earthquake response-planning priorities revealed through the ERM efforts.

Recommendations: None—information only

CEA Governing Board Memorandum

June 7, 2017

Agenda Item 14: Progress report on updating the CEA Strategic Plan and Business Implementation Plan, and provide the quantitative metrics report

Recommended Action: No action required—information only

Chief Operating Officer Kellie Schneider will report to the Board on:

- plans underway to update CEA's strategic plan,
- status of and updates to the CEA Business Implementation Plan, and
- the current status of CEA's operational metrics.



HISTORICAL REPORT

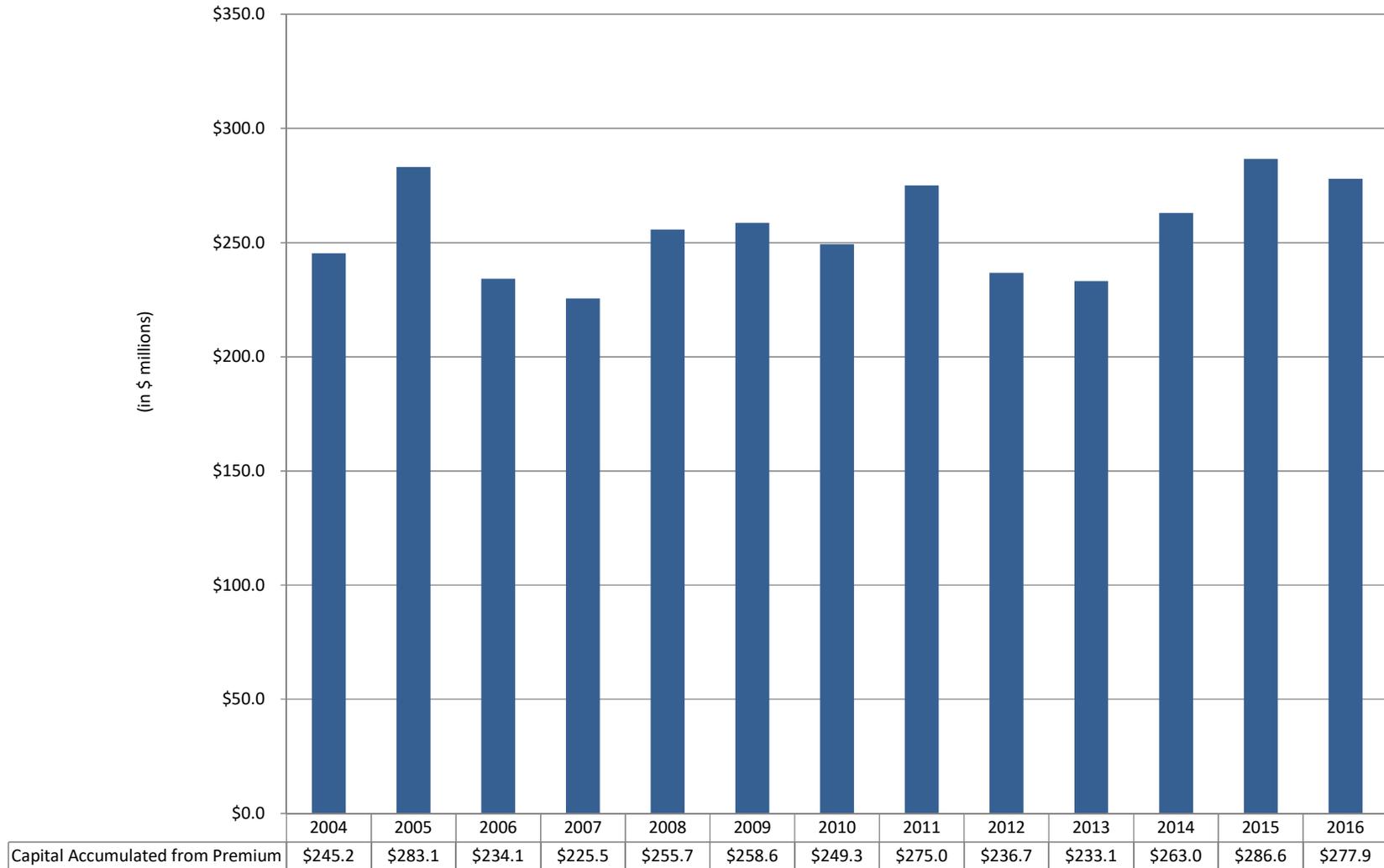
December 31, 2016

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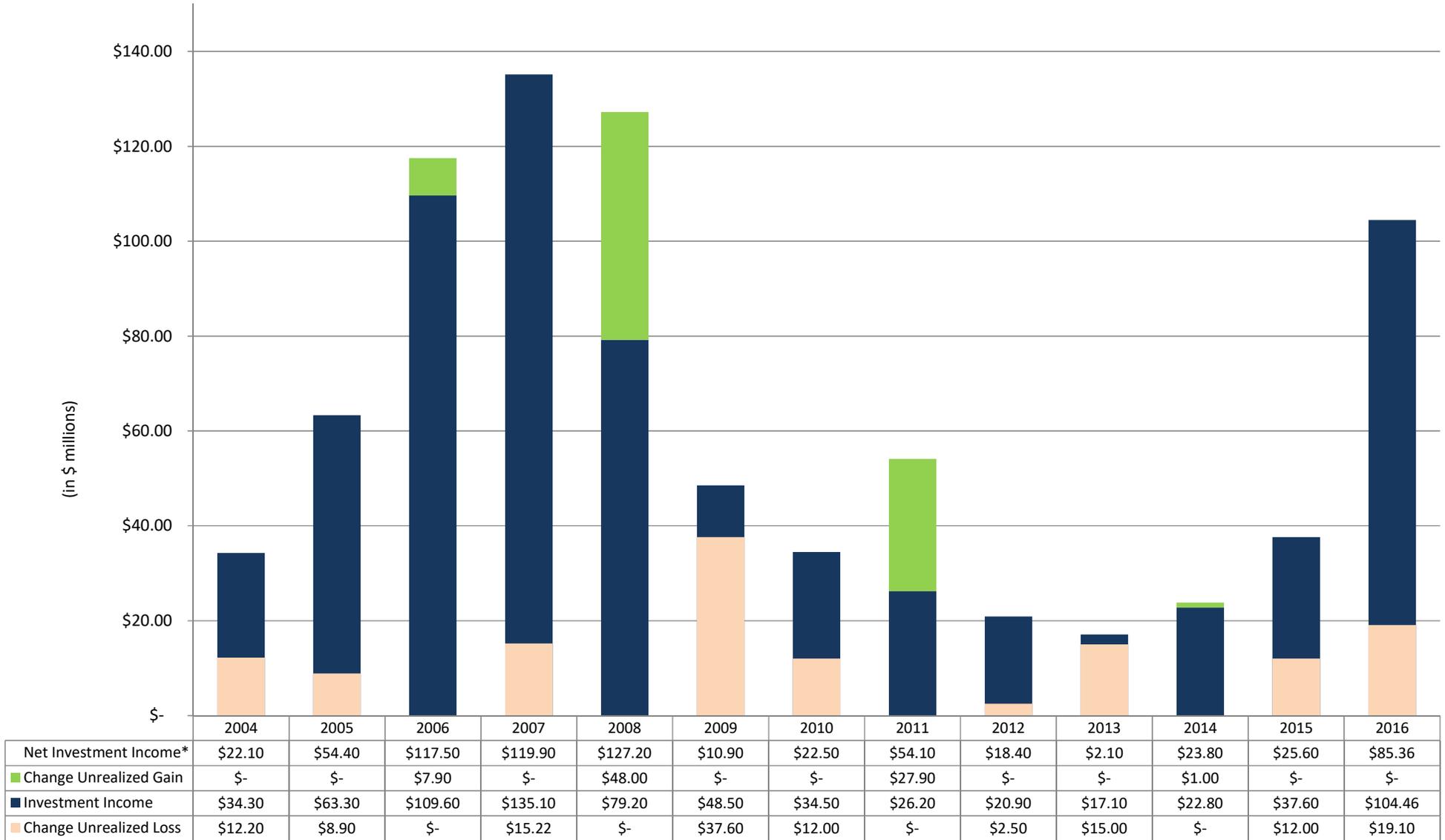
Note: See Fact Sheets for Policies In Force, Written Premiums, and Exposures.

**California Earthquake Authority
 Historical Annual Capital Accumulated from Premium
 as of December 31, 2016**



Investments

**California Earthquake Authority
Historical Annual Investment Income
as of December 31, 2016**



*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

¹As 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

*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 2 year bond CUSIP 13017HAC0	\$ 40,000,000	1.194%	\$ 39,665,642	\$ -	31-Dec-2016	A3 Outlook Stable	A Outlook Stable

DEBT-SERVICE SCHEDULE

The table below shows the annual-debt-service requirements for the Series 2014 Bonds.

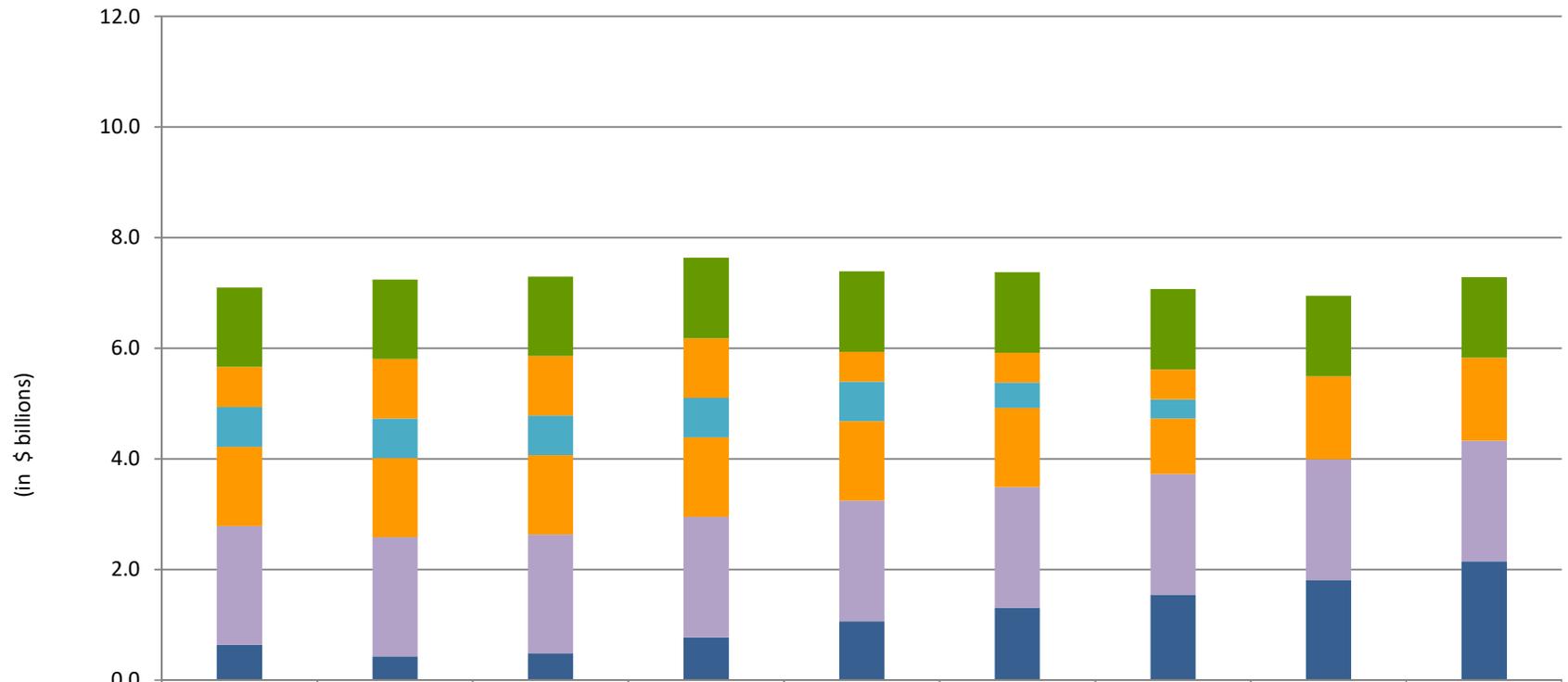
Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
1-Jan-16	\$40,000,000	\$0	\$238,800	\$238,800	
1-Jul-16	\$0	\$40,000,000	\$238,800	\$40,238,800	
2016					\$40,477,600

*Moody's rating since May 2015.

**Fitch rating affirmed October 2016.

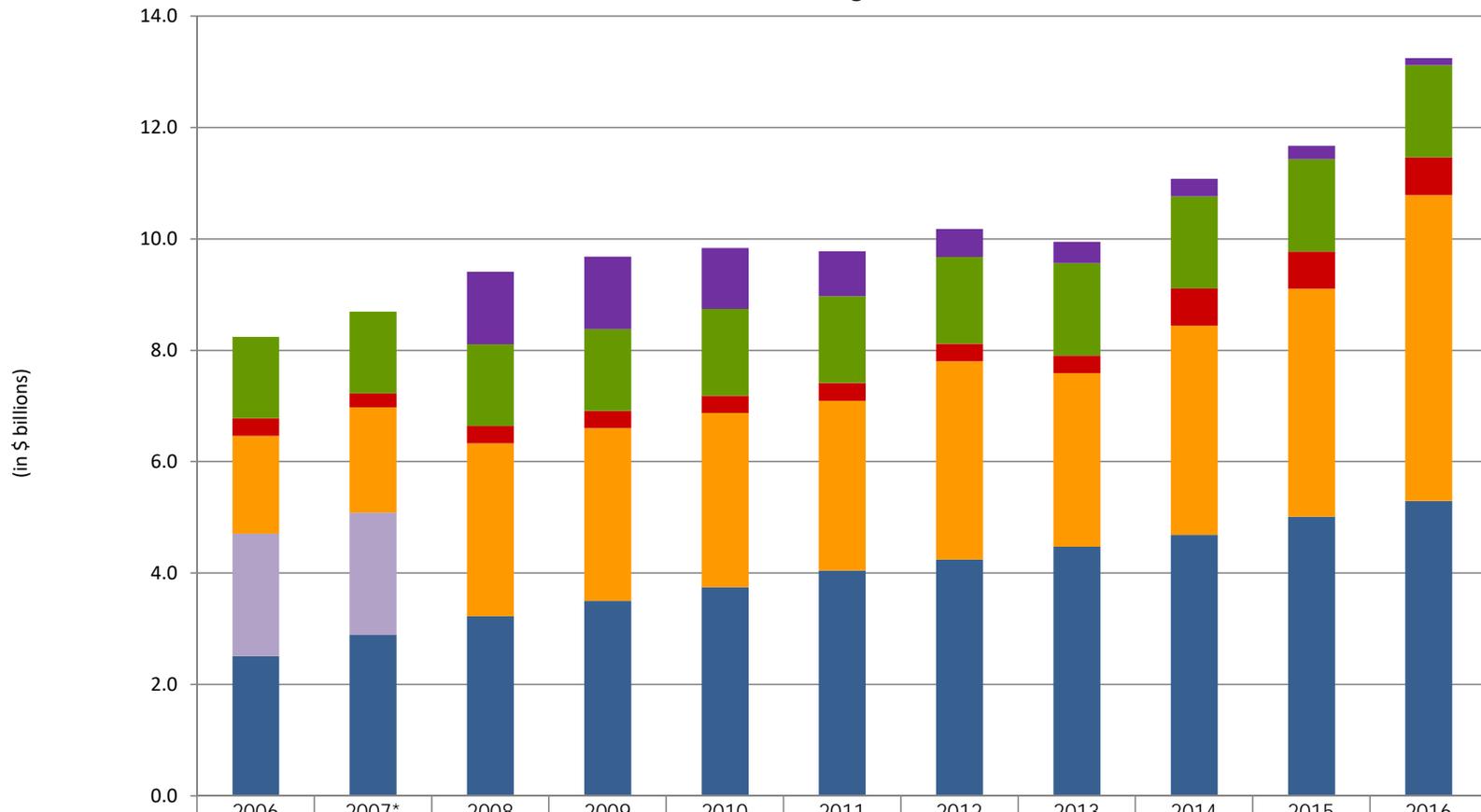
Claim-Paying Capacity

**California Earthquake Authority
Historical Claim-Paying Capacity (CPC)
December 31, 1997 through December 31, 2005**



	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total CPC	\$7.095	\$7.240	\$7.293	\$7.635	\$7.390	\$7.373	\$7.069	\$6.948	\$7.284
New Industry Assessment	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
2nd Industry Assessment	\$1.434	\$1.434	\$1.434	\$1.456	\$1.456	\$1.456	\$1.456	\$1.456	\$1.456
Revenue Bonds	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
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
1st Industry Assessment	\$2.150	\$2.150	\$2.150	\$2.183	\$2.183	\$2.183	\$2.183	\$2.183	\$2.183
CEA Available Capital	\$0.635	\$0.432	\$0.485	\$0.772	\$1.064	\$1.307	\$1.544	\$1.809	\$2.145

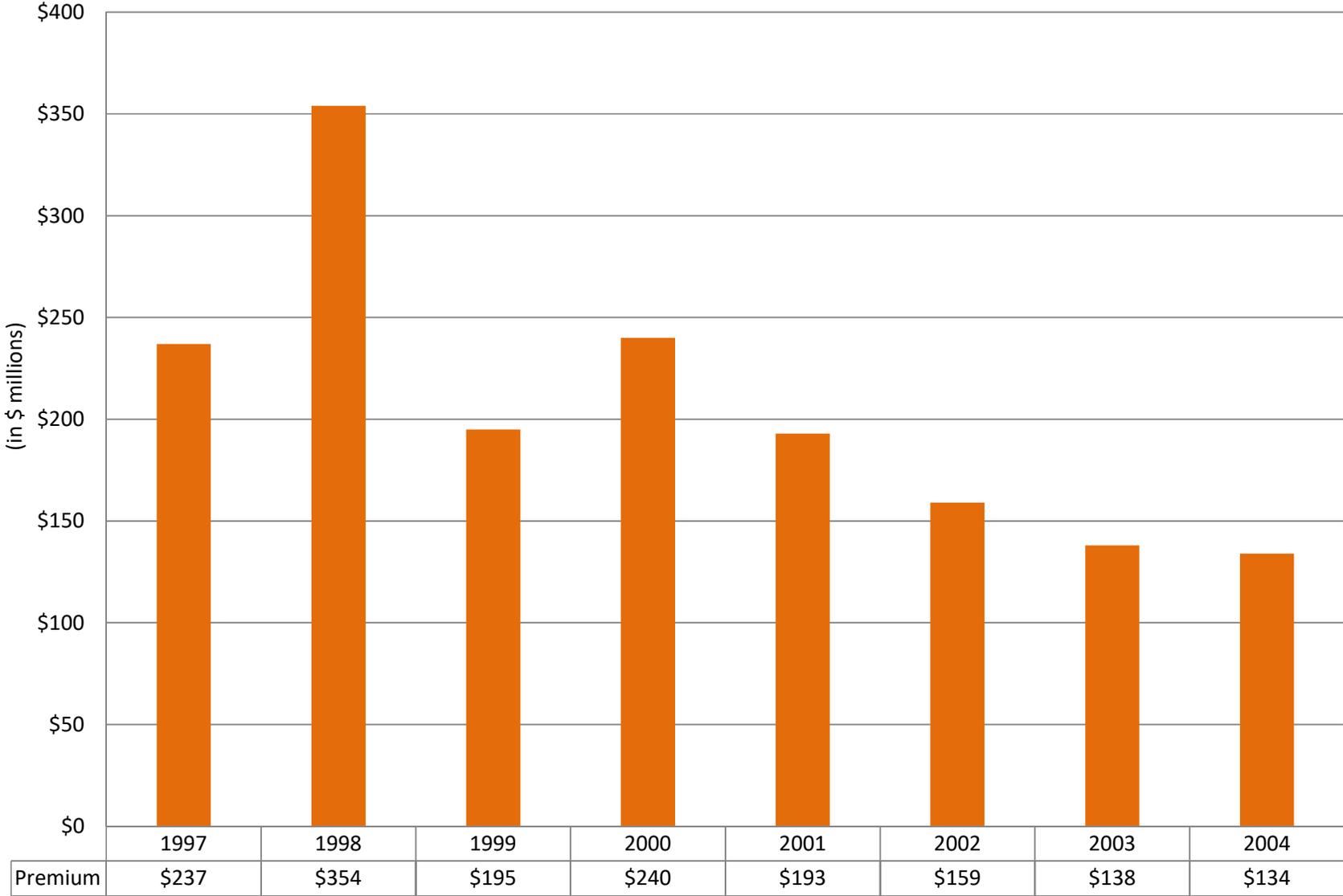
**California Earthquake Authority
Historical Claim-Paying Capacity (CPC)
December 31, 2006 through December 31, 2016**



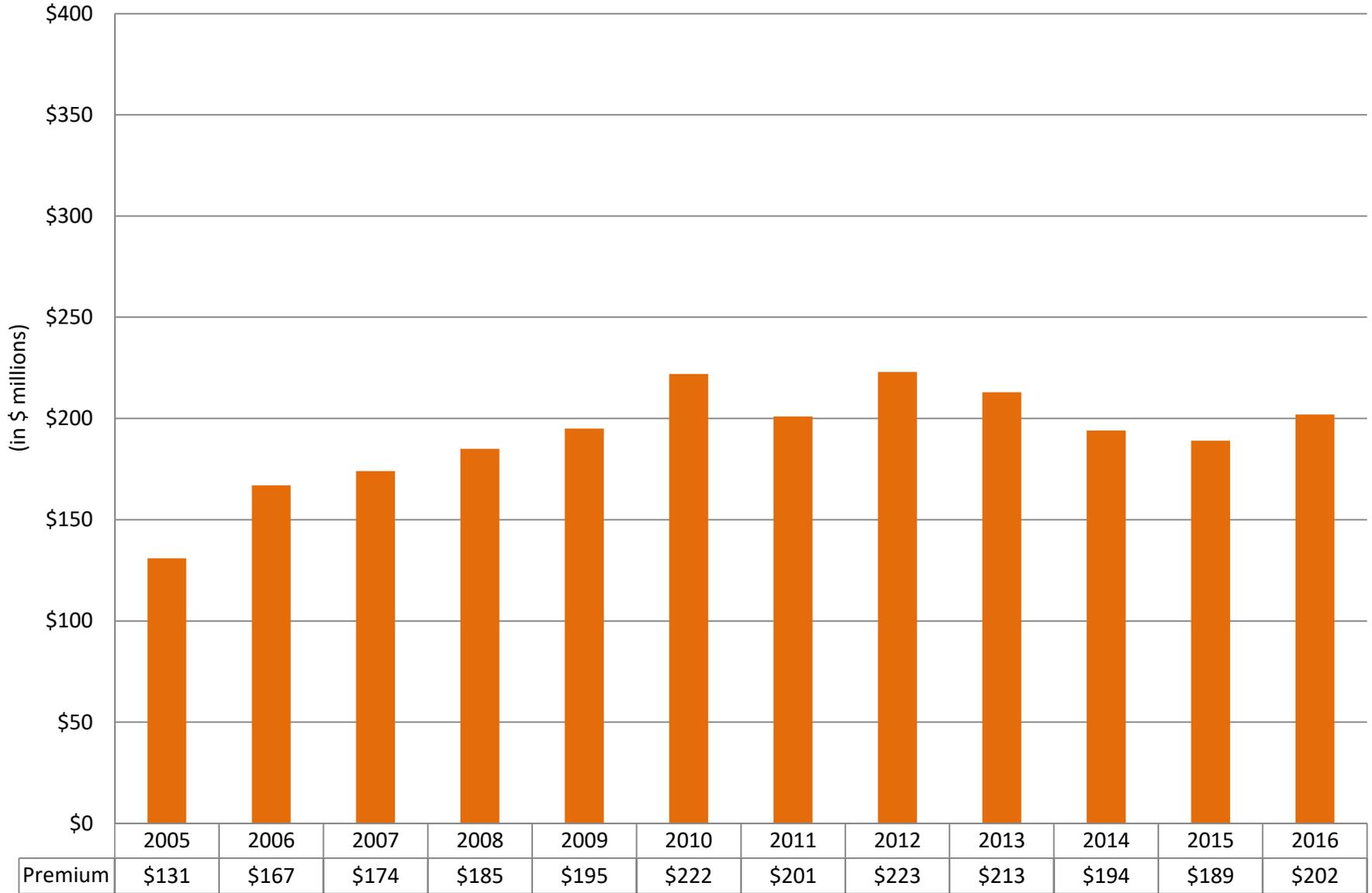
	2006	2007*	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total CPC	\$8.244	\$8.695	\$9.411	\$9.685	\$9.840	\$9.777	\$10.179	\$9.949	\$11.081	\$11.667	\$13.242
New Industry Assessment	\$-	\$-	\$1.304	\$1.304	\$1.095	\$0.804	\$0.500	\$0.385	\$0.312	\$0.238	\$0.128
2nd Industry Assessment	\$1.465	\$1.465	\$1.465	\$1.465	\$1.558	\$1.558	\$1.558	\$1.656	\$1.656	\$1.656	\$1.656
Revenue Bonds	\$0.311	\$0.254	\$0.311	\$0.311	\$0.311	\$0.317	\$0.314	\$0.314	\$0.664	\$0.668	\$0.673
Risk-Transfer, 2nd Layer	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Line of Credit	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Risk Transfer, 1st Layer	\$1.756	\$1.885	\$3.100	\$3.100	\$3.123	\$3.050	\$3.557	\$3.115	\$3.759	\$4.091	\$5.488
1st Industry Assessment	\$2.197	\$2.197	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
CEA Available Capital	\$2.515	\$2.894	\$3.231	\$3.505	\$3.753	\$4.048	\$4.250	\$4.478	\$4.689	\$5.014	\$5.297

Risk-Transfer Programs

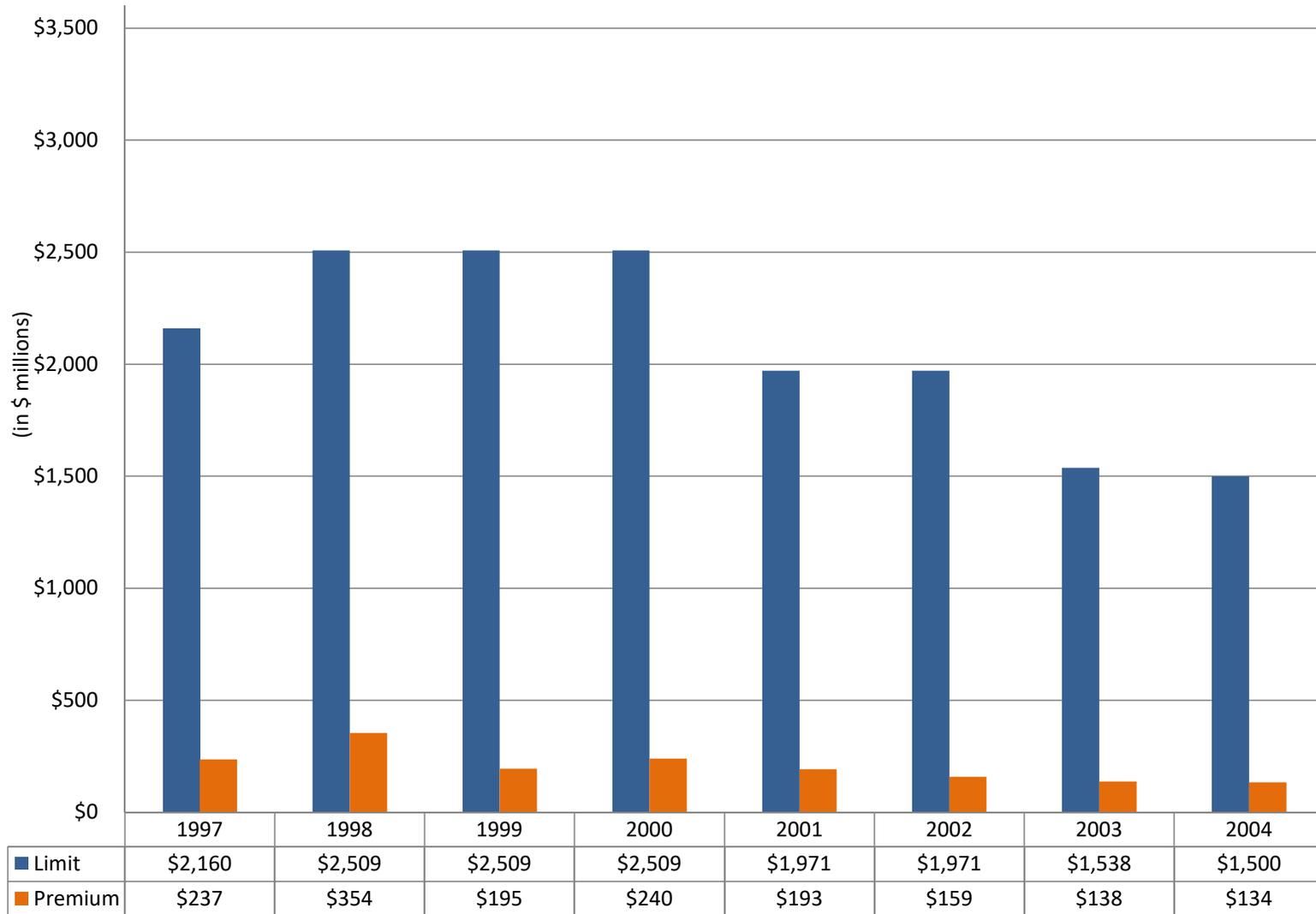
**California Earthquake Authority
Annual Risk-Transfer Premium
December 31, 1997 - December 31, 2004**



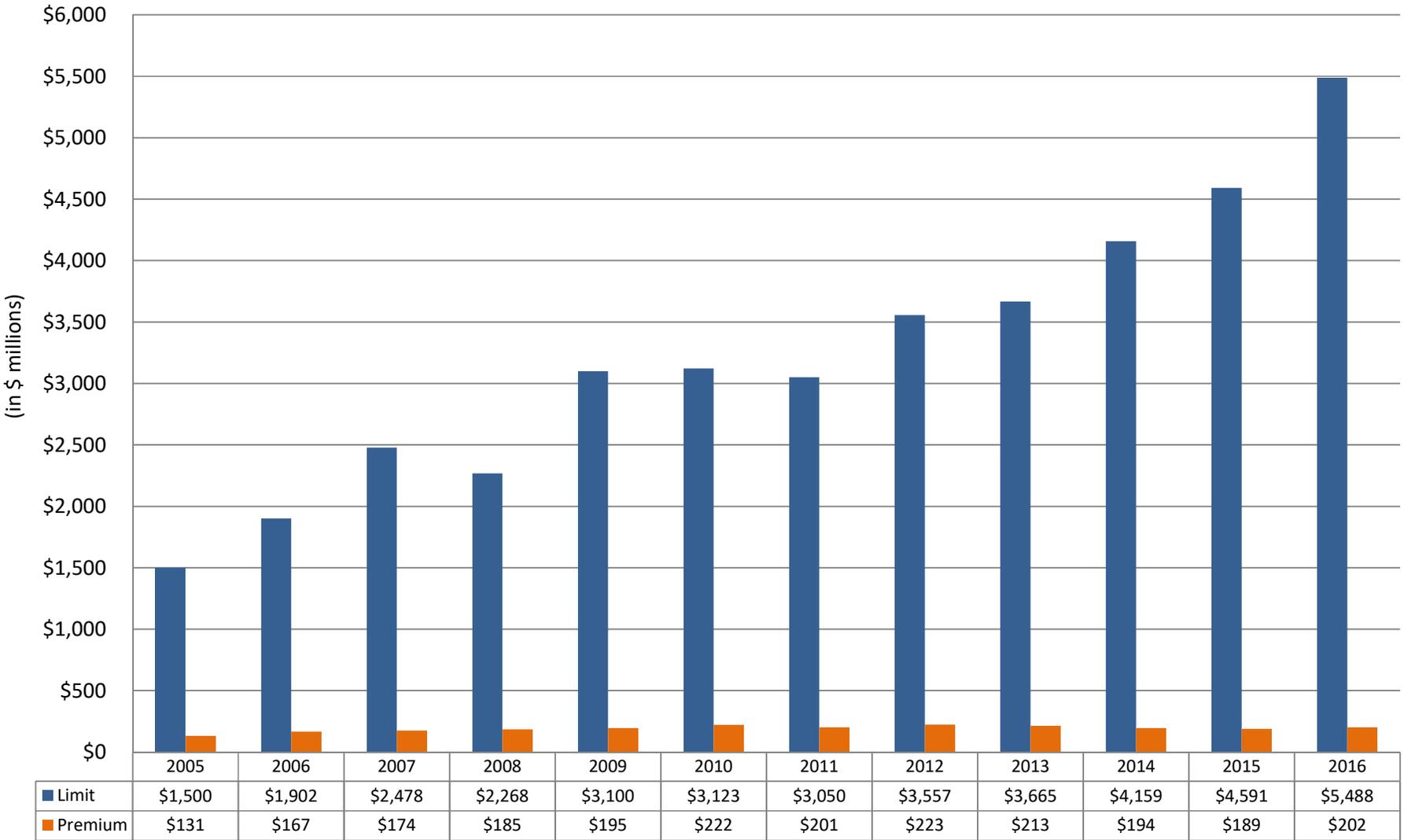
**California Earthquake Authority
Annual Risk-Transfer Premium
December 31, 2005 -December 31, 2016**



**California Earthquake Authority
Annual Risk-Transfer Premium and Limit
December 31, 1997 - December 31, 2004**



**California Earthquake Authority
Annual Risk-Transfer Premium and Limit
December 31, 2005 - December 31, 2016**



California Earthquake Authority

Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to April 30, 2017

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

California Earthquake Authority

Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to April 30, 2017 (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	195	3,420,040.83	307,803.68	\$3,727,844.51
	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
Total					474	\$8,094,804.71	\$707,372.20	\$8,802,176.91

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.

California Earthquake Authority

Insurance Operations - Governing Board Report

All Companies - As Of 5/23/2017 - Policies in Force on: 04/30/2017

TOTALS	Policies In Force	%Total	Exposure	%Total	Written Premium	% Total	Avg Written Premium
Homeowners	671,877	71.0 %	338,097,471,510	85.2 %	494,469,875	79.1 %	736
Homeowners Choice	68,895	7.3 %	40,449,300,887	10.2 %	65,984,651	10.6 %	958
All Homeowners Total	740,772	78.3 %	378,546,772,397	95.4 %	560,454,526	89.7 %	757
Manufactured Homes (Mobilehomes) - Homeowners	25,973	2.7 %	3,354,332,948	0.8 %	3,400,705	0.5 %	131
Manufactured Homes (Mobilehomes) - Homeowners Choice	1,899	0.2 %	336,596,693	0.1 %	398,059	0.1 %	210
All Manufactured Homes (Mobilehomes) - Homeowners Total	27,872	2.9 %	3,690,929,641	0.9 %	3,798,764	0.6 %	136
Condo	108,824	11.5 %	11,899,165,000	3.0 %	52,778,143	8.4 %	485
Renters	68,788	7.3 %	2,535,660,500	0.6 %	7,698,772	1.2 %	112
Grand Total	946,256	100.0 %	396,672,527,538	100.0 %	624,730,205	100.0 %	660

California Earthquake Authority

Insurance Operations - Governing Board Report

All Companies - As Of 5/23/2017 - Policies in Force on: 04/30/2017

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Homeowners - by Cov A Ded							
25% Total	2,944	0.3 %	1,646,018,302	0.4 %	1,991,041	0.3 %	676
20% Total	2,478	0.3 %	1,395,819,463	0.4 %	2,100,491	0.3 %	848
15% Total	552,533	58.4 %	275,178,428,110	69.4 %	407,225,247	65.2 %	737
10% Total	91,453	9.7 %	47,947,739,824	12.1 %	66,912,472	10.7 %	732
5% Total	22,469	2.4 %	11,929,465,811	3.0 %	16,240,625	2.6 %	723
Homeowners Total	671,877	71.0 %	338,097,471,510	85.2 %	494,469,875	79.1 %	736
Homeowners Choice - by Cov A Ded							
25% Total	1,921	0.2 %	1,156,980,428	0.3 %	1,520,269	0.2 %	791
20% Total	1,305	0.1 %	801,060,775	0.2 %	1,309,240	0.2 %	1,003
15% Total	32,942	3.5 %	20,109,547,139	5.1 %	33,562,607	5.4 %	1,019
10% Total	21,951	2.3 %	12,660,350,449	3.2 %	20,064,931	3.2 %	914
5% Total	10,776	1.1 %	5,721,362,096	1.4 %	9,527,605	1.5 %	884
Homeowners Choice Total	68,895	7.3 %	40,449,300,887	10.2 %	65,984,651	10.6 %	958
All Homeowners Total	740,772	78.3 %	378,546,772,397	95.4 %	560,454,526	89.7 %	757

California Earthquake Authority

Insurance Operations - Governing Board Report

All Companies - As Of 5/23/2017 - Policies in Force on: 04/30/2017

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Manufactured Homes (Mobilehomes) - Homeowners - by Cov A Ded							
25% Total	12	0.0 %	1,675,755	0.0 %	1,977	0.0 %	165
20% Total	11	0.0 %	1,868,344	0.0 %	1,740	0.0 %	158
15% Total	20,117	2.1 %	2,386,602,737	0.6 %	2,432,611	0.4 %	121
10% Total	4,685	0.5 %	773,377,068	0.2 %	755,468	0.1 %	161
5% Total	1,148	0.1 %	190,809,044	0.0 %	208,909	0.0 %	182
Manufactured Homes (Mobilehomes) - Homeowners Total	25,973	2.7 %	3,354,332,948	0.8 %	3,400,705	0.5 %	131
Manufactured Homes (Mobilehomes) - Homeowners Choice - by Cov A Ded							
25% Total	10	0.0 %	1,399,111	0.0 %	1,350	0.0 %	135
20% Total	5	0.0 %	900,059	0.0 %	960	0.0 %	192
15% Total	690	0.1 %	112,652,260	0.0 %	142,771	0.0 %	207
10% Total	694	0.1 %	128,086,176	0.0 %	146,221	0.0 %	211
5% Total	500	0.1 %	93,559,087	0.0 %	106,756	0.0 %	214
Manufactured Homes (Mobilehomes) - Homeowners Choice Total	1,899	0.2 %	336,596,693	0.1 %	398,059	0.1 %	210
All Manufactured Homes (Mobilehomes) - Homeowners Total	27,872	2.9 %	3,690,929,641	0.9 %	3,798,764	0.6 %	136

California Earthquake Authority

Insurance Operations - Governing Board Report

All Companies - As Of 5/23/2017 - Policies in Force on: 04/30/2017

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Condo - by Cov A Ded							
25% Total	740	0.1 %	109,287,500	0.0 %	396,389	0.1 %	536
20% Total	500	0.1 %	74,342,000	0.0 %	308,589	0.0 %	617
15% Total	74,256	7.8 %	8,841,778,000	2.2 %	38,399,262	6.1 %	517
10% Total	3,962	0.4 %	656,932,000	0.2 %	2,399,493	0.4 %	606
5% Total	6,703	0.7 %	1,058,379,500	0.3 %	3,614,252	0.6 %	539
No Cov A	22,663	2.4 %	1,158,446,000	0.3 %	7,660,158	1.2 %	338
Condo Total	108,824	11.5 %	11,899,165,000	3.0 %	52,778,143	8.4 %	485
Renters Total	68,788	7.3 %	2,535,660,500	0.6 %	7,698,772	1.2 %	112
Grand Total	946,256	100.0 %	396,672,527,538	100.0 %	624,730,205	100.0 %	660

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
✘	✔	✘	✔	✘	2016-01	CEA Agent App	Stephenie Dagata	Active	01/04/16	01/04/16	10%	11/22/17	
✔	✔	✔	✔	✔	2016-02	Training and Registration Form	Stephenie Dagata	Active	01/04/16	01/04/16	85%	08/03/17	
✔	✔	✔	✔	✔	2016-03	Combine Agent Databases	Stephenie Dagata	Active	01/04/16	01/04/16	95%	08/03/17	
✔	✔	✔	✔	✔	2017-01	CPP Data Warehouse & Reporting	Paul Stubbles	Active	01/03/17	01/03/17	20%	12/31/18	
✔	✔	✔	✔	✔	2017-02	Written Premium Write Off	Terri Kletzman	Active	02/01/17	02/01/17	12%	12/31/17	
✔	✔	✔	✔	✔	2017-03	Emerg Mgmt/Bus Continuity	Jason Haxton	Active	01/03/17	01/03/17	24%	04/30/18	
✔	✔	✔	✔	✔	2017-04	ECMS	Jason Haxton	Active	01/03/17	01/03/17	20%	12/31/18	
✔	✔	✔	✔	✔	2017-05	Procurement Tracking System	Terri Kletzman	Active	02/01/17	02/01/17	10%	12/29/17	
✔	✔	✔	✔	✔	2017-06	End to End Website	Terri Kletzman	Cancelled	02/01/17	02/01/17	5%	09/29/17	04/14/17
✔	✔	✔	✔	✔	2017-07	QuakeGrade (SVIMA P2)	Terri Kletzman	Active	01/03/17	01/03/17	60%	09/01/17	
✔	✔	✔	✔	✔	2017-08	Self Service BI Reporting	Paul Stubbles	Active	01/03/17	01/03/17	20%	12/31/17	
✘	✔	✘	✔	✘	2017-09	EQA Redesign	Stephenie Dagata	Active	01/03/17	01/03/17	2%	11/22/17	
✔	✔	✔	✔	✔	2017-10	ZIP Code Validation	Terri Kletzman	Completed	01/03/17	12/01/16	100%	02/01/17	01/03/17
✔	✔	✔	✔	✔	2017-11	Human Resource Information Systems	Terri Kletzman	Active	02/01/17	02/01/17	10%	11/01/17	
✔	✔	✔	✔	✔	2017-12	eDiscovery	Jason Haxton	Active	01/03/17	01/03/17	21%	06/30/18	
✔	✔	✔	✔	✔	2017-13	Rate and Form Filing Project 2019	Terri Kletzman	Active	06/05/17	06/05/17	5%	12/31/18	

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 - 2017

March 15, 2017 – Wednesday

June 7, 2017 – Wednesday

September 20, 2017 – Wednesday

December 13, 2017 – Wednesday

[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]*