

AMENDED IN ASSEMBLY APRIL 21, 2014

CALIFORNIA LEGISLATURE—2013–14 REGULAR SESSION

ASSEMBLY BILL

No. 2064

Introduced by Assembly Member Cooley

February 20, 2014

An act to ~~amend Sections 10081, 10085, 10086, 10089.6, and 10089.26 of, to add Sections 10081.1 and 10089.42 to, and to repeal and add Sections 10089.28 and 10089.41 of, amend, add, and repeal Sections 10083 and 10086 of, to amend, repeal, and add Sections 10083, 10086, 10089.6, 10089.26, and 10089.28 of, and to add Section 10089.42 to, the Insurance Code, relating to earthquake insurance.~~

LEGISLATIVE COUNSEL'S DIGEST

AB 2064, as amended, Cooley. Earthquake insurance: mandatory offer.

Existing law prohibits a policy of residential property insurance from being issued or delivered or initially renewed in this state unless the named insured is offered coverage for loss or damage caused by an earthquake, *as provided*, and, if the offer of earthquake coverage is accepted, requires the insurer to provide certain disclosures based on whether the policy was issued by the California Earthquake Authority (CEA).

Existing law created the CEA, to be administered under the authority of the Insurance Commissioner, and authorized it to transact insurance in this state as necessary to sell policies of basic residential earthquake insurance in the manner provided. The CEA has no authority to transact any other type of insurance business. The CEA's operating expenses are capped at 3% of its premium income.

This bill would revise and recast these provisions by ~~instead~~ *revising the disclosure language an insurer is required to use in offering earthquake coverage and making the contents of that disclosure language dependent upon whether the insurer is a member of the CEA or not and by* requiring insurers who are members of the CEA to provide their insureds with specified disclosures with regard to coverage of losses, the CEA’s liability limitations, and premiums concurrent with the issuance or renewal by the CEA of a residential earthquake insurance policy. The bill would also prohibit member insurers from issuing, delivering, or renewing a policy of residential property insurance in this state, unless the named insured is provided ~~notice of information~~ *on the availability of residential earthquake insurance from the CEA within 60 days of issuance or renewal of the insured’s residential insurance policy, as provided. The CEA would be required to prepare the forms of *notice the information required for use by member insurers and submit the forms to the commissioner for approval. The insurers would be authorized to provide the notice electronically or by mail. The bill would provide that member insurers that fulfil the specified notice requirements would be in compliance with the earthquake insurance provisions applicable to the issuance, delivery, and renewal of a policy of residential property insurance.**

This bill would increase the cap on the CEA’s operating expenses to not more than 5% of its premium income, *and exclude certain expenses and costs from being classified as operating expenses.* The bill would also require that a CEA residential earthquake insurance policy be effective upon receipt by the member insurer of both the completed CEA-approved application for the policy, signed by the applicant, and either the annual premium or the first installment of the annual premium.

This bill would also ~~make conforming changes.~~ *make these provisions operative on July 1, 2015.*

Vote: majority. Appropriation: no. Fiscal committee: yes.
 State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 ~~SECTION 1. Section 10081 of the Insurance Code is amended~~
- 2 ~~to read:~~
- 3 ~~10081. Except as provided in Section 10081.1, a policy of~~
- 4 ~~residential property insurance shall not be issued or delivered or,~~
- 5 ~~with respect to policies in effect on the effective date of this~~

1 chapter, initially renewed in this state by any insurer unless the
2 named insured is offered coverage for loss or damage caused by
3 the peril of earthquake as provided in this chapter. That coverage
4 may be provided in the policy of residential property insurance
5 itself, either by specific policy provision or endorsement, or in a
6 separate policy or certificate of insurance that specifically provides
7 coverage for loss or damage caused by the peril of earthquake
8 alone or in combination with other perils.

9 SEC. 2. Section 10081.1 is added to the Insurance Code, to
10 read:

11 10081.1. Section 10081 does not apply to any insurer that
12 participates in the California Earthquake Authority pursuant to
13 Chapter 8.6 (commencing with Section 10089.5). Each insurer
14 participating in the authority shall provide notice to all of its
15 residential property insurance policyholders of the availability of
16 earthquake insurance coverage in the manner required by Section
17 10089.42.

18 SEC. 3. Section 10085 of the Insurance Code is amended to
19 read:

20 10085. If the insurer establishes proof of mailing or delivery
21 of the offer that is required pursuant to Section 10081 and the offer
22 of earthquake coverage is not accepted by the named insured within
23 30 days from the date of mailing or delivery of the offer, there
24 shall be a conclusive presumption that the named insured elected
25 not to accept the coverage. An election, actual or presumed, by
26 any named insured shall be binding upon any other person insured
27 or any other party having an insurable interest in the insured
28 property.

29 SEC. 4. Section 10086 of the Insurance Code, as amended by
30 Section 14 of Chapter 369 of the Statutes of 2013, is amended to
31 read:

32 10086. (a) If an offer of earthquake coverage, made pursuant
33 to Section 10081, is accepted, the coverage shall be continued at
34 the applicable rates and conditions for the policy term, provided
35 the policy of residential property insurance is not terminated by
36 the named insured or insurer.

37 (1) At any renewal, an insurer may modify the terms and
38 conditions of an existing policy, rider, or endorsement providing
39 coverage against loss or damage caused by the peril of earthquake

1 if the modified terms and conditions provide the minimum
2 coverages required by Section 10089.

3 (2) An insurer that modifies the terms and conditions of an
4 existing policy, rider, or endorsement shall provide the insured
5 with the renewal notice in a stand-alone disclosure document
6 stating the changes in the terms and conditions of the insured's
7 existing policy, rider, or endorsement. The offer of renewal may
8 be made electronically pursuant to Section 38.5. Proof of mailing
9 of the disclosure document by first-class mail to a named insured
10 at the mailing address shown on the policy or application, or proof
11 consistent with Section 38.5 that the offer of renewal of coverage
12 was sent to the named insured or applicant by electronic
13 transmission, creates a conclusive presumption that the disclosure
14 document was provided. The disclosure shall include the following
15 statement in 14-point boldface type:

16 -
17 "THE COVERAGE IN THE POLICY WE ARE OFFERING
18 YOU WITH THIS RENEWAL HAS BEEN REDUCED, AND
19 SUBSTANTIALLY DIFFERS FROM THE COVERAGES
20 PROVIDED BY YOUR HOMEOWNERS' POLICY.
21 INSURANCE COMPANIES ARE ALLOWED TO RENEW
22 EARTHQUAKE INSURANCE POLICIES WITH COVERAGE
23 THAT IS REDUCED FROM THE COVERAGE YOU
24 PREVIOUSLY PURCHASED. YOU MAY REQUEST A
25 SAMPLE COPY OF THIS NEW POLICY TO REVIEW PRIOR
26 TO MAKING A DECISION TO ACCEPT THIS RENEWAL,
27 AND WE WILL MAIL OR DELIVER IT TO YOU WITHIN 14
28 DAYS OF YOUR REQUEST. A REQUEST FOR THE SAMPLE
29 COPY SHALL NOT CHANGE OR EXTEND THE POLICY
30 EXPIRATION DATE SPECIFIED IN THE RENEWAL NOTICE.
31 A SUMMARY OF THE CHANGES IS INCLUDED WITH THIS
32 NOTICE."

33 -
34 The commissioner shall approve the form of the summary at the
35 time he or she approves the policy. The summary shall include the
36 information contained in subdivision (a) of Section 10083, and
37 may be included with the renewal notice in standard type.

38 The commissioner may approve substantially similar disclosure
39 forms if necessary to accurately disclose relevant information to
40 the policyholder. The commissioner may also approve disclosure

1 forms substantially similar to the disclosure statement required by
2 Section 10083 if necessary to accurately disclose relevant
3 information to the policyholder.

4 (b) ~~If the offer of earthquake coverage made pursuant to Section
5 10081 is not accepted, the insurer or any affiliated insurer shall be
6 required on an every other year basis to offer earthquake coverage
7 in connection with any continuation, renewal, or reinstatement of
8 the policy following any lapse thereof, or with respect to any other
9 policy that extends, changes, supersedes, or replaces the policy of
10 residential property insurance. The offer may be made
11 electronically pursuant to Section 38.5.~~

12 (c) ~~Nothing in this section shall preclude the named insured
13 from terminating the earthquake coverage at any time.~~

14 (d) ~~This section shall remain in effect only until January 1, 2019,
15 and as of that date is repealed, unless a later enacted statute, that
16 is enacted before January 1, 2019, deletes or extends that date.~~

17 *SECTION 1. Section 10083 of the Insurance Code, as amended
18 by Section 12 of Chapter 369 of the Statutes of 2013, is amended
19 to read:*

20 10083. (a) The offer of coverage required by Section 10081
21 may be made prior to, concurrent with, or within 60 days following
22 the issuance or renewal of a residential property insurance policy.
23 If the offer of coverage is mailed to the named insured or applicant,
24 it shall be mailed to the mailing address shown on the policy of
25 residential property insurance or on the application. The offer may
26 be made electronically pursuant to Section 38.5. The offer of
27 earthquake coverage shall contain the following language in at
28 least 10-point boldface type:

29
30 YOUR POLICY DOES NOT PROVIDE COVERAGE
31 AGAINST THE PERIL OF EARTHQUAKE.
32 CALIFORNIA LAW REQUIRES THAT EARTHQUAKE
33 COVERAGE BE OFFERED TO YOU AT YOUR OPTION.
34 WARNING: THESE COVERAGES MAY DIFFER
35 SUBSTANTIALLY FROM AND PROVIDE LESS
36 PROTECTION THAN THE COVERAGE PROVIDED BY YOUR
37 HOMEOWNERS' INSURANCE POLICY. THERE ARE
38 EXCLUSIONS AND LIMITATIONS SUCH AS
39 OUTBUILDINGS, SWIMMING POOLS, MASONRY FENCES,
40 AND MASONRY CHIMNEYS. THIS DISCLOSURE FORM

1 CONTAINS ONLY A GENERAL DESCRIPTION OF
2 COVERAGES AND IS NOT PART OF YOUR EARTHQUAKE
3 INSURANCE POLICY. ONLY THE SPECIFIC PROVISIONS
4 OF YOUR POLICY WILL DETERMINE WHETHER A
5 PARTICULAR LOSS IS COVERED AND, IF SO, THE
6 AMOUNT PAYABLE.

7 THE COVERAGE, SUBJECT TO POLICY PROVISIONS,
8 MAY BE PURCHASED AT ADDITIONAL COST ON THE
9 FOLLOWING TERMS:

10 (A) AMOUNT OF DWELLING COVERAGE: _____

11 (B) APPLICABLE DEDUCTIBLE: _____ IF YOUR LOSS IS
12 BELOW THIS AMOUNT, YOU MAY NOT RECEIVE ANY
13 PAYMENT FROM YOUR COVERAGE.

14 YOUR INSURANCE COMPANY OR AGENT WILL
15 PROVIDE WRITTEN NOTICE AS TO HOW THE
16 DEDUCTIBLE APPLIES TO THE MARKET VALUE OF YOUR
17 COVERAGE, THE INSURED VALUE OF YOUR COVERAGE,
18 OR THE REPLACEMENT VALUE OF YOUR COVERAGE.

19 (C) CONTENTS COVERAGE: _____

20 IF YOUR LOSS DOES NOT EXCEED THE DEDUCTIBLE
21 FOR THE DWELLING, YOU WILL NOT RECEIVE ANY
22 PAYMENT FOR THIS COVERAGE.

23 YOUR INSURANCE COMPANY OR AGENT WILL
24 PROVIDE WRITTEN NOTICE AS TO HOW THE
25 DEDUCTIBLE APPLIES TO THE AMOUNT YOU RECEIVE
26 PURSUANT TO THIS COVERAGE.

27 (D) ADDITIONAL LIVING EXPENSES: _____

28 (E) RATE OR PREMIUM: _____

29 YOU MUST ASK THE COMPANY TO ADD EARTHQUAKE
30 COVERAGE WITHIN 30 DAYS FROM THE DATE OF
31 MAILING OF THIS NOTICE OR IT SHALL BE
32 CONCLUSIVELY PRESUMED THAT YOU HAVE NOT
33 ACCEPTED THIS OFFER.

34 THIS COVERAGE SHALL BE EFFECTIVE ON THE DAY
35 YOUR ACCEPTANCE OF THIS OFFER IS RECEIVED BY US.
36

37 (b) When the insurer, agent, or broker establishes delivery of
38 the disclosure form by obtaining the signature of the applicant or
39 insured, or when an insurer, agent, or broker provides the applicant
40 with the disclosure form and the applicant does not return a signed

1 acknowledgment of receipt within 60 days of the date it was
2 provided, there shall be a conclusive presumption that the insurer,
3 agent, or broker has complied with the disclosure requirements of
4 this section.

5 (c) The offer may contain additional provisions not in conflict
6 with or in derogation of this section.

7 (d) The commissioner may only approve modifications to the
8 language prescribed in subdivision (a) if all of the following
9 conditions are met:

10 (1) The modifications are not in conflict with or in derogation
11 of any provision of this section or Section 10089.

12 (2) The modifications are necessary to ensure that the disclosure
13 statement accurately reflects the coverage actually provided by
14 the policy being offered.

15 (3) The modifications are strictly limited to necessary changes
16 so that the modified disclosure statement is otherwise identical to
17 the disclosure statement prescribed in this section.

18 (e) Use of the language prescribed by this section, or modified
19 language approved pursuant to subdivision (d), shall constitute
20 compliance with the requirements of Section 10081 by an insurer
21 subject thereto.

22 (f) This section shall remain in effect only until ~~January 1, 2019,~~
23 *July 1, 2015*, and as of that date is repealed, unless a later enacted
24 statute, that is enacted before ~~January 1, 2019,~~ *July 1, 2015*, deletes
25 or extends that date.

26 *SEC. 2. Section 10083 is added to the Insurance Code, to read:*
27 *10083. (a) The offer of coverage required by Section 10081*
28 *may be made prior to, concurrent with, or within 60 days following*
29 *the issuance or renewal of a residential property insurance policy.*
30 *If the offer of coverage is mailed to the named insured or applicant,*
31 *it shall be mailed to the mailing address shown on the policy of*
32 *residential property insurance or on the application. The offer*
33 *may be made electronically pursuant to Section 38.5.*

34 *(1) If the offer is made by a nonparticipating insurer as defined*
35 *in Section 10089.5, the offer of earthquake coverage shall contain*
36 *all of the following language in at least 10-point boldface type:*

37
38 *“Your [property; renters; homeowners; condominium;*
39 *townhouse; dwelling; landlord; or other term that may describe*
40 *the type of companion policy] policy does not cover earthquake*

1 *damage to your home or its contents. To cover earthquake damage*
 2 *to your home and its contents you need to purchase a separate*
 3 *earthquake insurance policy. The coverage provided by an*
 4 *earthquake insurance policy is different from, and typically more*
 5 *limited than, the coverage provided by your [property; renters;*
 6 *homeowners; condominium; townhouse; dwelling; landlord; or*
 7 *other term that may describe the type of companion policy] policy.*
 8 *California law requires insurance companies to offer earthquake*
 9 *insurance in conjunction with a residential property insurance*
 10 *policy. If you do not accept the offer of earthquake insurance below*
 11 *within 30 days of the mailing of this notice, your insurance*
 12 *company may presume that you have not accepted this offer of*
 13 *earthquake insurance.*

14 *You may purchase earthquake insurance coverage, subject to*
 15 *policy provisions, at additional cost on all of the following terms:*

16 *(A) Amount of Dwelling Coverage [Insurers may reference*
 17 *Building Property coverage if a Common Interest Development*
 18 *policy.]: _____*

19 *(B) Applicable Deductible: _____ If your loss*
 20 *is below this amount, you may not receive any payment for your*
 21 *loss.*

22 *(C) Contents Coverage [Insurers may reference Personal*
 23 *Property as that term is in the policy.]: [Insurers should include*
 24 *and explain briefly how the deductible works. Some variation is*
 25 *allowed, but samples include:*

26 *For a Homeowners Policy, the dwelling deductible applies to*
 27 *Contents Coverage. Nothing will be paid until the dwelling*
 28 *deductible is met by damage to Coverage A and Coverage B*
 29 *property.*

30 *For Renters Policies and Common Interest Development*
 31 *Policies, a \$750 deductible applies to Contents Coverage.]*

32 *(D) Additional Living Expenses [Insurers may reference Loss*
 33 *of Use.]: [Insurers shall explain briefly if there is a deductible and*
 34 *how much it is.]*

35 *(E) Estimated Annual Premium: _____*

36 *Contact your insurance agent or your insurance company to*
 37 *obtain details regarding this offer of earthquake insurance and*
 38 *other coverage options.”*

39

1 (2) *If the offer is made by a participating insurer as defined by*
2 *Section 10089.5, the offer of earthquake coverage shall contain*
3 *all of the following language in at least 10-point boldface type:*

4
5 *“Your [property; renters; homeowners; condominium;*
6 *townhouse; dwelling; landlord; or other term that may describe*
7 *the type of companion policy] policy does not cover earthquake*
8 *damage to your home or its contents. To cover earthquake damage*
9 *to your home and its contents you need to purchase a separate*
10 *earthquake insurance policy. The coverage provided by an*
11 *earthquake insurance policy is different from, and typically more*
12 *limited than, the coverage provided by your [property; renters;*
13 *homeowners; condominium; townhouse; dwelling; landlord; or*
14 *other term that may describe the type of companion policy] policy.*
15 *California law requires insurance companies to offer earthquake*
16 *insurance in conjunction with a residential property insurance*
17 *policy. If you do not accept the offer of earthquake insurance below*
18 *within 30 days of the mailing of this notice, your insurance*
19 *company may presume that you have not accepted this offer of*
20 *earthquake insurance.*

21 *You may purchase earthquake insurance coverage, subject to*
22 *policy provisions, at additional cost on all of the following terms:*

23 (A) *Amount of Dwelling Coverage [Insurers may reference*
24 *Building Property coverage if a Common Interest Development*
25 *policy.]: _____*

26 (B) *Applicable Deductible: _____ If your loss*
27 *is below this amount, you may not receive any payment for your*
28 *loss.*

29 (C) *Contents Coverage [Insurers may reference Personal*
30 *Property as that term is in the policy.]: [Insurers should include*
31 *and explain briefly how the deductible works. Some variation is*
32 *allowed, but samples include:*

33 *For a Homeowners Policy, the dwelling deductible applies to*
34 *Contents Coverage. Nothing will be paid until the dwelling*
35 *deductible is met by damage to Coverage A and Coverage B*
36 *property.*

37 *For Renters Policies and Common Interest Development*
38 *Policies, a \$750 deductible applies to Contents Coverage.]*

1 (D) *Additional Living Expenses [Insurers may reference Loss*
 2 *of Use.]: [Insurers shall explain briefly if there is a deductible and*
 3 *how much it is.]*

4 (E) *Estimated Annual Premium:* _____

5 *For an additional premium, you can choose California*
 6 *Earthquake Authority (CEA) coverage options such as higher*
 7 *limits for contents or additional living expenses coverages,*
 8 *increased building code upgrade limits, or a lower deductible.*
 9 *You can also choose to buy certain CEA coverages separately.*

10 *Contact your insurance agent or your insurance company to*
 11 *obtain details regarding this offer of earthquake insurance and*
 12 *other coverage options.”*

13
 14 (b) *When the insurer, agent, or broker establishes delivery of*
 15 *the disclosure form by obtaining the signature of the applicant or*
 16 *insured, or when an insurer, agent, or broker provides the*
 17 *applicant with the disclosure form and the applicant does not*
 18 *return a signed acknowledgment of receipt within 60 days of the*
 19 *date it was provided, there shall be a conclusive presumption that*
 20 *the insurer, agent, or broker has complied with the disclosure*
 21 *requirements of this section.*

22 (c) *The offer may contain additional provisions not in conflict*
 23 *with or in derogation of this section.*

24 (d) *The commissioner may only approve modifications to the*
 25 *language prescribed in subdivision (a) if all of the following*
 26 *conditions are met:*

27 (1) *The modifications are not in conflict with or in derogation*
 28 *of any provision of this section or Section 10089.*

29 (2) *The modifications are necessary to ensure that the disclosure*
 30 *statement accurately reflects the coverage actually provided by*
 31 *the policy being offered.*

32 (3) *The modifications are strictly limited to necessary changes*
 33 *so that the modified disclosure statement is otherwise identical to*
 34 *the disclosure statement prescribed in this section.*

35 (e) *Use of the language prescribed by this section, or modified*
 36 *language approved pursuant to subdivision (d), shall constitute*
 37 *compliance with the requirements of Section 10081 by an insurer*
 38 *subject to the requirements.*

39 (f) *This section shall become operative on July 1, 2015.*

1 (g) This section shall remain in effect only until January 1, 2019,
2 and as of that date is repealed, unless a later enacted statute, that
3 is enacted before January 1, 2019, deletes or extends that date.

4 SEC. 3. Section 10083 of the Insurance Code, as added by
5 Section 13 of Chapter 369 of the Statutes of 2013, is amended to
6 read:

7 10083. (a) The offer of coverage required by Section 10081
8 may be made prior to, concurrent with, or within 60 days following
9 the issuance or renewal of a residential property insurance policy.
10 If the offer of coverage is mailed to the named insured or applicant,
11 it shall be mailed to the mailing address shown on the policy of
12 residential property insurance or on the application. ~~The offer of~~
13 ~~earthquake coverage shall contain the following language in at~~
14 ~~least 10-point boldface type:~~

15
16 ~~YOUR POLICY DOES NOT PROVIDE COVERAGE~~
17 ~~AGAINST THE PERIL OF EARTHQUAKE.~~

18 ~~CALIFORNIA LAW REQUIRES THAT EARTHQUAKE~~
19 ~~COVERAGE BE OFFERED TO YOU AT YOUR OPTION.~~

20 ~~WARNING: THESE COVERAGES MAY DIFFER~~
21 ~~SUBSTANTIALLY FROM AND PROVIDE LESS~~
22 ~~PROTECTION THAN THE COVERAGE PROVIDED BY YOUR~~
23 ~~HOMEOWNERS' INSURANCE POLICY. THERE ARE~~
24 ~~EXCLUSIONS AND LIMITATIONS SUCH AS~~
25 ~~OUTBUILDINGS, SWIMMING POOLS, MASONRY FENCES,~~
26 ~~AND MASONRY CHIMNEYS. THIS DISCLOSURE FORM~~
27 ~~CONTAINS ONLY A GENERAL DESCRIPTION OF~~
28 ~~COVERAGES AND IS NOT PART OF YOUR EARTHQUAKE~~
29 ~~INSURANCE POLICY. ONLY THE SPECIFIC PROVISIONS~~
30 ~~OF YOUR POLICY WILL DETERMINE WHETHER A~~
31 ~~PARTICULAR LOSS IS COVERED AND, IF SO, THE~~
32 ~~AMOUNT PAYABLE.~~

33 ~~THE COVERAGE, SUBJECT TO POLICY PROVISIONS,~~
34 ~~MAY BE PURCHASED AT ADDITIONAL COST ON THE~~
35 ~~FOLLOWING TERMS:~~

- 36 ~~(A) AMOUNT OF DWELLING COVERAGE: _____~~
37 ~~(B) APPLICABLE DEDUCTIBLE: _____ IF YOUR LOSS IS~~
38 ~~BELOW THIS AMOUNT, YOU MAY NOT RECEIVE ANY~~
39 ~~PAYMENT FROM YOUR COVERAGE.~~

1 YOUR INSURANCE COMPANY OR AGENT WILL
2 PROVIDE WRITTEN NOTICE AS TO HOW THE
3 DEDUCTIBLE APPLIES TO THE MARKET VALUE OF YOUR
4 COVERAGE, THE INSURED VALUE OF YOUR COVERAGE,
5 OR THE REPLACEMENT VALUE OF YOUR COVERAGE.

6 (C) CONTENTS COVERAGE: _____

7 IF YOUR LOSS DOES NOT EXCEED THE DEDUCTIBLE
8 FOR THE DWELLING, YOU WILL NOT RECEIVE ANY
9 PAYMENT FOR THIS COVERAGE.

10 YOUR INSURANCE COMPANY OR AGENT WILL
11 PROVIDE WRITTEN NOTICE AS TO HOW THE
12 DEDUCTIBLE APPLIES TO THE AMOUNT YOU RECEIVE
13 PURSUANT TO THIS COVERAGE.

14 (D) ADDITIONAL LIVING EXPENSES: _____

15 (E) RATE OR PREMIUM: _____

16 YOU MUST ASK THE COMPANY TO ADD EARTHQUAKE
17 COVERAGE WITHIN 30 DAYS FROM THE DATE OF
18 MAILING OF THIS NOTICE OR IT SHALL BE
19 CONCLUSIVELY PRESUMED THAT YOU HAVE NOT
20 ACCEPTED THIS OFFER.

21 THIS COVERAGE SHALL BE EFFECTIVE ON THE DAY
22 YOUR ACCEPTANCE OF THIS OFFER IS RECEIVED BY US.

23

24 *(1) If the offer is made by a nonparticipating insurer as defined
25 in Section 10089.5, the offer of earthquake coverage shall contain
26 all of the following language in at least 10-point boldface type:*

27 *“Your [property; renters; homeowners; condominium;
28 townhouse; dwelling; landlord; or other term that may describe
29 the type of companion policy] policy does not cover earthquake
30 damage to your home or its contents. To cover earthquake damage
31 to your home and its contents you need to purchase a separate
32 earthquake insurance policy. The coverage provided by an
33 earthquake insurance policy is different from, and typically more
34 limited than, the coverage provided by your [property; renters;
35 homeowners; condominium; townhouse; dwelling; landlord; or
36 other term that may describe the type of companion policy] policy.
37 California law requires insurance companies to offer earthquake
38 insurance in conjunction with a residential property insurance
39 policy. If you do not accept the offer of earthquake insurance below
40 within 30 days of the mailing of this notice, your insurance*

1 company may presume that you have not accepted this offer of
2 earthquake insurance.

3 You may purchase earthquake insurance coverage, subject to
4 policy provisions, at additional cost on all of the following terms:

5 (A) Amount of Dwelling Coverage [Insurers may reference
6 Building Property coverage if a Common Interest Development
7 policy.]: _____

8 (B) Applicable Deductible: _____ If your loss
9 is below this amount, you may not receive any payment for your
10 loss.

11 (C) Contents Coverage [Insurers may reference Personal
12 Property as that term is in the policy.]: [Insurers should include
13 and explain briefly how the deductible works. Some variation is
14 allowed, but samples include:

15 For a Homeowners Policy, the dwelling deductible applies to
16 Contents Coverage. Nothing will be paid until the dwelling
17 deductible is met by damage to Coverage A and Coverage B
18 property.

19 For Renters Policies and Common Interest Development
20 Policies, a \$750 deductible applies to Contents Coverage.]

21 (D) Additional Living Expenses [Insurers may reference Loss
22 of Use.]: [Insurers shall explain briefly if there is a deductible and
23 how much it is.]

24 (E) Estimated Annual Premium: _____

25 Contact your insurance agent or your insurance company to
26 obtain details regarding this offer of earthquake insurance and
27 other coverage options.”

28

29 (2) If the offer is made by a participating insurer as defined by
30 Section 10089.5, the offer of earthquake coverage shall contain
31 all of the following language in at least 10-point boldface type:

32

33 “Your [property; renters; homeowners; condominium;
34 townhouse; dwelling; landlord; or other term that may describe
35 the type of companion policy] policy does not cover earthquake
36 damage to your home or its contents. To cover earthquake damage
37 to your home and its contents you need to purchase a separate
38 earthquake insurance policy. The coverage provided by an
39 earthquake insurance policy is different from, and typically more
40 limited than, the coverage provided by your [property; renters;

1 *homeowners; condominium; townhouse; dwelling; landlord; or*
 2 *other term that may describe the type of companion policy] policy.*
 3 *California law requires insurance companies to offer earthquake*
 4 *insurance in conjunction with a residential property insurance*
 5 *policy. If you do not accept the offer of earthquake insurance below*
 6 *within 30 days of the mailing of this notice, your insurance*
 7 *company may presume that you have not accepted this offer of*
 8 *earthquake insurance.*

9 *You may purchase earthquake insurance coverage, subject to*
 10 *policy provisions, at additional cost on all of the following terms:*

11 *(A) Amount of Dwelling Coverage [Insurers may reference*
 12 *Building Property coverage if a Common Interest Development*
 13 *policy.]: _____*

14 *(B) Applicable Deductible: _____ If your loss*
 15 *is below this amount, you may not receive any payment for your*
 16 *loss.*

17 *(C) Contents Coverage [Insurers may reference Personal*
 18 *Property as that term is in the policy.]: [Insurers should include*
 19 *and explain briefly how the deductible works. Some variation is*
 20 *allowed, but samples include:*

21 *For a Homeowners Policy, the dwelling deductible applies to*
 22 *Contents Coverage. Nothing will be paid until the dwelling*
 23 *deductible is met by damage to Coverage A and Coverage B*
 24 *property.*

25 *For Renters Policies and Common Interest Development*
 26 *Policies, a \$750 deductible applies to Contents Coverage.]*

27 *(D) Additional Living Expenses [Insurers may reference Loss*
 28 *of Use.]: [Insurers shall explain briefly if there is a deductible and*
 29 *how much it is.]*

30 *(E) Estimated Annual Premium: _____*

31 *For an additional premium, you can choose California*
 32 *Earthquake Authority (CEA) coverage options such as higher*
 33 *limits for contents or additional living expenses coverages,*
 34 *increased building code upgrade limits, or a lower deductible.*
 35 *You can also choose to buy certain CEA coverages separately.*

36 *Contact your insurance agent or your insurance company to*
 37 *obtain details regarding this offer of earthquake insurance and*
 38 *other coverage options.”*

39 *(b) When the insurer, agent, or broker establishes delivery of*
 40 *the disclosure form by obtaining the signature of the applicant or*

1 insured, or when an insurer, agent, or broker provides the applicant
2 with the disclosure form and the applicant does not return a signed
3 acknowledgment of receipt within 60 days of the date it was
4 provided, there shall be a conclusive presumption that the insurer,
5 agent, or broker has complied with the disclosure requirements of
6 this section.

7 (c) The offer may contain additional provisions not in conflict
8 with or in derogation of this section.

9 (d) The commissioner may only approve modifications to the
10 language prescribed in subdivision (a) if all of the following
11 conditions are met:

12 (1) The modifications are not in conflict with or in derogation
13 of any provision of this section or Section 10089.

14 (2) The modifications are necessary to ensure that the disclosure
15 statement accurately reflects the coverage actually provided by
16 the policy being offered.

17 (3) The modifications are strictly limited to necessary changes
18 so that the modified disclosure statement is otherwise identical to
19 the disclosure statement prescribed in this section.

20 (e) Use of the language prescribed by this section, or modified
21 language approved pursuant to subdivision (d), shall constitute
22 compliance with the requirements of Section 10081 by an insurer
23 subject thereto.

24 (f) This section shall become operative on January 1, 2019.

25 *SEC. 4. Section 10086 of the Insurance Code, as amended by*
26 *Section 14 of Chapter 369 of the Statutes of 2013, is amended to*
27 *read:*

28 10086. (a) If an offer of earthquake coverage is accepted, the
29 coverage shall be continued at the applicable rates and conditions
30 for the policy term, provided the policy of residential property
31 insurance is not terminated by the named insured or insurer.

32 (1) At any renewal, an insurer may modify the terms and
33 conditions of an existing policy, rider, or endorsement providing
34 coverage against loss or damage caused by the peril of earthquake
35 if the modified terms and conditions provide the minimum
36 coverages required by Section 10089.

37 (2) An insurer that modifies the terms and conditions of an
38 existing policy, rider, or endorsement shall provide the insured
39 with the renewal notice in a stand-alone disclosure document
40 stating the changes in the terms and conditions of the insured's

1 existing policy, rider, or endorsement. The offer of renewal may
 2 be made electronically pursuant to Section 38.5. Proof of mailing
 3 of the disclosure document by first-class mail to a named insured
 4 at the mailing address shown on the policy or application, or proof
 5 consistent with Section 38.5 that the offer of renewal of coverage
 6 was sent to the named insured or applicant by electronic
 7 transmission, creates a conclusive presumption that the disclosure
 8 document was provided. The disclosure shall include the following
 9 statement in 14-point boldface type:

10
 11 THE COVERAGE IN THE POLICY WE ARE OFFERING
 12 YOU WITH THIS RENEWAL HAS BEEN REDUCED, AND
 13 SUBSTANTIALLY DIFFERS FROM THE COVERAGES
 14 PROVIDED BY YOUR HOMEOWNERS' POLICY.
 15 INSURANCE COMPANIES ARE ALLOWED TO RENEW
 16 EARTHQUAKE INSURANCE POLICIES WITH COVERAGE
 17 THAT IS REDUCED FROM THE COVERAGE YOU
 18 PREVIOUSLY PURCHASED. YOU MAY REQUEST A
 19 SAMPLE COPY OF THIS NEW POLICY TO REVIEW PRIOR
 20 TO MAKING A DECISION TO ACCEPT THIS RENEWAL,
 21 AND WE WILL MAIL OR DELIVER IT TO YOU WITHIN 14
 22 DAYS OF YOUR REQUEST. A REQUEST FOR THE SAMPLE
 23 COPY SHALL NOT CHANGE OR EXTEND THE POLICY
 24 EXPIRATION DATE SPECIFIED IN THE RENEWAL NOTICE.
 25 A SUMMARY OF THE CHANGES IS INCLUDED WITH THIS
 26 NOTICE.

27
 28 The commissioner shall approve the form of the summary at the
 29 time he or she approves the policy. The summary shall include the
 30 information contained in subdivision (a) of Section 10083, and
 31 may be included with the renewal notice in standard type.

32 The commissioner may approve substantially similar disclosure
 33 forms if necessary to accurately disclose relevant information to
 34 the policyholder. The commissioner may also approve disclosure
 35 forms substantially similar to the disclosure statement required by
 36 Section 10083 if necessary to accurately disclose relevant
 37 information to the policyholder.

38 (3) If the earthquake coverage is provided by a policy issued
 39 by the California Earthquake Authority, the following disclosure
 40 shall be provided in 14-point boldface type:

1 CALIFORNIA EARTHQUAKE AUTHORITY POLICY
2 DISCLOSURE
3

4 THIS POLICY IS BEING PURCHASED FROM THE
5 CALIFORNIA EARTHQUAKE AUTHORITY (“CEA”). THE
6 COVERAGE IN THIS CEA POLICY SUBSTANTIALLY
7 DIFFERS FROM THE COVERAGES PROVIDED IN YOUR
8 HOMEOWNER’S POLICY. THE CEA IS NOT PART OF OR
9 ASSOCIATED WITH YOUR HOMEOWNER’S INSURANCE
10 COMPANY. IF LOSSES AS A RESULT OF AN EARTHQUAKE
11 OR A SERIES OF EARTHQUAKES EXCEED THE
12 AVAILABLE RESOURCES OF THE CEA, THIS POLICY IS
13 NOT COVERED BY THE CALIFORNIA INSURANCE
14 GUARANTY ASSOCIATION. THEREFORE, THE
15 CALIFORNIA INSURANCE GUARANTY ASSOCIATION
16 WILL NOT PAY YOUR CLAIMS OR PROTECT YOUR
17 ASSETS IF THE CEA BECOMES INSOLVENT AND IS
18 UNABLE TO MAKE PAYMENTS AS PROMISED. IN
19 ADDITION, YOUR CEA POLICY MAY BE SUBJECT TO
20 FUTURE SURCHARGES OF THE POLICY PREMIUM IN
21 CERTAIN CASES WHERE AN EARTHQUAKE OR SERIES
22 OF EARTHQUAKES HAS EXCEEDED AVAILABLE
23 RESOURCES TO PAY CLAIMS. IN THAT CASE, THIS
24 MEANS THAT IN ADDITION TO THE ANNUAL PREMIUM,
25 YOU MAY BE CHARGED UP TO AN ADDITIONAL 20% OF
26 THE PREMIUM.

27
28 (b) If the offer is not accepted, the insurer or any affiliated
29 insurer shall be required on an every other year basis to offer
30 earthquake coverage in connection with any continuation, renewal,
31 or reinstatement of the policy following any lapse thereof, or with
32 respect to any other policy that extends, changes, supersedes, or
33 replaces the policy of residential property insurance. The offer
34 may be made electronically pursuant to Section 38.5.

35 (c) Nothing in this section shall preclude the named insured
36 from terminating the earthquake coverage at any time.

37 (d) This section shall remain in effect only until ~~January 1, 2019,~~
38 *July 1, 2015*, and as of that date is repealed, unless a later enacted
39 statute, that is enacted before ~~January 1, 2019,~~ *July 1, 2015*, deletes
40 or extends that date.

1 SEC. 5. Section 10086 is added to the Insurance Code, to read:
 2 10086. (a) If an offer of earthquake coverage, made pursuant
 3 to Section 10081, is accepted, the coverage shall be continued at
 4 the applicable rates and conditions for the policy term, provided
 5 the policy of residential property insurance is not terminated by
 6 the named insured or insurer.

7 (1) At any renewal, an insurer may modify the terms and
 8 conditions of an existing policy, rider, or endorsement providing
 9 coverage against loss or damage caused by the peril of earthquake
 10 if the modified terms and conditions provide the minimum
 11 coverages required by Section 10089.

12 (2) An insurer that modifies the terms and conditions of an
 13 existing policy, rider, or endorsement shall provide the insured
 14 with the renewal notice in a stand-alone disclosure document
 15 stating the changes in the terms and conditions of the insured's
 16 existing policy, rider, or endorsement. The offer of renewal may
 17 be made electronically pursuant to Section 38.5. Proof of mailing
 18 of the disclosure document by first-class mail to a named insured
 19 at the mailing address shown on the policy or application, or proof
 20 consistent with Section 38.5 that the offer of renewal of coverage
 21 was sent to the named insured or applicant by electronic
 22 transmission, creates a conclusive presumption that the disclosure
 23 document was provided. The disclosure shall include the following
 24 statement in 14-point boldface type:

25
 26 **“THE COVERAGE IN THE POLICY WE ARE OFFERING YOU**
 27 **WITH THIS RENEWAL HAS BEEN REDUCED, AND**
 28 **SUBSTANTIALLY DIFFERS FROM THE COVERAGES**
 29 **PROVIDED BY YOUR HOMEOWNERS’ POLICY. INSURANCE**
 30 **COMPANIES ARE ALLOWED TO RENEW EARTHQUAKE**
 31 **INSURANCE POLICIES WITH COVERAGE THAT IS REDUCED**
 32 **FROM THE COVERAGE YOU PREVIOUSLY PURCHASED.**
 33 **YOU MAY REQUEST A SAMPLE COPY OF THIS NEW POLICY**
 34 **TO REVIEW PRIOR TO MAKING A DECISION TO ACCEPT**
 35 **THIS RENEWAL, AND WE WILL MAIL OR DELIVER IT TO YOU**
 36 **WITHIN 14 DAYS OF YOUR REQUEST. A REQUEST FOR THE**
 37 **SAMPLE COPY SHALL NOT CHANGE OR EXTEND THE**
 38 **POLICY EXPIRATION DATE SPECIFIED IN THE RENEWAL**
 39 **NOTICE. A SUMMARY OF THE CHANGES IS INCLUDED WITH**
 40 **THIS NOTICE.”**

1
2 *The commissioner shall approve the form of the summary at the*
3 *time he or she approves the policy. The summary shall include the*
4 *information contained in subdivision (a) of Section 10083, and*
5 *may be included with the renewal notice in standard type.*

6 *The commissioner may approve substantially similar disclosure*
7 *forms if necessary to accurately disclose relevant information to*
8 *the policyholder. The commissioner may also approve disclosure*
9 *forms substantially similar to the disclosure statement required*
10 *by Section 10083 if necessary to accurately disclose relevant*
11 *information to the policyholder.*

12 *(b) If the offer of earthquake coverage made pursuant to Section*
13 *10081 is not accepted, the insurer or any affiliated insurer shall*
14 *be required on an every other year basis to offer earthquake*
15 *coverage in connection with any continuation, renewal, or*
16 *reinstatement of the policy following any lapse thereof, or with*
17 *respect to any other policy that extends, changes, supersedes, or*
18 *replaces the policy of residential property insurance. The offer*
19 *may be made electronically pursuant to Section 38.5.*

20 *(c) Nothing in this section shall preclude the named insured*
21 *from terminating the earthquake coverage at any time.*

22 *(d) This section shall become operative on July 1, 2015.*

23 *(e) This section shall remain in effect only until January 1, 2019,*
24 *and as of that date is repealed, unless a later enacted statute, that*
25 *is enacted before January 1, 2019, deletes or extends that date.*

26 ~~SEC. 5:~~

27 *SEC. 6.* Section 10086 of the Insurance Code, as added by
28 Section 15 of Chapter 369 of the Statutes of 2013, is amended to
29 read:

30 10086. (a) If an offer of earthquake coverage, made pursuant
31 to Section 10081, is accepted, the coverage shall be continued at
32 the applicable rates and conditions for the policy term, provided
33 the policy of residential property insurance is not terminated by
34 the named insured or insurer.

35 (1) At any renewal, an insurer may modify the terms and
36 conditions of an existing policy, rider, or endorsement providing
37 coverage against loss or damage caused by the peril of earthquake
38 if the modified terms and conditions provide the minimum
39 coverages required by Section 10089.

1 (2) An insurer that modifies the terms and conditions of an
 2 existing policy, rider, or endorsement shall provide the insured
 3 with the renewal notice in a stand-alone disclosure document
 4 stating the changes in the terms and conditions of the insured's
 5 existing policy, rider, or endorsement. Proof of mailing of the
 6 disclosure document by first-class mail to a named insured at the
 7 mailing address shown on the policy or application creates a
 8 conclusive presumption that the disclosure document was provided.
 9 The disclosure shall include the following statement in 14-point
 10 boldface type:

11
 12 “THE COVERAGE IN THE POLICY WE ARE OFFERING
 13 YOU WITH THIS RENEWAL HAS BEEN REDUCED, AND
 14 SUBSTANTIALLY DIFFERS FROM THE COVERAGES
 15 PROVIDED BY YOUR HOMEOWNERS’ POLICY.
 16 INSURANCE COMPANIES ARE ALLOWED TO RENEW
 17 EARTHQUAKE INSURANCE POLICIES WITH COVERAGE
 18 THAT IS REDUCED FROM THE COVERAGE YOU
 19 PREVIOUSLY PURCHASED. YOU MAY REQUEST A
 20 SAMPLE COPY OF THIS NEW POLICY TO REVIEW PRIOR
 21 TO MAKING A DECISION TO ACCEPT THIS RENEWAL,
 22 AND WE WILL MAIL OR DELIVER IT TO YOU WITHIN 14
 23 DAYS OF YOUR REQUEST. A REQUEST FOR THE SAMPLE
 24 COPY SHALL NOT CHANGE OR EXTEND THE POLICY
 25 EXPIRATION DATE SPECIFIED IN THE RENEWAL NOTICE.
 26 A SUMMARY OF THE CHANGES IS INCLUDED WITH THIS
 27 NOTICE.”

28
 29 The commissioner shall approve the form of the summary at the
 30 time he or she approves the policy. The summary shall include the
 31 information contained in subdivision (a) of Section 10083, and
 32 may be included with the renewal notice in standard type.

33 The commissioner may approve substantially similar disclosure
 34 forms if necessary to accurately disclose relevant information to
 35 the policyholder. The commissioner may also approve disclosure
 36 forms substantially similar to the disclosure statement required by
 37 Section 10083 if necessary to accurately disclose relevant
 38 information to the policyholder.

39 (b) If the offer of earthquake coverage made pursuant to Section
 40 10081 is not accepted, the insurer or any affiliated insurer shall be

1 required on an every other year basis to offer earthquake coverage
2 in connection with any continuation, renewal, or reinstatement of
3 the policy following any lapse thereof, or with respect to any other
4 policy that extends, changes, supersedes, or replaces the policy of
5 residential property insurance.

6 (c) Nothing in this section shall preclude the named insured
7 from terminating the earthquake coverage at any time.

8 (d) This section shall become operative on January 1, 2019.

9 ~~SEC. 6. Section 10089.6 of the Insurance Code is amended to~~
10 ~~read:~~

11 ~~10089.6. (a) There is hereby created the California Earthquake~~
12 ~~Authority, which shall be administered under the authority of the~~
13 ~~commissioner and have the powers conferred by this chapter. The~~
14 ~~authority shall be authorized to transact insurance in this state as~~
15 ~~necessary to sell policies of basic residential earthquake insurance~~
16 ~~in the manner set forth in Sections 10089.26, 10089.27, and~~
17 ~~10089.28. The authority shall have no authority to transact any~~
18 ~~other type of insurance business.~~

19 ~~(b) (1) The investments of the authority shall be limited to those~~
20 ~~securities eligible under Section 16430 of the Government Code.~~

21 ~~(2) The rights, obligations, and duties owed by the authority to~~
22 ~~its insureds, beneficiaries of insureds, and applicants for insurance~~
23 ~~shall be the same as the rights, obligations, and duties owed by~~
24 ~~insurers to its insureds, beneficiaries of insureds and applicants~~
25 ~~for insurance under common law, regulations, and statutes. The~~
26 ~~authority shall be liable to its insureds, beneficiaries of insureds,~~
27 ~~and applicants for insurance as an insurer is liable to its insureds,~~
28 ~~beneficiaries of insureds, and applicants for insurance under~~
29 ~~common law, regulations, and statutes.~~

30 ~~(c) The operating expenses of the authority shall be capped at~~
31 ~~not more than 5 percent of the premium income received by the~~
32 ~~authority. The funds shall be available to pay any advocacy fees~~
33 ~~awarded in a proceeding under subdivision (c) of Section 10089.11.~~

34 ~~SEC. 7. Section 10089.26 of the Insurance Code is amended~~
35 ~~to read:~~

36 ~~10089.26. (a) (1) The authority shall issue policies of basic~~
37 ~~residential earthquake insurance, including earthquake loss~~
38 ~~assessment policies for individual condominium unit properties,~~
39 ~~to any owner of a qualifying residential property, as long as the~~

1 owner has secured a policy of residential property insurance from
2 a participating insurer.

3 (2) A policy of residential earthquake insurance written by the
4 authority shall be effective upon receipt by the participating insurer
5 of both of the following:

6 (A) The completed authority-approved application for the policy,
7 signed by the applicant.

8 (B) Either the annual premium or the first installment of the
9 annual premium.

10 (b) For purposes of this section, earthquake loss assessment
11 coverage shall be issued in a minimum amount of fifty thousand
12 dollars (\$50,000) for individual condominium units valued at more
13 than one hundred thirty-five thousand dollars (\$135,000).
14 Earthquake loss assessment coverage shall be issued in a minimum
15 amount of twenty-five thousand dollars (\$25,000) for individual
16 condominium units of one hundred thirty-five thousand dollars
17 (\$135,000) in value or less. The value of the land shall be excluded
18 when determining the value of the condominium, as it relates to
19 the earthquake loss assessment coverage offered by the authority.

20 (c) The panel shall submit to the board, and the board shall
21 approve, rates for earthquake loss assessment coverage that
22 reasonably balance the earthquake loss assessment coverages
23 offered and the potential exposure to earthquake loss resulting
24 from an earthquake loss assessment policy as compared to the
25 coverages offered and the potential exposure to earthquake loss
26 resulting from residential property other than individual
27 condominium policies.

28 (d) It is the intent of the Legislature, to the extent practicable,
29 that rates charged by the authority to condominium loss assessment
30 policyholders and residential property owner policyholders are
31 treated equitably, and that a proportionate share of premiums is
32 paid for potential exposure to loss, to the authority.

33 (e) Nothing in this section shall prohibit a participating or
34 nonparticipating insurer from offering a condominium earthquake
35 loss assessment policy for different amounts of coverage other
36 than those offered by the authority.

37 SEC. 8. Section 10089.28 of the Insurance Code is repealed.

38 SEC. 7. Section 10089.6 of the Insurance Code is amended to
39 read:

1 10089.6. (a) There is hereby created the California Earthquake
2 Authority, which shall be administered under the authority of the
3 commissioner and have the powers conferred by this chapter. The
4 authority shall be authorized to transact insurance in this state as
5 necessary to sell policies of basic residential earthquake insurance
6 in the manner set forth in Sections 10089.26, 10089.27, and
7 10089.28. The authority shall have no authority to transact any
8 other type of insurance business.

9 (b) (1) The investments of the authority shall be limited to those
10 securities eligible under Section 16430 of the Government Code.

11 (2) The rights, obligations, and duties owed by the authority to
12 its insureds, beneficiaries of insureds, and applicants for insurance
13 shall be the same as the rights, obligations, and duties owed by
14 insurers to its insureds, beneficiaries of insureds and applicants
15 for insurance under common law, regulations, and statutes. The
16 authority shall be liable to its insureds, beneficiaries of insureds,
17 and applicants for insurance as an insurer is liable to its insureds,
18 beneficiaries of insureds, and applicants for insurance under
19 common law, regulations, and statutes.

20 (c) The operating expenses of the authority shall be capped at
21 not more than 3 percent of the premium income received by the
22 authority. The funds shall be available to pay any advocacy fees
23 awarded in a proceeding under subdivision (c) of Section 10089.11.

24 (d) *This section shall remain in effect only until July 1, 2015,*
25 *and as of that date is repealed, unless a later enacted statute, that*
26 *is enacted before July 1, 2015, deletes or extends that date.*

27 *SEC. 8. Section 10089.6 is added to the Insurance Code, to*
28 *read:*

29 *10089.6. (a) There is hereby created the California Earthquake*
30 *Authority, which shall be administered under the authority of the*
31 *commissioner and have the powers conferred by this chapter. The*
32 *authority shall be authorized to transact insurance in this state as*
33 *necessary to sell policies of basic residential earthquake insurance*
34 *in the manner set forth in Sections 10089.26, 10089.27, and*
35 *10089.28. The authority shall have no authority to transact any*
36 *other type of insurance business.*

37 *(b) (1) The investments of the authority shall be limited to those*
38 *securities eligible under Section 16430 of the Government Code.*

39 *(2) The rights, obligations, and duties owed by the authority to*
40 *its insureds, beneficiaries of insureds, and applicants for insurance*

1 shall be the same as the rights, obligations, and duties owed by
2 insurers to its insureds, beneficiaries of insureds, and applicants
3 for insurance under common law, regulations, and statutes. The
4 authority shall be liable to its insureds, beneficiaries of insureds,
5 and applicants for insurance as an insurer is liable to its insureds,
6 beneficiaries of insureds, and applicants for insurance under
7 common law, regulations, and statutes.

8 (c) The operating expenses of the authority shall be capped at
9 not more than 5 percent of the premium income received by the
10 authority. The funds shall be available to pay any advocacy fees
11 awarded in a proceeding under subdivision (c) of Section 10089.11.

12 (d) For purposes of this subdivision, the term “operating
13 expenses of the authority” excludes solely the following:

14 (1) The costs of and transaction expenses associated with
15 risk-transfer purchases, including the purchase of reinsurance
16 and with capital-market contracts.

17 (2) The expense of securing and repaying bonds.

18 (3) The cost of repayment of bonds guaranteed, insured, or
19 otherwise backed by any department or agency of the United States
20 or of this state, or by any private entity.

21 (4) Payments to third parties for all of the following services
22 provided to the authority:

23 (A) Investment.

24 (B) Loss-modeling.

25 (C) Legal services.

26 (5) Costs associated with the authority’s efforts to acquaint the
27 public with and market authority products, promote earthquake
28 preparedness, and earthquake-loss mitigation under the authority’s
29 duly adopted strategic plan.

30 (6) Producer compensation.

31 (7) Participating insurer fees and reimbursement amounts
32 arising under written contracts.

33 (8) Amounts paid by the authority to support research in seismic
34 science and seismic engineering.

35 (9) Loans, grants, and expenses to support and maintain the
36 authority’s earthquake loss-mitigation goals and programs,
37 whether conducted by the authority alone or in collaboration with
38 or by other persons.

39 (10) The costs of and loss-adjustment expenses associated with
40 adjusting and paying policyholder claims for earthquake losses

1 *that are incurred by the authority under its earthquake insurance*
2 *policies, including all costs and expenses associated with*
3 *claim-related litigation, provided that all of those costs and*
4 *expenses shall be reported to the Legislature in the manner*
5 *required by subdivision (e) of Section 10089.13.*

6 *(e) This section shall become operative on July 1, 2015.*

7 *SEC. 9. Section 10089.26 of the Insurance Code is amended*
8 *to read:*

9 10089.26. (a) The authority shall issue policies of basic
10 residential earthquake insurance, including earthquake loss
11 assessment policies for individual condominium unit properties,
12 to any owner of a qualifying residential property, as long as the
13 owner has secured a policy of residential property insurance from
14 a participating insurer.

15 (1) For purposes of this section, earthquake loss assessment
16 coverage shall be issued in a minimum amount of fifty thousand
17 dollars (\$50,000) for individual condominium units valued at more
18 than one hundred thirty-five thousand dollars (\$135,000).
19 Earthquake loss assessment coverage shall be issued in a minimum
20 amount of twenty-five thousand dollars (\$25,000) for individual
21 condominium units of one hundred thirty-five thousand dollars
22 (\$135,000) in value or less. The value of the land shall be excluded
23 when determining the value of the condominium, as it relates to
24 the earthquake loss assessment coverage offered by the authority.

25 (2) The panel shall submit to the board, and the board shall
26 approve, rates for earthquake loss assessment coverage that
27 reasonably balance the earthquake loss assessment coverages
28 offered and the potential exposure to earthquake loss resulting
29 from an earthquake loss assessment policy as compared to the
30 coverages offered and the potential exposure to earthquake loss
31 resulting from residential property other than individual
32 condominium policies.

33 It is the intent of the Legislature, to the extent practicable, that
34 rates charged by the authority to condominium loss assessment
35 policyholders and residential property owner policyholders are
36 treated equitably, and that a proportionate share of premiums is
37 paid for potential exposure to loss, to the authority.

38 (b) Nothing in this section shall prohibit a participating or
39 nonparticipating insurer from offering a condominium earthquake

1 loss assessment policy for different amounts of coverage other
2 than those offered by the authority.

3 *(c) This section shall remain in effect only until July 1, 2015,*
4 *and as of that date is repealed, unless a later enacted statute, that*
5 *is enacted before July 1, 2015, deletes or extends that date.*

6 *SEC. 10. Section 10089.26 is added to the Insurance Code, to*
7 *read:*

8 *10089.26. (a) (1) The authority shall issue policies of basic*
9 *residential earthquake insurance, including earthquake loss*
10 *assessment policies for individual condominium unit properties,*
11 *to any owner of a qualifying residential property, as long as the*
12 *owner has secured a policy of residential property insurance from*
13 *a participating insurer.*

14 *(2) A policy of residential earthquake insurance written by the*
15 *authority shall be effective upon receipt by the participating insurer*
16 *of both of the following:*

17 *(A) The completed authority-approved application for the policy,*
18 *signed by the applicant.*

19 *(B) Either the annual premium or the first installment of the*
20 *annual premium.*

21 *(b) For purposes of this section, earthquake loss assessment*
22 *coverage shall be issued in a minimum amount of fifty thousand*
23 *dollars (\$50,000) for individual condominium units valued at more*
24 *than one hundred thirty-five thousand dollars (\$135,000).*
25 *Earthquake loss assessment coverage shall be issued in a minimum*
26 *amount of twenty-five thousand dollars (\$25,000) for individual*
27 *condominium units of one hundred thirty-five thousand dollars*
28 *(\$135,000) in value or less. The value of the land shall be excluded*
29 *when determining the value of the condominium, as it relates to*
30 *the earthquake loss assessment coverage offered by the authority.*

31 *(c) The panel shall submit to the board, and the board shall*
32 *approve, rates for earthquake loss assessment coverage that*
33 *reasonably balance the earthquake loss assessment coverages*
34 *offered and the potential exposure to earthquake loss resulting*
35 *from an earthquake loss assessment policy as compared to the*
36 *coverages offered and the potential exposure to earthquake loss*
37 *resulting from residential property other than individual*
38 *condominium policies.*

39 *(d) It is the intent of the Legislature, to the extent practicable,*
40 *that rates charged by the authority to condominium loss assessment*

1 *policyholders and residential property owner policyholders are*
2 *treated equitably, and that a proportionate share of the premium*
3 *is paid for potential exposure to loss, to the authority.*

4 *(e) Nothing in this section shall prohibit a participating or*
5 *nonparticipating insurer from offering a condominium earthquake*
6 *loss assessment policy for different amounts of coverage other*
7 *than those offered by the authority.*

8 *(f) This section shall become operative on July 1, 2015.*

9 *SEC. 11. Section 10089.28 of the Insurance Code is amended*
10 *to read:*

11 10089.28. (a) All policies of residential earthquake insurance
12 provided by the authority shall be written by the authority.
13 Authority policies shall be marketed and policyholders serviced
14 by the participating insurer that writes the underlying policy of
15 residential property insurance, and participating insurers shall be
16 reasonably compensated for the claims and policyholder services
17 they provide on behalf of the authority. Authority services may be
18 performed on behalf of the authority in any reasonable manner by
19 the participating insurer that is in compliance with statutory,
20 regulatory, and case laws regarding claims handling practices;
21 provided, however, where the authority has promulgated specific
22 procedures to govern its operations, the participating insurer shall
23 conform its practices to those procedures. The authority procedures
24 shall comply with statutory, regulatory, and case law governing
25 claims handling practices. Nothing in this provision shall be
26 deemed or construed to affect any duty or liability of the authority
27 or participating carrier as set forth in paragraphs (2) and (3) of
28 subdivision (e) of Section 10089.7.

29 (b) The participating insurer shall notify each of its insureds
30 that the authority is the provider of earthquake coverage under the
31 policy. The form and method of notice shall meet standards
32 established by the commissioner by regulation. The authority shall
33 provide to participating insurers appropriate applications and forms
34 and shall maintain records of all policies written, moneys received,
35 and claims paid.

36 (c) The duty of an agent or broker to investigate the financial
37 condition of the authority before placement of insurance shall be
38 the same as the duty of an agent or broker to investigate the
39 financial condition of an admitted insurer before placement of a
40 policy of insurance.

1 (d) This section shall remain in effect only until July 1, 2015,
 2 and as of that date is repealed, unless a later enacted statute, that
 3 is enacted before July 1, 2015, deletes or extends that date.

4 ~~SEC. 9.~~

5 SEC. 12. Section 10089.28 is added to the Insurance Code, to
 6 read:

7 10089.28. (a) All policies of residential earthquake insurance
 8 provided by the authority shall be written by the authority.
 9 Authority policies shall be marketed and policyholders serviced
 10 by the participating insurer that writes the underlying policy of
 11 residential property insurance, and participating insurers shall be
 12 reasonably compensated for the claims and policyholder services
 13 they provide on behalf of the authority. Authority services may be
 14 performed on behalf of the authority in any reasonable manner by
 15 the participating insurer that is in compliance with statutory,
 16 regulatory, and case laws law regarding claims handling practices;
 17 provided, however, where the authority has promulgated specific
 18 procedures to govern its operations, the participating insurer shall
 19 conform its practices to those procedures. The authority procedures
 20 shall comply with statutory, regulatory, and case law governing
 21 claims handling practices. Nothing in this provision shall be
 22 deemed or construed to affect any duty or liability of the authority
 23 or participating carrier as set forth in paragraphs (2) and (3) of
 24 subdivision (e) of Section 10089.7.

25 (b) Concurrent with the issuance or renewal by the authority of
 26 a residential earthquake insurance policy, the participating insurer
 27 shall provide the following disclosure to the insured in 14-point
 28 boldface type:

29
 30 “California Earthquake Authority Policy Disclosure

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

35 The CEA is not part of your homeowners’ insurance company.

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

38 1. CEA policy coverages are different from the coverages
 39 provided in your ~~homeowners~~ homeowners’ insurance policy. For
 40 example, this policy does not cover earthquake damage to

1 swimming pools, and it may provide more limited coverage for
2 chimneys, outbuildings, and masonry fences. These are examples
3 of possible differences between your CEA policy and your
4 homeowners' policy, and you should consult your CEA policy to
5 understand the types of losses that are limited or excluded and
6 those that are covered.

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

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

19
20 (c) The authority shall provide to participating insurers
21 appropriate applications and forms and shall maintain records of
22 all policies written, moneys received, and claims paid.

23 (d) The duty of an agent or broker to investigate the financial
24 condition of the authority before placement of insurance shall be
25 the same as the duty of an agent or broker to investigate the
26 financial condition of an admitted insurer before placement of a
27 policy of insurance.

28 (e) *This section shall become operative on July 1, 2015.*

29 ~~SEC. 10. Section 10089.41 of the Insurance Code is repealed.~~

30 ~~SEC. 11. Section 10089.41 is added to the Insurance Code, to~~
31 ~~read:~~

32 ~~10089.41. (a) Compliance with the provisions of Section~~
33 ~~10089.42 by a participating insurer shall also constitute compliance~~
34 ~~by that participating insurer with Chapter 8.5 (commencing with~~
35 ~~Section 10081).~~

36 ~~(b) If the authority ceases operation for any reason, including,~~
37 ~~but not limited to, the repeal of this chapter or insolvency of the~~
38 ~~authority, participating carriers shall be required to offer residential~~
39 ~~earthquake insurance coverage pursuant to Section 10081. The~~
40 ~~commissioner shall adopt a schedule in accordance with~~

1 subdivision (a) of Section 10089.35 to establish when participating
2 carriers shall be required to offer coverage pursuant to Section
3 10081 to those policyholders for whom they write the underlying
4 policies of residential property insurance.

5 (e) ~~If the authority ceases operation pursuant to a statute enacted~~
6 ~~by the Legislature, that statute shall determine the duty of~~
7 ~~participating insurers to provide earthquake insurance pursuant to~~
8 ~~Chapter 8.5 (commencing with Section 10081). Chapter 8.5~~
9 ~~(commencing with Section 10081) shall remain in effect unless~~
10 ~~specifically repealed by that statute.~~

11 ~~SEC. 12.~~

12 *SEC. 13.* Section 10089.42 is added to the Insurance Code, to
13 read:

14 10089.42. (a) A policy of residential property insurance shall
15 not be issued, delivered, or renewed in this state, by any
16 participating insurer unless the named insured is provided notice
17 of *information on* the availability of residential earthquake
18 insurance from the authority within 60 days of issuance or renewal
19 of the insured's residential insurance policy. The ~~notice information~~
20 required by this subdivision shall do all of the following:

21 (1) Notify the insured that the residential property insurance
22 policy does not provide coverage for loss or damage caused by
23 the peril of earthquake.

24 (2) Disclose that the insured can apply at any time through the
25 participating insurer for insurance issued by the authority that
26 covers loss or damage caused by the peril of earthquake.

27 (3) Notify the insured that a policy of residential earthquake
28 insurance from the authority provides different protection, and in
29 some cases less protection, than the residential property insurance
30 policy.

31 (4) Inform the insured of the amounts of premium and deductible
32 applicable to base-limits authority earthquake insurance coverage.

33 (5) Direct the insured to an Internet Web site maintained by the
34 participating insurer or by the authority, or jointly by both, where
35 the insured can obtain premium estimates and information on
36 additional earthquake insurance coverages, coverage limits,
37 deductibles, and other policy and coverage features for a residential
38 earthquake insurance policy from the authority.

39 (6) Direct the insured to an Internet Web site or toll-free
40 telephone number, or both, where the insured can be referred to

1 or speak with a representative or broker-agent of the participating
2 insurer who can facilitate the preparation and receipt of an
3 application for residential earthquake insurance written by the
4 authority.

5 (b) The participating insurer may, but shall not be required to,
6 provide ~~notice~~ *the information required* under this section to any
7 insured who has purchased through that participating insurer, and
8 has in force, a residential earthquake insurance policy written by
9 the authority.

10 (c) The authority shall prepare forms of ~~notice~~ *the information*
11 *required* for use by participating insurers and submit them to the
12 commissioner for approval. The commissioner shall approve a
13 form ~~of notice~~ if it accurately discloses the information required
14 by subdivision (a). ~~Forms of notice~~ *The forms* are not required to
15 be reproduced in identical form to the disclosures and advice set
16 forth in subdivision (a), and they may contain provisions additional
17 to those set forth in subdivision (a) if the additional provisions do
18 not conflict with this section.

19 (d) (1) The ~~notice~~ *information* required by this section may be
20 made electronically pursuant to Section 38.5.

21 (2) Proof of mailing of any ~~notice~~ *information* required by this
22 section by first-class mail to a named insured at the mailing address
23 shown on the policy or application, or proof consistent with Section
24 38.5 that the ~~notice~~ *information* was sent to the named insured or
25 applicant by electronic transmission, creates a conclusive
26 presumption that the ~~notice~~ *information* required by this section
27 was provided.

28 (e) *This section shall become operative on July 1, 2015.*