

AMENDED IN SENATE AUGUST 11, 2014

AMENDED IN SENATE JUNE 12, 2014

AMENDED IN ASSEMBLY APRIL 21, 2014

CALIFORNIA LEGISLATURE—2013–14 REGULAR SESSION

**ASSEMBLY BILL**

**No. 2064**

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**Introduced by Assembly Member Cooley**

February 20, 2014

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An act to amend Sections 10089.6 and 10089.26 of, to amend, add, and repeal Sections 10083 and 10086 of, to amend, repeal, and add Section 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 revising the disclosure language an insurer is required to use in offering earthquake coverage ~~and making coverage, making~~ the contents of that disclosure language dependent upon whether the insurer is a member of the CEA or ~~not and not, and~~ by requiring insureds to be provided 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 require a participating insurer, at least once each year, to provide each of its residential property insureds with marketing documents produced at the CEA’s expense. The bill would make these provisions operative on January 1, 2016.

This bill would increase the cap on the CEA’s operating expenses to not more than 6% of its premium income, and exclude certain expenses and costs from being classified as operating expenses.

*This bill also would incorporate additional changes in Section 10083 of the Insurance Code, as amended by Section 12 of Chapter 369 of the Statutes of 2013, proposed by AB 2735, to be operative if AB 2735 and this bill are both enacted and become effective on or before January 1, 2015, and this bill is enacted last.*

*This bill would incorporate into Section 10083 as proposed to be added to the Insurance Code changes proposed by AB 2735, to be operative if AB 2735 and this bill are both enacted and become effective on or before January 1, 2015.*

*This bill also would incorporate additional changes in Section 10083 of the Insurance Code, as added by Section 13 of Chapter 369 of the Statutes of 2013, proposed by AB 2735, to be operative if AB 2735 and this bill are both enacted and become effective on or before January 1, 2015, and this bill is enacted last.*

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 10083 of the Insurance Code, as amended
- 2 by Section 12 of Chapter 369 of the Statutes of 2013, is amended
- 3 to read:
- 4 10083. (a) The offer of coverage required by Section 10081
- 5 may be made prior to, concurrent with, or within 60 days following
- 6 the issuance or renewal of a residential property insurance policy.

1 If the offer of coverage is mailed to the named insured or applicant,  
2 it shall be mailed to the mailing address shown on the policy of  
3 residential property insurance or on the application. The offer may  
4 be made electronically pursuant to Section 38.5. The offer of  
5 earthquake coverage shall contain the following language in at  
6 least 10-point boldface type:

7  
8 **“YOUR POLICY DOES NOT PROVIDE COVERAGE  
9 AGAINST THE PERIL OF EARTHQUAKE.**

10 **CALIFORNIA LAW REQUIRES THAT EARTHQUAKE  
11 COVERAGE BE OFFERED TO YOU AT YOUR OPTION.**

12 **WARNING: THESE COVERAGES MAY DIFFER  
13 SUBSTANTIALLY FROM AND PROVIDE LESS  
14 PROTECTION THAN THE COVERAGE PROVIDED BY YOUR  
15 HOMEOWNERS’ INSURANCE POLICY. THERE ARE  
16 EXCLUSIONS AND LIMITATIONS SUCH AS  
17 OUTBUILDINGS, SWIMMING POOLS, MASONRY FENCES,  
18 AND MASONRY CHIMNEYS. THIS DISCLOSURE FORM  
19 CONTAINS ONLY A GENERAL DESCRIPTION OF  
20 COVERAGES AND IS NOT PART OF YOUR EARTHQUAKE  
21 INSURANCE POLICY. ONLY THE SPECIFIC PROVISIONS  
22 OF YOUR POLICY WILL DETERMINE WHETHER A  
23 PARTICULAR LOSS IS COVERED AND, IF SO, THE  
24 AMOUNT PAYABLE.**

25 **THE COVERAGE, SUBJECT TO POLICY PROVISIONS,  
26 MAY BE PURCHASED AT ADDITIONAL COST ON THE  
27 FOLLOWING TERMS:**

28 **(A) AMOUNT OF DWELLING COVERAGE: \_\_\_\_\_**

29 **(B) APPLICABLE DEDUCTIBLE: \_\_\_\_\_ IF YOUR LOSS IS  
30 BELOW THIS AMOUNT, YOU MAY NOT RECEIVE ANY  
31 PAYMENT FROM YOUR COVERAGE.**

32 **YOUR INSURANCE COMPANY OR AGENT WILL  
33 PROVIDE WRITTEN NOTICE AS TO HOW THE  
34 DEDUCTIBLE APPLIES TO THE MARKET VALUE OF YOUR  
35 COVERAGE, THE INSURED VALUE OF YOUR COVERAGE,  
36 OR THE REPLACEMENT VALUE OF YOUR COVERAGE.**

37 **(C) CONTENTS COVERAGE: \_\_\_\_\_**

38 **IF YOUR LOSS DOES NOT EXCEED THE DEDUCTIBLE  
39 FOR THE DWELLING, YOU WILL NOT RECEIVE ANY  
40 PAYMENT FOR THIS COVERAGE.**

1 YOUR INSURANCE COMPANY OR AGENT WILL  
2 PROVIDE WRITTEN NOTICE AS TO HOW THE  
3 DEDUCTIBLE APPLIES TO THE AMOUNT YOU RECEIVE  
4 PURSUANT TO THIS COVERAGE.

5 (D) ADDITIONAL LIVING EXPENSES: \_\_\_\_\_

6 (E) RATE OR PREMIUM: \_\_\_\_\_

7 YOU MUST ASK THE COMPANY TO ADD EARTHQUAKE  
8 COVERAGE WITHIN 30 DAYS FROM THE DATE OF  
9 MAILING OF THIS NOTICE OR IT SHALL BE  
10 CONCLUSIVELY PRESUMED THAT YOU HAVE NOT  
11 ACCEPTED THIS OFFER.

12 THIS COVERAGE SHALL BE EFFECTIVE ON THE DAY  
13 YOUR ACCEPTANCE OF THIS OFFER IS RECEIVED BY  
14 US.”

15

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

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

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

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

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

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

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

1 (f) This section shall remain in effect only until January 1, 2016,  
2 and as of that date is repealed, unless a later enacted statute, that  
3 is enacted before January 1, 2016, deletes or extends that date.

4 *SEC. 1.5. Section 10083 of the Insurance Code, as amended*  
5 *by Section 12 of Chapter 369 of the Statutes of 2013, is amended*  
6 *to 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 may  
13 be made electronically pursuant to Section 38.5. The offer of  
14 earthquake coverage shall contain the following language in at  
15 least 10-point boldface type:

16  
17 ~~YOUR~~  
18 “*YOUR* POLICY DOES NOT PROVIDE COVERAGE  
19 AGAINST THE PERIL OF EARTHQUAKE.  
20 CALIFORNIA LAW REQUIRES THAT EARTHQUAKE  
21 COVERAGE BE OFFERED TO YOU AT YOUR OPTION.  
22 WARNING: THESE COVERAGES MAY DIFFER  
23 SUBSTANTIALLY FROM AND PROVIDE LESS  
24 PROTECTION THAN THE COVERAGE PROVIDED BY YOUR  
25 HOMEOWNERS’ INSURANCE POLICY. THERE ARE  
26 EXCLUSIONS AND LIMITATIONS SUCH AS  
27 OUTBUILDINGS, SWIMMING POOLS, MASONRY FENCES,  
28 AND MASONRY CHIMNEYS. THIS DISCLOSURE FORM  
29 CONTAINS ONLY A GENERAL DESCRIPTION OF  
30 COVERAGES AND IS NOT PART OF YOUR EARTHQUAKE  
31 INSURANCE POLICY. ONLY THE SPECIFIC PROVISIONS  
32 OF YOUR POLICY WILL DETERMINE WHETHER A  
33 PARTICULAR LOSS IS COVERED AND, IF SO, THE  
34 AMOUNT PAYABLE.  
35 THE COVERAGE, SUBJECT TO POLICY PROVISIONS,  
36 MAY BE PURCHASED AT ADDITIONAL COST ON THE  
37 FOLLOWING TERMS:  
38 (A) AMOUNT OF DWELLING COVERAGE: \_\_\_\_\_

1 (B) APPLICABLE DEDUCTIBLE: \_\_\_\_ IF YOUR LOSS IS  
2 BELOW THIS AMOUNT, YOU MAY NOT RECEIVE ANY  
3 PAYMENT FROM YOUR COVERAGE.

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

9 (C) CONTENTS COVERAGE: \_\_\_\_  
10 IF YOUR LOSS DOES NOT EXCEED THE DEDUCTIBLE  
11 FOR THE DWELLING, YOU WILL NOT RECEIVE ANY  
12 PAYMENT FOR THIS COVERAGE.

13 YOUR INSURANCE COMPANY OR AGENT WILL  
14 PROVIDE WRITTEN NOTICE AS TO HOW THE  
15 DEDUCTIBLE APPLIES TO THE AMOUNT YOU RECEIVE  
16 PURSUANT TO THIS COVERAGE.

17 (D) ADDITIONAL LIVING EXPENSES: \_\_\_\_

18 (E) RATE OR PREMIUM: \_\_\_\_

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

24 THIS COVERAGE SHALL BE EFFECTIVE ON THE DAY  
25 YOUR ACCEPTANCE OF THIS OFFER IS RECEIVED BY ~~US~~.  
26 *US.*"

27  
28 (b) When the insurer, agent, or broker establishes delivery of  
29 the disclosure form by obtaining the signature of the applicant or  
30 insured, or when an insurer, agent, or broker provides the applicant  
31 with the disclosure form and the applicant does not return a signed  
32 acknowledgment of receipt within 60 days of the date it was  
33 provided, there shall be a conclusive presumption that the insurer,  
34 agent, or broker has complied with the disclosure requirements of  
35 this section.

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

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

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

3 (2) The modifications are necessary to ensure that the disclosure  
4 statement accurately reflects the coverage actually provided by  
5 the policy being offered.

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

9 (e) Use of the language prescribed by this section, or modified  
10 language approved pursuant to subdivision (d), shall constitute  
11 compliance with the requirements of Section 10081 by an insurer  
12 subject thereto.

13 (f) *(1) If an insurer issues or causes to be issued a policy with*  
14 *earthquake coverages other than the coverages specified in*  
15 *subdivisions (a) and (b) of Section 10089, pursuant to a rate*  
16 *application approved by the commissioner in accordance with*  
17 *subdivision (c) of Section 10089, no further or other offer of*  
18 *earthquake coverage as specified in subdivisions (a) and (b) of*  
19 *Section 10089 and no further or other notice of noncoverage is*  
20 *required by the insurer if both of the following apply:*

21 (A) *A renewal of that policy is offered.*

22 (B) *A written notice is provided with that renewal regarding*  
23 *additional earthquake coverage that is available.*

24 (2) *The form of the written notice in paragraph (1) shall be filed*  
25 *with the commissioner at least 30 days before its first use. The*  
26 *form shall not be used if the commissioner disapproves the form*  
27 *of the written notice within that period for being misleading or*  
28 *incomplete.*

29 (f)

30 (g) This section shall remain in effect only until January 1, ~~2019,~~  
31 2016, and as of that date is repealed, unless a later enacted statute,  
32 that is enacted before January 1, ~~2019,~~ 2016, deletes or extends  
33 that date.

34 SEC. 2. Section 10083 is added to the Insurance Code, to read:

35 10083. (a) The offer of coverage required by Section 10081  
36 may be made prior to, concurrent with, or within 60 days following  
37 the issuance or renewal of a residential property insurance policy.  
38 If the offer of coverage is mailed to the named insured or applicant,  
39 it shall be mailed to the mailing address shown on the policy of

1 residential property insurance or on the application. The offer may  
2 be made electronically pursuant to Section 38.5.

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

6  
7 “Your residential property insurance policy does not cover  
8 earthquake damage to your home or its contents.

9 To cover earthquake damage to your home and its contents you  
10 need to purchase a separate earthquake insurance policy. The  
11 coverage provided by an earthquake insurance policy is different  
12 from, and typically more limited than, the coverage provided by  
13 your residential property insurance policy.

14 California law requires insurance companies to offer earthquake  
15 insurance in conjunction with a residential property insurance  
16 policy. If you do not accept the offer of earthquake insurance below  
17 within 30 days of the mailing of this notice, your insurance  
18 company shall presume that you have not accepted this offer of  
19 earthquake insurance.

20 You may purchase earthquake insurance coverage on the  
21 following terms:

22 (A) Amount of Dwelling/Building Coverage Limit:

23 \_\_\_\_\_

24 (B) Deductible: \_\_\_\_\_

25 (C) Contents Coverage Limit: \_\_\_\_\_

26 (D) Additional Living Expenses Coverage Limit:

27 \_\_\_\_\_

28 (E) Estimated Annual Premium: \_\_\_\_\_

29 The deductible represents the amount of damage your covered  
30 property must incur before the earthquake insurance coverage  
31 begins. If your covered loss is less than the applicable deductible,  
32 you may not receive any payment.

33 Contact your insurance agent or your insurance company to  
34 obtain details regarding this offer of earthquake insurance and  
35 other coverage options.”

36  
37 (2) If the offer is made by a participating insurer as defined by  
38 Section 10089.5, the offer of earthquake coverage shall contain  
39 all of the following language in at least 10-point boldface type:

40

1 “Your residential property insurance policy does not cover  
2 earthquake damage to your home or its contents.

3 To cover earthquake damage to your home and its contents you  
4 need to purchase a separate earthquake insurance policy. The  
5 coverage provided by an earthquake insurance policy is different  
6 from, and typically more limited than, the coverage provided by  
7 your residential property insurance 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 shall presume that you have not accepted this offer of  
13 earthquake insurance.

14 You may purchase earthquake insurance coverage on the  
15 following terms:

16 (A) Amount of Dwelling/Building Coverage Limit:  
17 \_\_\_\_\_

18 (B) Deductible: \_\_\_\_\_

19 (C) Contents Coverage Limit: \_\_\_\_\_

20 (D) Additional Living Expenses Coverage Limit:  
21 \_\_\_\_\_

22 (E) Estimated Annual Premium: \_\_\_\_\_

23 The deductible represents the amount of damage your covered  
24 property must incur before the earthquake insurance coverage  
25 begins. If your covered loss is less than the applicable deductible,  
26 you may not receive any payment.

27 If you choose not to accept this offer within the 30-day period,  
28 you may apply for earthquake coverage at a later date.

29 Your insurance company contracts with the California  
30 Earthquake Authority (CEA) to offer earthquake insurance to its  
31 customers. For an additional premium, you can choose CEA  
32 coverage options such as higher limits for Contents or Additional  
33 Living Expenses, increased building code upgrade limits, or a  
34 lower deductible. You can also choose to buy certain CEA  
35 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

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

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

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

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

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

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

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

26 (f) This section shall become operative on January 1, 2016.

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

30 *SEC. 2.5. Section 10083 is added to the Insurance Code, to*  
 31 *read:*

32 *10083. (a) The offer of coverage required by Section 10081*  
 33 *may be made prior to, concurrent with, or within 60 days following*  
 34 *the issuance or renewal of a residential property insurance policy.*  
 35 *If the offer of coverage is mailed to the named insured or applicant,*  
 36 *it shall be mailed to the mailing address shown on the policy of*  
 37 *residential property insurance or on the application. The offer*  
 38 *may be made electronically pursuant to Section 38.5.*

1 (1) If the offer is made by a nonparticipating insurer as defined  
2 in 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 residential property insurance policy does not cover  
6 earthquake damage to your home or its contents.

7 To cover earthquake damage to your home and its contents you  
8 need to purchase a separate earthquake insurance policy. The  
9 coverage provided by an earthquake insurance policy is different  
10 from, and typically more limited than, the coverage provided by  
11 your residential property insurance policy.

12 California law requires insurance companies to offer earthquake  
13 insurance in conjunction with a residential property insurance  
14 policy. If you do not accept the offer of earthquake insurance below  
15 within 30 days of the mailing of this notice, your insurance  
16 company shall presume that you have not accepted this offer of  
17 earthquake insurance.

18 You may purchase earthquake insurance coverage on the  
19 following terms:

20 (A) Amount of Dwelling/Building Coverage Limit:

21 \_\_\_\_\_  
22 (B) Deductible: \_\_\_\_\_

23 (C) Contents Coverage Limit: \_\_\_\_\_

24 (D) Additional Living Expenses Coverage Limit:

25 \_\_\_\_\_  
26 (E) Estimated Annual Premium: \_\_\_\_\_

27 The deductible represents the amount of damage your covered  
28 property must incur before the earthquake insurance coverage  
29 begins. If your covered loss is less than the applicable deductible,  
30 you may not receive any payment.

31 Contact your insurance agent or your insurance company to  
32 obtain details regarding this offer of earthquake insurance and  
33 other coverage options.”

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

38  
39 “Your residential property insurance policy does not cover  
40 earthquake damage to your home or its contents.

1 To cover earthquake damage to your home and its contents you  
2 need to purchase a separate earthquake insurance policy. The  
3 coverage provided by an earthquake insurance policy is different  
4 from, and typically more limited than, the coverage provided by  
5 your residential property insurance policy.

6 California law requires insurance companies to offer earthquake  
7 insurance in conjunction with a residential property insurance  
8 policy. If you do not accept the offer of earthquake insurance below  
9 within 30 days of the mailing of this notice, your insurance  
10 company shall presume that you have not accepted this offer of  
11 earthquake insurance.

12 You may purchase earthquake insurance coverage on the  
13 following terms:

14 (A) Amount of Dwelling/Building Coverage Limit:

15 \_\_\_\_\_

16 (B) Deductible: \_\_\_\_\_

17 (C) Contents Coverage Limit: \_\_\_\_\_

18 (D) Additional Living Expenses Coverage Limit:

19 \_\_\_\_\_

20 (E) Estimated Annual Premium: \_\_\_\_\_

21 The deductible represents the amount of damage your covered  
22 property must incur before the earthquake insurance coverage  
23 begins. If your covered loss is less than the applicable deductible,  
24 you may not receive any payment.

25 If you choose not to accept this offer within the 30-day period,  
26 you may apply for earthquake coverage at a later date.

27 Your insurance company contracts with the California  
28 Earthquake Authority (CEA) to offer earthquake insurance to its  
29 customers. For an additional premium, you can choose CEA  
30 coverage options such as higher limits for Contents or Additional  
31 Living Expenses, increased building code upgrade limits, or a  
32 lower deductible. You can also choose to buy certain CEA  
33 coverages separately.

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

37

38 (b) When the insurer, agent, or broker establishes delivery of  
39 the disclosure form by obtaining the signature of the applicant or  
40 insured, or when an insurer, agent, or broker provides the

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

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

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

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

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

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

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

23 (f) (1) If an insurer issues or causes to be issued a policy with  
24 earthquake coverages other than the coverages specified in  
25 subdivisions (a) and (b) of Section 10089, pursuant to a rate  
26 application approved by the commissioner in accordance with  
27 subdivision (c) of Section 10089, no further or other offer of  
28 earthquake coverage as specified in subdivisions (a) and (b) of  
29 Section 10089 and no further or other notice of noncoverage is  
30 required by the insurer if both of the following apply:

31 (A) A renewal of that policy is offered.

32 (B) A written notice is provided with that renewal regarding  
33 additional earthquake coverage that is available.

34 (2) The form of the written notice in paragraph (1) shall be filed  
35 with the commissioner at least 30 days before its first use. The  
36 form shall not be used if the commissioner disapproves the form  
37 of the written notice within that period for being misleading or  
38 incomplete.

39 (g) This section shall become operative on January 1, 2016.

1 (h) 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.

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

16  
17 “Your residential property insurance policy does not cover  
18 earthquake damage to your home or its contents.

19 To cover earthquake damage to your home and its contents you  
20 need to purchase a separate earthquake insurance policy. The  
21 coverage provided by an earthquake insurance policy is different  
22 from, and typically more limited than, the coverage provided by  
23 your residential property insurance policy.

24 California law requires insurance companies to offer earthquake  
25 insurance in conjunction with a residential property insurance  
26 policy. If you do not accept the offer of earthquake insurance below  
27 within 30 days of the mailing of this notice, your insurance  
28 company shall presume that you have not accepted this offer of  
29 earthquake insurance.

30 You may purchase earthquake insurance coverage on the  
31 following terms:

32 (A) Amount of Dwelling/Building Coverage Limit:  
33 \_\_\_\_\_

34 (B) Deductible: \_\_\_\_\_

35 (C) Contents Coverage Limit: \_\_\_\_\_

36 (D) Additional Living Expenses Coverage Limit:  
37 \_\_\_\_\_

38 (E) Estimated Annual Premium: \_\_\_\_\_

39 The deductible represents the amount of damage your covered  
40 property must incur before the earthquake insurance coverage

1 begins. If your covered loss is less than the applicable deductible,  
2 you may not receive any payment.

3 Contact your insurance agent or your insurance company to  
4 obtain details regarding this offer of earthquake insurance and  
5 other coverage options.”  
6

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

11 “Your residential property insurance policy does not cover  
12 earthquake damage to your home or its contents.

13 To cover earthquake damage to your home and its contents you  
14 need to purchase a separate earthquake insurance policy. The  
15 coverage provided by an earthquake insurance policy is different  
16 from, and typically more limited than, the coverage provided by  
17 your residential property insurance policy.

18 California law requires insurance companies to offer earthquake  
19 insurance in conjunction with a residential property insurance  
20 policy. If you do not accept the offer of earthquake insurance below  
21 within 30 days of the mailing of this notice, your insurance  
22 company shall presume that you have not accepted this offer of  
23 earthquake insurance.

24 You may purchase earthquake insurance coverage on the  
25 following terms:

26 (A) Amount of Dwelling/Building Coverage Limit:  
27 \_\_\_\_\_

28 (B) Deductible: \_\_\_\_\_

29 (C) Contents Coverage Limit: \_\_\_\_\_

30 (D) Additional Living Expenses Coverage Limit:  
31 \_\_\_\_\_

32 (E) Estimated Annual Premium: \_\_\_\_\_

33 The deductible represents the amount of damage your covered  
34 property must incur before the earthquake insurance coverage  
35 begins. If your covered loss is less than the applicable deductible,  
36 you may not receive any payment.

37 If you choose not to accept this offer within the 30-day period,  
38 you may apply for earthquake coverage at a later date.

39 Your insurance company contracts with the California  
40 Earthquake Authority (CEA) to offer earthquake insurance to its

1 customers. For an additional premium, you can choose CEA  
2 coverage options such as higher limits for Contents or Additional  
3 Living Expenses, increased building code upgrade limits, or a  
4 lower deductible. You can also choose to buy certain CEA  
5 coverages separately.

6 Contact your insurance agent or your insurance company to  
7 obtain details regarding this offer of earthquake insurance and  
8 other coverage options.”

9

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

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

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

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

25 (2) The modifications are necessary to ensure that the disclosure  
26 statement accurately reflects the coverage actually provided by  
27 the policy being offered.

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

31 (e) Use of the language prescribed by this section, or modified  
32 language approved pursuant to subdivision (d), shall constitute  
33 compliance with the requirements of Section 10081 by an insurer  
34 subject thereto.

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

36 *SEC. 3.5. Section 10083 of the Insurance Code, as added by*  
37 *Section 13 of Chapter 369 of the Statutes of 2013, is amended to*  
38 *read:*

39 10083. (a) The offer of coverage required by Section 10081  
40 may be made prior to, concurrent with, or within 60 days following

1 the issuance or renewal of a residential property insurance policy.  
 2 If the offer of coverage is mailed to the named insured or applicant,  
 3 it shall be mailed to the mailing address shown on the policy of  
 4 residential property insurance or on the application. ~~The offer of~~  
 5 ~~earthquake coverage shall contain the following language in at~~  
 6 ~~least 10-point boldface type:~~

7  
 8 ~~YOUR POLICY DOES NOT PROVIDE COVERAGE~~  
 9 ~~AGAINST THE PERIL OF EARTHQUAKE.~~

10 ~~CALIFORNIA LAW REQUIRES THAT EARTHQUAKE~~  
 11 ~~COVERAGE BE OFFERED TO YOU AT YOUR OPTION.~~

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

25 ~~THE COVERAGE, SUBJECT TO POLICY PROVISIONS,~~  
 26 ~~MAY BE PURCHASED AT ADDITIONAL COST ON THE~~  
 27 ~~FOLLOWING TERMS:~~

28 ~~(A) AMOUNT OF DWELLING COVERAGE: \_\_\_\_\_~~

29 ~~(B) APPLICABLE DEDUCTIBLE: \_\_\_\_\_ IF YOUR LOSS IS~~  
 30 ~~BELOW THIS AMOUNT, YOU MAY NOT RECEIVE ANY~~  
 31 ~~PAYMENT FROM YOUR COVERAGE.~~

32 ~~YOUR INSURANCE COMPANY OR AGENT WILL~~  
 33 ~~PROVIDE WRITTEN NOTICE AS TO HOW THE~~  
 34 ~~DEDUCTIBLE APPLIES TO THE MARKET VALUE OF YOUR~~  
 35 ~~COVERAGE, THE INSURED VALUE OF YOUR COVERAGE,~~  
 36 ~~OR THE REPLACEMENT VALUE OF YOUR COVERAGE.~~

37 ~~(C) CONTENTS COVERAGE: \_\_\_\_\_~~

38 ~~IF YOUR LOSS DOES NOT EXCEED THE DEDUCTIBLE~~  
 39 ~~FOR THE DWELLING, YOU WILL NOT RECEIVE ANY~~  
 40 ~~PAYMENT FOR THIS COVERAGE.~~

1 ~~YOUR INSURANCE COMPANY OR AGENT WILL~~  
2 ~~PROVIDE WRITTEN NOTICE AS TO HOW THE~~  
3 ~~DEDUCTIBLE APPLIES TO THE AMOUNT YOU RECEIVE~~  
4 ~~PURSUANT TO THIS COVERAGE.~~

5 ~~(D) ADDITIONAL LIVING EXPENSES: \_\_\_\_\_~~

6 ~~(E) RATE OR PREMIUM: \_\_\_\_\_~~

7 ~~YOU MUST ASK THE COMPANY TO ADD EARTHQUAKE~~  
8 ~~COVERAGE WITHIN 30 DAYS FROM THE DATE OF~~  
9 ~~MAILING OF THIS NOTICE OR IT SHALL BE~~  
10 ~~CONCLUSIVELY PRESUMED THAT YOU HAVE NOT~~  
11 ~~ACCEPTED THIS OFFER.~~

12 ~~THIS COVERAGE SHALL BE EFFECTIVE ON THE DAY~~  
13 ~~YOUR ACCEPTANCE OF THIS OFFER IS RECEIVED BY US.~~

14  
15 *(1) If the offer is made by a nonparticipating insurer as defined*  
16 *in Section 10089.5, the offer of earthquake coverage shall contain*  
17 *all of the following language in at least 10-point boldface type:*

18  
19 *“Your residential property insurance policy does not cover*  
20 *earthquake damage to your home or its contents.*

21 *To cover earthquake damage to your home and its contents you*  
22 *need to purchase a separate earthquake insurance policy. The*  
23 *coverage provided by an earthquake insurance policy is different*  
24 *from, and typically more limited than, the coverage provided by*  
25 *your residential property insurance policy.*

26 *California law requires insurance companies to offer earthquake*  
27 *insurance in conjunction with a residential property insurance*  
28 *policy. If you do not accept the offer of earthquake insurance below*  
29 *within 30 days of the mailing of this notice, your insurance*  
30 *company shall presume that you have not accepted this offer of*  
31 *earthquake insurance.*

32 *You may purchase earthquake insurance coverage on the*  
33 *following terms:*

34 *(A) Amount of Dwelling/Building Coverage Limit:*

35 \_\_\_\_\_

36 *(B) Deductible: \_\_\_\_\_*

37 *(C) Contents Coverage Limit: \_\_\_\_\_*

38 *(D) Additional Living Expenses Coverage Limit:*

39 \_\_\_\_\_

40 *(E) Estimated Annual Premium: \_\_\_\_\_*

1     *The deductible represents the amount of damage your covered*  
2 *property must incur before the earthquake insurance coverage*  
3 *begins. If your covered loss is less than the applicable deductible,*  
4 *you may not receive any payment.*

5     *Contact your insurance agent or your insurance company to*  
6 *obtain details regarding this offer of earthquake insurance and*  
7 *other coverage options.”*

8  
9     *(2) If the offer is made by a participating insurer as defined by*  
10 *Section 10089.5, the offer of earthquake coverage shall contain*  
11 *all of the following language in at least 10-point boldface type:*

12  
13     *“Your residential property insurance policy does not cover*  
14 *earthquake damage to your home or its contents.*

15     *To cover earthquake damage to your home and its contents you*  
16 *need to purchase a separate earthquake insurance policy. The*  
17 *coverage provided by an earthquake insurance policy is different*  
18 *from, and typically more limited than, the coverage provided by*  
19 *your residential property insurance policy.*

20     *California law requires insurance companies to offer earthquake*  
21 *insurance in conjunction with a residential property insurance*  
22 *policy. If you do not accept the offer of earthquake insurance below*  
23 *within 30 days of the mailing of this notice, your insurance*  
24 *company shall presume that you have not accepted this offer of*  
25 *earthquake insurance.*

26     *You may purchase earthquake insurance coverage on the*  
27 *following terms:*

28     (A) Amount of Dwelling/Building Coverage Limit:

29 \_\_\_\_\_

30 (B) Deductible: \_\_\_\_\_

31 (C) Contents Coverage Limit: \_\_\_\_\_

32 (D) Additional Living Expenses Coverage Limit:

33 \_\_\_\_\_

34 (E) Estimated Annual Premium: \_\_\_\_\_

35     *The deductible represents the amount of damage your covered*  
36 *property must incur before the earthquake insurance coverage*  
37 *begins. If your covered loss is less than the applicable deductible,*  
38 *you may not receive any payment.*

39     *If you choose not to accept this offer within the 30-day period,*  
40 *you may apply for earthquake coverage at a later date.*

1 *Your insurance company contracts with the California*  
2 *Earthquake Authority (CEA) to offer earthquake insurance to its*  
3 *customers. For an additional premium, you can choose CEA*  
4 *coverage options such as higher limits for Contents or Additional*  
5 *Living Expenses, increased building code upgrade limits, or a*  
6 *lower deductible. You can also choose to buy certain CEA*  
7 *coverages separately.*

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

11  
12 (b) When the insurer, agent, or broker establishes delivery of  
13 the disclosure form by obtaining the signature of the applicant or  
14 insured, or when an insurer, agent, or broker provides the applicant  
15 with the disclosure form and the applicant does not return a signed  
16 acknowledgment of receipt within 60 days of the date it was  
17 provided, there shall be a conclusive presumption that the insurer,  
18 agent, or broker has complied with the disclosure requirements of  
19 this section.

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

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

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

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

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

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

37 (f) (1) *If an insurer issues or causes to be issued a policy with*  
38 *earthquake coverages other than the coverages specified in*  
39 *subdivisions (a) and (b) of Section 10089, pursuant to a rate*  
40 *application approved by the commissioner in accordance with*

1 *subdivision (c) of Section 10089, no further or other offer of*  
2 *earthquake coverage as specified in subdivisions (a) and (b) of*  
3 *Section 10089 and no further or other notice of noncoverage is*  
4 *required by the insurer if both of the following apply:*

5 (A) *A renewal of that policy is offered.*

6 (B) *A written notice is provided with that renewal regarding*  
7 *additional earthquake coverage that is available.*

8 (2) *The form of the written notice in paragraph (1) shall be filed*  
9 *with the commissioner at least 30 days before its first use. The*  
10 *form shall not be used if the commissioner disapproves the form*  
11 *of the written notice within that period for being misleading or*  
12 *incomplete.*

13 ~~(f)~~

14 (g) *This section shall become operative on January 1, 2019.*

15 SEC. 4. *Section 10086 of the Insurance Code, as amended by*  
16 *Section 14 of Chapter 369 of the Statutes of 2013, is amended to*  
17 *read:*

18 10086. (a) *If an offer of earthquake coverage is accepted, the*  
19 *coverage shall be continued at the applicable rates and conditions*  
20 *for the policy term, provided the policy of residential property*  
21 *insurance is not terminated by the named insured or insurer.*

22 (1) *At any renewal, an insurer may modify the terms and*  
23 *conditions of an existing policy, rider, or endorsement providing*  
24 *coverage against loss or damage caused by the peril of earthquake*  
25 *if the modified terms and conditions provide the minimum*  
26 *coverages required by Section 10089.*

27 (2) *An insurer that modifies the terms and conditions of an*  
28 *existing policy, rider, or endorsement shall provide the insured*  
29 *with the renewal notice in a stand-alone disclosure document*  
30 *stating the changes in the terms and conditions of the insured's*  
31 *existing policy, rider, or endorsement. The offer of renewal may*  
32 *be made electronically pursuant to Section 38.5. Proof of mailing*  
33 *of the disclosure document by first-class mail to a named insured*  
34 *at the mailing address shown on the policy or application, or proof*  
35 *consistent with Section 38.5 that the offer of renewal of coverage*  
36 *was sent to the named insured or applicant by electronic*  
37 *transmission, creates a conclusive presumption that the disclosure*  
38 *document was provided. The disclosure shall include the following*  
39 *statement in 14-point boldface type:*

40

1 “THE COVERAGE IN THE POLICY WE ARE OFFERING  
 2 YOU WITH THIS RENEWAL HAS BEEN REDUCED, AND  
 3 SUBSTANTIALLY DIFFERS FROM THE COVERAGES  
 4 PROVIDED BY YOUR HOMEOWNERS’ POLICY.  
 5 INSURANCE COMPANIES ARE ALLOWED TO RENEW  
 6 EARTHQUAKE INSURANCE POLICIES WITH COVERAGE  
 7 THAT IS REDUCED FROM THE COVERAGE YOU  
 8 PREVIOUSLY PURCHASED. YOU MAY REQUEST A  
 9 SAMPLE COPY OF THIS NEW POLICY TO REVIEW PRIOR  
 10 TO MAKING A DECISION TO ACCEPT THIS RENEWAL,  
 11 AND WE WILL MAIL OR DELIVER IT TO YOU WITHIN 14  
 12 DAYS OF YOUR REQUEST. A REQUEST FOR THE SAMPLE  
 13 COPY SHALL NOT CHANGE OR EXTEND THE POLICY  
 14 EXPIRATION DATE SPECIFIED IN THE RENEWAL NOTICE.  
 15 A SUMMARY OF THE CHANGES IS INCLUDED WITH THIS  
 16 NOTICE.”

17  
 18 The commissioner shall approve the form of the summary at the  
 19 time he or she approves the policy. The summary shall include the  
 20 information contained in subdivision (a) of Section 10083, and  
 21 may be included with the renewal notice in standard type.

22 The commissioner may approve substantially similar disclosure  
 23 forms if necessary to accurately disclose relevant information to  
 24 the policyholder. The commissioner may also approve disclosure  
 25 forms substantially similar to the disclosure statement required by  
 26 Section 10083 if necessary to accurately disclose relevant  
 27 information to the policyholder.

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

31  
 32 “CALIFORNIA EARTHQUAKE AUTHORITY POLICY  
 33 DISCLOSURE  
 34

35 THIS POLICY IS BEING PURCHASED FROM THE  
 36 CALIFORNIA EARTHQUAKE AUTHORITY (“CEA”). THE  
 37 COVERAGE IN THIS CEA POLICY SUBSTANTIALLY  
 38 DIFFERS FROM THE COVERAGES PROVIDED IN YOUR  
 39 HOMEOWNER’S POLICY. THE CEA IS NOT PART OF OR  
 40 ASSOCIATED WITH YOUR HOMEOWNER’S INSURANCE

1 COMPANY. IF LOSSES AS A RESULT OF AN EARTHQUAKE  
2 OR A SERIES OF EARTHQUAKES EXCEED THE  
3 AVAILABLE RESOURCES OF THE CEA, THIS POLICY IS  
4 NOT COVERED BY THE CALIFORNIA INSURANCE  
5 GUARANTY ASSOCIATION. THEREFORE, THE  
6 CALIFORNIA INSURANCE GUARANTY ASSOCIATION  
7 WILL NOT PAY YOUR CLAIMS OR PROTECT YOUR  
8 ASSETS IF THE CEA BECOMES INSOLVENT AND IS  
9 UNABLE TO MAKE PAYMENTS AS PROMISED. IN  
10 ADDITION, YOUR CEA POLICY MAY BE SUBJECT TO  
11 FUTURE SURCHARGES OF THE POLICY PREMIUM IN  
12 CERTAIN CASES WHERE AN EARTHQUAKE OR SERIES  
13 OF EARTHQUAKES HAS EXCEEDED AVAILABLE  
14 RESOURCES TO PAY CLAIMS. IN THAT CASE, THIS  
15 MEANS THAT IN ADDITION TO THE ANNUAL PREMIUM,  
16 YOU MAY BE CHARGED UP TO AN ADDITIONAL 20% OF  
17 THE PREMIUM.”

18

19 (b) If the offer is not accepted, the insurer or any affiliated  
20 insurer shall be required on an every other year basis to offer  
21 earthquake coverage in connection with any continuation, renewal,  
22 or reinstatement of the policy following any lapse thereof, or with  
23 respect to any other policy that extends, changes, supersedes, or  
24 replaces the policy of residential property insurance. The offer  
25 may be made electronically pursuant to Section 38.5.

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

28 (d) This section shall remain in effect only until January 1, 2016,  
29 and as of that date is repealed, unless a later enacted statute, that  
30 is enacted before January 1, 2016, deletes or extends that date.

31 SEC. 5. Section 10086 is added to the Insurance Code, to 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 become operative on January 1, 2016.

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

18 SEC. 6. Section 10086 of the Insurance Code, as added by  
19 Section 15 of Chapter 369 of the Statutes of 2013, is amended to  
20 read:

21 10086. (a) If an offer of earthquake coverage, made pursuant  
22 to Section 10081, is accepted, the coverage shall be continued at  
23 the applicable rates and conditions for the policy term, provided  
24 the policy of residential property insurance is not terminated by  
25 the named insured or insurer.

26 (1) At any renewal, an insurer may modify the terms and  
27 conditions of an existing policy, rider, or endorsement providing  
28 coverage against loss or damage caused by the peril of earthquake  
29 if the modified terms and conditions provide the minimum  
30 coverages required by Section 10089.

31 (2) An insurer that modifies the terms and conditions of an  
32 existing policy, rider, or endorsement shall provide the insured  
33 with the renewal notice in a stand-alone disclosure document  
34 stating the changes in the terms and conditions of the insured's  
35 existing policy, rider, or endorsement. Proof of mailing of the  
36 disclosure document by first-class mail to a named insured at the  
37 mailing address shown on the policy or application creates a  
38 conclusive presumption that the disclosure document was provided.  
39 The disclosure shall include the following statement in 14-point  
40 boldface type:

1  
 2 “THE COVERAGE IN THE POLICY WE ARE OFFERING  
 3 YOU WITH THIS RENEWAL HAS BEEN REDUCED, AND  
 4 SUBSTANTIALLY DIFFERS FROM THE COVERAGES  
 5 PROVIDED BY YOUR HOMEOWNERS’ POLICY.  
 6 INSURANCE COMPANIES ARE ALLOWED TO RENEW  
 7 EARTHQUAKE INSURANCE POLICIES WITH COVERAGE  
 8 THAT IS REDUCED FROM THE COVERAGE YOU  
 9 PREVIOUSLY PURCHASED. YOU MAY REQUEST A  
 10 SAMPLE COPY OF THIS NEW POLICY TO REVIEW PRIOR  
 11 TO MAKING A DECISION TO ACCEPT THIS RENEWAL,  
 12 AND WE WILL MAIL OR DELIVER IT TO YOU WITHIN 14  
 13 DAYS OF YOUR REQUEST. A REQUEST FOR THE SAMPLE  
 14 COPY SHALL NOT CHANGE OR EXTEND THE POLICY  
 15 EXPIRATION DATE SPECIFIED IN THE RENEWAL NOTICE.  
 16 A SUMMARY OF THE CHANGES IS INCLUDED WITH THIS  
 17 NOTICE.”

18  
 19 The commissioner shall approve the form of the summary at the  
 20 time he or she approves the policy. The summary shall include the  
 21 information contained in subdivision (a) of Section 10083, and  
 22 may be included with the renewal notice in standard type.

23 The commissioner may approve substantially similar disclosure  
 24 forms if necessary to accurately disclose relevant information to  
 25 the policyholder. The commissioner may also approve disclosure  
 26 forms substantially similar to the disclosure statement required by  
 27 Section 10083 if necessary to accurately disclose relevant  
 28 information to the policyholder.

29 (b) If the offer of earthquake coverage made pursuant to Section  
 30 10081 is not accepted, the insurer or any affiliated insurer shall be  
 31 required on an every other year basis to offer earthquake coverage  
 32 in connection with any continuation, renewal, or reinstatement of  
 33 the policy following any lapse thereof, or with respect to any other  
 34 policy that extends, changes, supersedes, or replaces the policy of  
 35 residential property insurance.

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

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

39 SEC. 7. Section 10089.6 of the Insurance Code is amended to  
 40 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 6 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) For purposes of this section, the term “operating expenses  
25 of the authority” excludes solely the following:

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

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

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

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

35 (A) Investment.

36 (B) Loss-modeling.

37 (C) Legal services.

38 (5) Costs associated with the authority’s efforts to acquaint the  
39 public with and market authority products, promote earthquake

1 preparedness, and earthquake-loss mitigation under the authority's  
2 duly adopted strategic plan.

3 (6) Producer compensation.

4 (7) Participating insurer fees and reimbursement amounts arising  
5 under written contracts.

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

8 (9) Loans, grants, and expenses to support and maintain the  
9 authority's earthquake loss-mitigation goals and programs, whether  
10 conducted by the authority alone or in collaboration with or by  
11 other persons.

12 (10) The costs of and loss-adjustment expenses associated with  
13 adjusting and paying policyholder claims for earthquake losses  
14 that are incurred by the authority under its earthquake insurance  
15 policies, including all costs and expenses associated with  
16 claim-related litigation, provided that all of those costs and  
17 expenses shall be reported to the Legislature in the manner required  
18 by subdivision (e) of Section 10089.13.

19 SEC. 8. Section 10089.26 of the Insurance Code is amended  
20 to read:

21 10089.26. (a) The authority shall issue policies of basic  
22 residential earthquake insurance, including an option for earthquake  
23 loss assessment policies for individual condominium unit  
24 properties, to any owner of a qualifying residential property, as  
25 long as the owner has secured a policy of residential property  
26 insurance from a participating insurer.

27 (1) For purposes of this section, earthquake loss assessment  
28 coverage shall be issued in a minimum amount of fifty thousand  
29 dollars (\$50,000) for individual condominium units valued at more  
30 than one hundred thirty-five thousand dollars (\$135,000).  
31 Earthquake loss assessment coverage shall be issued in a minimum  
32 amount of twenty-five thousand dollars (\$25,000) for individual  
33 condominium units of one hundred thirty-five thousand dollars  
34 (\$135,000) in value or less. The value of the land shall be excluded  
35 when determining the value of the condominium, as it relates to  
36 the earthquake loss assessment coverage offered by the authority.

37 (2) The panel shall submit to the board, and the board shall  
38 approve, rates for earthquake loss assessment coverage that  
39 reasonably balance the earthquake loss assessment coverages  
40 offered and the potential exposure to earthquake loss resulting

1 from an earthquake loss assessment policy as compared to the  
2 coverages offered and the potential exposure to earthquake loss  
3 resulting from residential property other than individual  
4 condominium policies.

5 It is the intent of the Legislature, to the extent practicable, that  
6 rates charged by the authority to condominium loss assessment  
7 policyholders and residential property owner policyholders are  
8 treated equitably, and that a proportionate share of premiums is  
9 paid for potential exposure to loss, to the authority.

10 (b) Nothing in this section shall prohibit a participating or  
11 nonparticipating insurer from offering a condominium earthquake  
12 loss assessment policy for different amounts of coverage other  
13 than those offered by the authority.

14 SEC. 9. Section 10089.28 of the Insurance Code is amended  
15 to read:

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

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

1 (c) The duty of an agent or broker to investigate the financial  
2 condition of the authority before placement of insurance shall be  
3 the same as the duty of an agent or broker to investigate the  
4 financial condition of an admitted insurer before placement of a  
5 policy of insurance.

6 (d) This section shall remain in effect only until January 1, 2016,  
7 and as of that date is repealed, unless a later enacted statute, that  
8 is enacted before January 1, 2016, deletes or extends that date.

9 SEC. 10. Section 10089.28 is added to the Insurance Code, to  
10 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 law 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) Concurrent with the issuance or renewal by the authority of  
30 a residential earthquake insurance policy, the following disclosure  
31 shall be provided to the insured in 14-point boldface type:

32  
33 “California Earthquake Authority Policy Disclosure

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

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

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

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

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

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

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

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

30 (e) This section shall become operative on January 1, 2016.

31 SEC. 11. Section 10089.42 is added to the Insurance Code, to  
32 read:

33 10089.42. (a) At least once each year a participating insurer  
34 shall provide each of its residential property insureds with  
35 marketing documents produced at the authority's expense.

36 (b) This section shall become operative on January 1, 2016.

37 *SEC. 12. Section 1.5 of this bill incorporates amendments to*  
38 *Section 10083 of the Insurance Code, as amended by Section 12*  
39 *of Chapter 369 of the Statutes of 2013, proposed by both this bill*  
40 *and Assembly Bill 2735. It shall only become operative if (1) both*

1 bills are enacted and become effective on or before January 1,  
2 2015, (2) each bill amends Section 10083 of the Insurance Code,  
3 as amended by Section 12 of Chapter 369 of the Statutes of 2013,  
4 and (3) this bill is enacted after Assembly Bill 2735, in which case  
5 Section 1 of this bill shall not become operative.

6 SEC. 13. Section 2.5 of this bill incorporates Section 10083 of  
7 the Insurance Code, as proposed to be added by this bill and  
8 amended by Assembly Bill 2735. It shall only become operative if  
9 (1) both bills are enacted and become effective on or before  
10 January 1, 2015, and (2) this bill adds Section 10083 to the  
11 Insurance Code and Assembly Bill 2735 amends Section 10083 of  
12 the Insurance Code, in which case Section 2 of this bill shall not  
13 become operative.

14 SEC. 14. Section 3.5 of this bill incorporates amendments to  
15 Section 10083 of the Insurance Code, as added by Section 13 of  
16 Chapter 369 of the Statutes of 2013, proposed by both this bill and  
17 Assembly Bill 2735. It shall only become operative if (1) both bills  
18 are enacted and become effective on or before January 1, 2015,  
19 and (2) each bill amends Section 10083 of the Insurance Code, as  
20 added by Section 13 of Chapter 369 of the Statutes of 2013, and  
21 (3) this bill is enacted after Assembly Bill 2735, in which case  
22 Section 3 of this bill shall not become operative.