

Calif Earthquake Ins Course **216**



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EARTHQUAKE COVERAGE

Earthquake coverage changed radically after the 1994 Northridge quake. Until then, companies that wrote homeowners insurance in California were also required to offer earthquake coverage. After \$12.5 billion in losses from the Northridge earthquake, however, most insurers refused to write this coverage. The state Legislature responded by creating the California Earthquake Authority (CEA), a state-run earthquake insurance pool. Most large insurers (Allstate, State Farm, Farmers, etc.) are participating members offering CEA ONLY policies. A handful of private companies continue to issue supplemental or stand alone ISO-type earthquake policies (GeoVera, Pacific Select, Safeco, Fireman's Fund, Hartford, Travelers, etc).

ISO vs. CEA

A detailed comparison of private versus CEA earthquake coverages is not the main objective of this course. However, in a nutshell, ISO-type coverages tend to charge higher premiums yet offer building extension coverage (tool sheds, fences, pools, retaining walls, walkways, patios, paintings and antiques, as well as minimal personal property coverage. CEA (California Earthquake Authority) member policies, while the majority of policies sold in California, offer fewer bells and whistles (outbuildings, fences, pools, etc.) and require **companion policies** (underlying fire insurance). Further, in a large scale quake, the CEA could run underfunded and be forced to pro-rate claim proceeds.

Since the vast majority of policies sold in California are CEA Residential Policies, the following discussion of coverage and limitations pertains to CEA policies ONLY.

CALIFORNIA EARTHQUAKE AUTHORITY

Overview

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

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

All Participating Insurers and their claim representatives (adjusters), whether employees or independent contractors, are required to follow specific claim-handling guidelines. The CEA audits and re-inspects claims to make sure that claims are properly investigated and that appropriate procedures have been followed.

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

Types of CEA Policies

The CEA provides earthquake coverage in the State of California through three distinct policies. They are:

Basic Earthquake Policy – Homeowner

This is the most frequently-sold policy and the one a claim representative should review first. Coverage for dwelling, personal property and loss of use are included. **Single-family homes, manufactured homes and mobilehomes** are also insured using this policy.

Basic Earthquake Policy – Homeowners Choice

Under HO Choice, dwelling coverage is mandatory, personal property and loss of use have optional limits. Dwellings, manufactured homes and mobilehomes can be insured.

A summary of Homeowners and Homeowners Choice plan coverages and limitations can be found on the next page.

Difference in Deductibles Homeowners vs. Homeowners Choice

Under Homeowner Policies, nothing will be paid for personal property until the dwelling deductible is met by covered damage to Coverage A and B (dwelling and real property).

In Homeowners Choice, the deductible for personal property is between 5%-25% of the personal property coverage limit. This deductible is waived if Coverage A deductible is met (assuming coverage is purchased).

Basic Earthquake Policy – Renters

This policy provides personal property and additional living expense coverages similar to that in the homeowners policy, although the deductibles work differently from a homeowners policy. It does not cover the dwelling or extensions to dwelling.

Basic Earthquake Policy – Common Interest Development

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

NOTE: CEA Policies do not cover commercial or office buildings.

NOTE: CEA is funded ONLY from premiums collected and investment income -- THERE ARE NO TAXPAYER OR PUBLIC FUNDS TO SUPPORT CEA CLAIMS. Therefore, in the case of a severe or series of earthquakes, CEA’s ability to pay claims may be reduced, i.e., CEA’s Claims Payment Ratio could be less than 100%.

**COVERAGE COMPARISON CHART
HOMEOWNERS & HOMEOWNERS CHOICE
California Earthquake Authority 2016**

	HOMEOWNERS Includes Mfg. homes and Mobilehomes	HOMEOWNERS CHOICE Includes Mfg. homes and Mobilehomes
COVERAGE A		
Dwelling	Companion policy limit	Companion policy limit
Deductible	5%, 10%, 15%, 20%, or 25% of A & B Combined Single Limit	5%, 10%, 15%, 20%, or 25% of A & B Combined Single Limit
COVERAGE B Other Structures	Limited coverage included in CSL Limit for Coverages A & B.	Limited coverage included in CSL Limit for Coverages A & B.
Coverage C: Personal Property coverage amounts selected by Insured	Included coverage. Available limits: \$25,000 \$50,000 \$75,000 \$100,000 \$150,000 \$200,000	Optional coverage that insured can buy or decline. Available limits: \$5,000 \$25,000 \$50,000 \$75,000 \$100,000 \$150,000 \$200,000
Deductible	Deductible on Coverage A must be met before C can be paid.	Separate 5%, 10%, 15%, 20%, or 25% deductible for Coverage C that is waived if Coverage A deductible is met.
Coverage D: Loss of Use—Coverage Amounts selected by Insured (No deductible)	Included coverage. Available limits: \$1,500 \$10,000 \$15,000 \$25,000 \$50,000 \$75,000 \$100,000	Optional coverage that insured can buy or decline. Available limits: \$1,500 \$10,000 \$15,000 \$25,000 \$50,000 \$75,000 \$100,000
OTHER COVERAGES	Included	Included
Debris Removal	5% of A & B CSL as additional insurance on total losses	5% of A & B CSL as additional insurance on total losses
Emergency Repairs	No deductible on first \$1,500; balance subject to 5% policy sublimit and included in deductible calculation.	No deductible on first \$1,500; balance subject to 5% policy sublimit and included in deductible calculation.
Land Stabilization	\$10,000 Sublimit of A & B CSL	\$10,000 Sublimit of A & B CSL
Building Code Upgrade	This is additional insurance of \$10,000, \$20,000, or \$30,000.	This is additional insurance of \$10,000, \$20,000, or \$30,000.

Types of Property Covered

Business and commercial buildings are **never insured** by the CEA policy. Under COVERAGE A: DWELLING, the policy covers the residence premises, which can be a one, two, three, or four unit dwelling at the address shown in the declarations. "Dwelling" is specifically defined in the DEFINITIONS found in the policy. It provides:

"Dwelling," means the residential structure or mobile home at the location described in the DECLARATIONS. Dwelling does not include land, whether or not beneath the residential structure or mobile home, even if required for support. Dwelling does not include any structure other than the residential structure or mobile home unless the structure (1) shares a common wall or a continuous roof line with the residential structure or mobile home or (2) is attached to the residential structure or mobile home by a foundation that is continuous with or contiguous to the foundation of the residential structure.

Companion Fire Policy Required

CEA policies are sold and issued through Participating Insurers. By law (California Insurance Code section 10089.20), a CEA earthquake policy is valid only if an underlying residential fire insurance policy is in force covering the same property. The CEA policy is **legally void if no residential fire policy issued by the same Participating Insurer is in force at the time of the loss**, regardless of whether a formal notice of cancellation of the CEA policy has been sent or received at the time of loss.



BASIC CEA HOMEOWNERS EARTHQUAKE POLICY

(A specimen policy is provided in the Appendix)

The **CEA homeowners policy** is used to insure residential dwelling structures, manufactured homes and mobilehomes.

THE CEA POLICY FORMS

The CEA homeowners policy has two forms:

1. **Basic Earthquake Policy – Homeowners**, form BEQ-3B
(Referred to as the HO Basic policy.)
2. **Basic Earthquake Policy – Homeowners Choice**, form BEQ-3C
(Referred to as the HO Choice policy.)

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

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

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

Optional Choice Policy Coverages

- ✓ Coverage A & B: DWELLING is required on a Homeowners Choice policy.
- ✓ Coverage C: PERSONAL PROPERTY is an optional coverage that a policyholder may elect to add to a Choice policy. If selected, the insured may choose limits ranging from \$5,000 to \$200,000. This coverage has its own 5%-25% deductible that is waived if the damage to coverage A & B CSL exceeds the coverage A & B CSL deductible.
- ✓ Coverage D: LOSS OF USE is an optional coverage that a policyholder may elect to add to a Choice policy. If selected, the insured may choose limits ranging from \$1,500 to \$25,000.
- ✓ Coverage of Exterior Masonry Veneer- This endorsement applies to dwelling, **coverage A** and is subject to the dwelling deductible.
- ✓ Coverage for Breakables- Optional coverage under personal property, **coverage C** can cover items such as dishes and ceramics.

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

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

COVERED LOSSES

The CEA policy is a specified peril policy. It insures against only one peril, specifically:

*...accidental, direct physical loss from an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period...*

*“**Seismic event**” means one or more **earthquakes** that occur within a 360-hour period. The **seismic event** commences upon the initial **earthquake**, and all **earthquakes** or aftershocks that occur within the 360 hours immediately following the initial **earthquake** are considered for purposes of this policy to be part of the same **seismic event**. (360 hours equals 15 days.) Read the complete policy definitions for “earthquake,” “seismic event,” and “tectonic processes.”*

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

Loss of Use

Coverage D: Loss of Use coverage can be purchased up to a maximum of \$100,000. If a covered loss makes the dwelling unfit to live in, and the insured vacates the dwelling, the necessary increase in living expenses actually incurred is covered. The claim file should contain documentation to support all loss of use expenses that were paid.

If any part of the dwelling was rented to others or held for rental, and a covered loss makes it unfit to live in, the fair rental value (less any expenses that do not continue) is covered.

If a civil authority prohibits the insured from occupying the dwelling because of direct damage to neighboring premises caused by an earthquake we cover the resulting Additional Living Expense or Loss of Rent, subject to the limit of insurance. Neighboring premises includes roads and bridges. Even if an insured has no damage to their home, if they are kept away by civil authorities, adjusters should quickly evaluate if they qualify for this coverage.

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

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

Emergency Repairs

The cost of necessary and reasonable emergency measures taken to protect against further earthquake damage is covered up to a **sublimit of 5% of the limit of insurance** for the type of property being protected. However, **the first \$1,500 of emergency repairs do not have a deductible**. This means the claim representative should pay for covered emergency repairs up to \$1,500 without applying a deductible. In addition, the representative must keep track of all covered emergency repairs because they are subject to the policy sublimit of 5% of coverage A&B CSL.

Debris Removal

The policy reads in part:

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

No coverage is provided until and unless losses covered under Coverages A or B have exceeded the policy deductible. This is similar to most HO fire policies. In cases where you document EXTRA debris removal expense, you can pay up to an additional 5% of Coverage A.

Building Codes Upgrades

Building code upgrade coverage in the amount of \$10,000 is included in the policy. the policyholder can also select \$20,000 or a \$30,000 limit.

Some things to remember about this coverage are:

- The covered property must actually be repaired before payment may be made for Building Code Upgrade coverage.
- This coverage is additional insurance to the Coverages A and B combined single limit.
- This coverage is to bring the covered property up to local residential building code standards that were in effect *on the date of the earthquake* that caused the loss.
- The coverage pays only for the Building Code Upgrade costs necessary to secure a reconstruction permit for repair of the *covered* property.
- Building code upgrade is NOT one of the four items that are included in the HO deductible calculation.

Note: The base-limits CEA homeowner policy includes \$10,000 of Building Code Upgrade coverage as additional insurance. This applies to all dwellings, including mobilehomes. For dwellings other than mobilehomes, the policyholder can increase this limit by endorsement from a \$10,000 limit to a \$20,000 or \$30,000 limit of additional insurance.

Land Stabilization

The policy covers up to \$10,000 for the cost to replace, rebuild, stabilize, or otherwise restore land owned by the insured necessary to support the dwelling, if the need for stabilization is caused directly by a covered earthquake and is necessary for the habitability of the dwelling.

This coverage is provided as a \$10,000 sublimit of the Coverages A and B combined single limit. Other than this, there is no coverage for land. Note: Land is excluded in the definition of "Dwelling." The cost of engineering work done to determine the need for land stabilization is included in this \$10,000 limit. Minor movement of land (not land stabilization) to accommodate a foundation repair covered under the policy is properly placed under Coverage A, and is not subject to the land stabilization sublimit of \$10,000.

Chimneys – Coverage A: \$5,000 Sublimit of Insurance

Chimneys are covered up to a \$5,000 sublimit regardless of the number of chimneys covered. For purposes of applying the sublimit:

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

The hearth, mantel and firebox are not subject to this \$5,000 sublimit and damage to them is covered under the dwelling limit. Also, please note that payment for the replacement of masonry chimneys is made at the cost of a non-masonry chimney. The non-masonry provision is found in the homeowner policy condition 5(g), which reads:

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

- (i) The **sublimit** of \$5,000 that applies to chimneys;*
- (ii) The cost of replacement of a masonry **chimney** or **chimneys** with a non-masonry, earthquake-resistant **chimney** or **chimneys**; or*
- (iii) The necessary amount actually spent to repair the damaged **chimney** or **chimneys**.*

There are four things to remember when working with chimneys.

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

Equipment - Coverage B:

The policy covers equipment and utility service structures for electric, telephone, natural or bottled gas, heating, oil, water, septic, and sanitary sewage systems. To be covered, these items must be owned by the insured, must be on the residence premises, and must affect the habitability of the dwelling.

Exterior water supply systems, including irrigation systems, sprinkler systems, and water reclamation systems are **excluded**.

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

1. Does the insured own the item?

2. Is the item that was damaged one of the types of items listed in the policy?
3. Is the item physically located on the insured's premises?
4. Does the item affect the habitability of the dwelling?

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

Walkways, Driveways, Patios, Decks - Coverage B:

The policy reads in part as follows:

... **we cover...** 2. *That portion of any walkway, driveway, deck, or patio that is **necessary for regular pedestrian ingress to or egress** from the **dwelling** and for the regular ingress to and egress from the **dwelling** by any non-ambulatory **insured**.*

The scope of this coverage is to establish safe pedestrian passage to and from the dwelling for the insureds. The scope is best appreciated by breaking down the coverage language as follows:

- *That portion* – This language obviously states that only the relevant *portion* of the property is covered. Use the local city or county building codes, where the codes speak to this issue, to determine what "that portion" necessary for safe ingress and egress is.
- *Any* should be interpreted to mean *all* such items that are used for regular pedestrian ingress or egress.
- *Pedestrian* - Means that ingress and egress necessary for vehicles is not covered. (An exception could be made for a non-ambulatory insured.)
- *To or from the dwelling* - This means that the policy covers regular pedestrian ingress and egress from the home to a public sidewalk or to the private or public street next to the home.

Questions about what portion of the walkway, driveway or patio should be repaired or replaced must be addressed on an individual basis according to the facts of the loss and the coverage available. The claim file should have a ***detailed drawing of what ingress and egress was allowed***, and the file should contain documentation as to how and why the dimensions and amounts paid were arrived at. This coverage is for replacement cost with materials of like kind and quality and for the same use. (See the definition of "replacement cost" in the policy.)

Bulkheads, Piers & Retaining Walls - Coverage B:

The policy covers *those bulkheads, piers, and retaining walls on the **residence premises** that are integral to the stability of the **dwelling**. Except as provided for in "OTHER COVERAGES," item 4, the cost of repairing, replacing or stabilizing the land under or around these devices is not covered.*

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

Miscellaneous

The "OTHER COVERAGES" section of the policy contains the following additional property building property coverages:

- Emergency repairs *up to a 5% sublimit* of the Coverages A and B combined single limit.
- Debris removal up to 5% of the Coverages A and B combined single limit *as additional insurance*.
- Building code upgrade coverage in the amount of \$10,000, \$20,000, or \$30,000 (depending on the coverage option selected by the policyholder) *as additional insurance*.
- Land stabilization, necessary to support the dwelling is covered up to \$10,000 *as a sublimit of Coverage A*.

LOSSES NOT COVERED

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

Water Damage

Under Losses Excluded, number 2, water damage, the policy reads: *This water damage exclusion, however, does not exclude loss that results from water damage to covered property as a result of an **earthquake**, which causes: (i) the release of water from water heaters, refrigerators, or water supply pipes within the **dwelling**; (ii) the displacement of water from a swimming pool, decorative pool, spa, or hot tub; or (iii) the release of water from municipal or other water supply lines on or off the **residence premises** or the release of water or sewage from sewers or drains on or off the **residence premises**.*

Earthquake Movement

Under Losses Excluded, number 5, non-earthquake earth movement is excluded, but there are exceptions: That exclusion reads in part:

We do not insure for any loss that is caused by... 5. Earth movement, settling of land, land sliding, subsidence, mudflows, or earth sinking, rising or shifting, unless the earth movement, settling of land, land sliding, subsidence, mudflow, or earth sinking, rising or shifting:

- a. Is induced by, and would not have occurred in the absence of, an earthquake that commences during the policy period as part of a **seismic event** that commences during the policy period; and*
- b. Causes loss that manifests within one year after the **earthquake** that caused the loss.*

Exterior & Underground Systems

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

Antennas & Satellite Dishes

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

Decorative Features

The policy does not cover:

Any decorative or artistic features of the property, including but not limited to works of art; items such as murals; stained or leaded glass; mirrors; chandeliers; mosaics; statuary or sculpture; carvings, inlays, and reliefs; and fountains, aquariums, and their systems. If at the time of loss a decorative or artistic feature is serving a utilitarian purpose, the cost to repair or replace the decorative or artistic feature is not covered to the extent the cost of repair or replacement exceeds the cost of replacing it with a non-decorative, non-artistic functional replacement.

In applying this policy provision, the CEA recommends the following approach. If an item on the above list is damaged by the earthquake, it is not covered and if an item is not listed, it probably is covered. If a claim representative is unsure if an item rises to the level of being a decorative or artistic feature of the property, they should e-mail a picture to his or her company CEA Liaison, who can consult with the CEA if necessary. The following lists the common meaning of the words used in this section of the policy. For purposes of illustration, these definitions were taken from a standard dictionary.

- Murals – a painting that is applied to a wall, ceiling, or floor surface
- Stained glass – glass that has been colored in some way
- Leaded glass – pieces of glass held together by lead, can be clear, stained, or etched glass
- Mirrors – a polished or smooth surface (as of glass) that forms images by reflection
- Chandeliers –light fixture, hangs from the ceiling, branched, often ornate
- Mosaics – design made of small pieces of colored stone or glass
- Statuary – statues collectively
- Statue – a sculpture representing a human or animal
- Sculpture – a three-dimensional work of art
- Carvings – an object created by carving (as wood or ivory or stone)
- Inlays – decorate the surface by inserting wood, stone, or metal
- Reliefs and bas reliefs – Decorative features in which figures or designs are raised above (or indented into) the surrounding flat surface
- Fountains - a structure from which an artificially produced jet of water arises
- Aquariums - tank with water for keeping fish and underwater animals, or a tank for reptiles

If at the time of **loss a decorative or artistic feature** is serving a **utilitarian purpose**, (e.g., a chandelier, etc.) the item can be considered in the repair estimate at the cost of repair or

replacement with a non-decorative, non-artistic functional replacement consistent with the quality of materials generally found in the home. For example, in the case of the chandelier, the adjuster should allow for a replacement light fixture of equivalent quality of other light fixtures in the home, but should not pay for the replacement of the damaged chandelier.

Awnings & Patio Covers

The policy does **not cover awnings and patio coverings, or their support structures**. All structures comprising the patio covering, including posts supporting the covering, are excluded. Awnings and patio coverings are not covered even if permanently attached to the dwelling.

A patio slab is not part of a covered loss, except for any portion of it that is necessary for ingress or egress as described in the policy.

Landscaping

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

Swimming Pools & Hot Tubs

The policy **does not cover** swimming pools, spas, or hot tubs, whether they are personal property or part of the dwelling. Tile or other material linking or attaching the pool, spa, or hot tub to a deck or to the dwelling is not covered. The policy reads as follows:

Property Not Covered—Coverage A and Coverage B---We do not cover.

*Swimming pools, spas, and hot tubs, whether part of the **dwelling** or not, including the tile or other material linking or attaching the pool, spa or hot tub to a deck or to the **dwelling**.*

Garages & Outbuildings

Detached garages and outbuildings **are not covered**. However, the definition of “dwelling” includes structures that **share a common wall or continuous roof line** with the residential structure or mobilehome or are attached by a foundation that is continuous or contiguous to the foundation of the dwelling. If a garage or outbuilding meets this definition then it would be covered under the structure policy limit.

Plaster

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

Dwelling Glass

Conditions:

5. Loss Settlement: Coverages A and B.

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

This applies when you are paying for broken building window glass, and building codes require that it be replaced with safety glass. This increased cost falls under the policy building code upgrade coverage. The companion homeowner's policy may have earthquake coverage for glass used in the dwelling. If there is double coverage, see the provisions in the policy regarding Other Insurance.

Personal Property

After the dwelling deductible is met by damage to covered real property, personal property is covered without further deductible, subject to the total limit of insurance set forth in the Declarations page for Coverage C. The policy provides a **minimum limit of \$5,000 for personal property** coverage, and additional coverage up to \$100,000 can be purchased. See the Declarations page for the policyholder's limits.

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

- The policy does not cover: *artwork, including but not limited to paintings, drawings, framing, sculpture, photographs, handmade tapestries and rugs, pottery, and ceramics.* For purposes of this coverage, clay and stoneware dishes are not pottery and are covered.
- Motor vehicles, watercraft, and trailers are not covered.
- Business property: Coverage C has a sublimit of \$1,000 on business property. There is a separate sublimit of \$3,000 on computers and other electronic data processing equipment, whether or not it is business property. Therefore, a computer used for business is not limited by the \$1,000 business property sublimit.
- Personal Property owned by others: Property owned by roomers, boarders, or renters not related to an insured is not covered. For property owned by all other persons other than an insured, there is a sublimit of \$2,500 on covered personal property, regardless of the Coverage C limit of insurance.

Indirect Losses

We do not insure for any loss that is not directly caused by an *earthquake* that commences during the policy period as part of a *seismic event* that commences during the policy period. Without limiting the above, even if a loss directly or indirectly is caused by, is contributed to by, results from, or is aggravated by an *earthquake*, we do not insure for any loss that is caused directly or indirectly by, or that in any way results from, is contributed to by, or is aggravated by, any of the following:

Fire and Explosion

The policy does not cover losses resulting from fire or explosion. This includes fires resulting from such things as broken gas lines, exposed wiring, or other factors directly resulting from an earthquake. Any losses resulting from fire must be adjusted under the policyholder's fire insurance policy, not under the CEA policy. In situations where part of the home is damaged by a covered earthquake and part of the home is damaged by a fire, the claim representative

working on each claim will need to properly allocate the damage to either the fire or earthquake policy.

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

Asbestos and Other Pollutants (Loss Excluded)

The policy contains a detailed pollution and pollutants exclusion that applies to groundwater, land, and personal property. Because this exclusion applies to personal property, the policy will not cover asbestos removal, including the cost of testing, when the expense is necessary to repair or replace damaged items under Coverage C. Damage to any personal property, including furniture, furnishings, and clothing that are contaminated by asbestos is not covered. The policy would, however, cover asbestos removal (including the cost of testing) or other earthquake-caused pollution damage to the dwelling when the expense is necessary to repair or replace damaged items or real property covered under Coverages A or B. Where the claim representative suspects that asbestos may be present, an expert should be consulted.

Non-Earthquake Earth Movement and Land Sliding (Loss Excluded)

The policy does not cover any loss caused directly or indirectly by non-earthquake earth movement:

Earth movement, settling of land, land sliding, subsidence, mudflows, or earth sinking, rising or shifting

There is an exception to this exclusion, however—the policy *does* cover the loss if such earth movement, settling of land, land sliding, subsidence, mudflow, or earth sinking, rising, or shifting satisfies both of the following requirements:

- a. Is induced by, and would not have occurred in the absence of, an **earthquake** that commences during the policy period as part of a **seismic event** that commences during the policy period; and*
- b. Causes loss that manifests within one year after the **earthquake** that caused the loss.*

For example, if an earthquake causes a landslide to occur six months after the earthquake, the damage caused to the dwelling may be covered. However, if the landslide occurs or the loss manifests anytime after the first anniversary of the earthquake, the damage is not covered under the CEA policy.

Theft or Vandalism (Loss Excluded)

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

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

DEDUCTIBLES

The **deductible** for CEA Choice and standard policies can be chosen by the policyowner to range between **5%-25% of the Coverage A and Coverage B** combined single limit of insurance. Check the declarations page to see which deductible percentage applies to the particular policy under which the claim is submitted.

For losses covered under Coverage A: DWELLING or Coverage B: EXTENSIONS TO DWELLING, there is a combined single limit of coverage and a combined deductible. For example, if the combined single limit for Coverages A and B is \$200,000 and the deductible percentage is 15%, the deductible is \$30,000.

Losses to personal property are not taken into account when calculating the deductible! **Only covered loss to real property is counted against the deductible.** No payment will be made for any personal property loss until the amount of covered loss to property that is covered under Coverage A: DWELLING or Coverage B: EXTENSIONS TO DWELLING exceeds the deductible shown on the declarations page. Regardless of the amount of loss to personal property, there will be no payment for any loss unless the loss to dwelling and extensions to dwelling exceeds the amount of the deductible.

Following are two homeowners policy examples:

Example 1: How to calculate proper payment after applying the deductible.

Coverages A and B combined single limit = \$200,000
Covered damage to dwelling and extensions (Coverages A and B property) = \$234,000
Deductible = 15% x \$200,000 = \$30,000

The following illustration shows that the deductible is applied first, and then covered claims are paid up to the combined single limit, leaving amounts in excess of \$230,000 as uninsured losses:

\$234,000 Total loss to covered items under Coverages A and B
- \$30,000 Less the deductible
\$204,000 Remaining loss to covered items
\$200,000 Coverage Limit and the amount that can be paid on this claim
\$ 4,000 Loss not paid since coverage limits already paid in full

Further, in the above example, the Coverages A and B deductible was exceeded so Coverage C can be paid up to the Coverage C limit without further deductible.

Example 2: Here is an example showing significant personal property damage, but no CEA payout since the Coverages A and B damage did not exceed the Coverages A and B deductible.

Coverages A and B combined single limit = \$200,000
Personal Property limit = \$75,000
Damage to dwelling and extensions (Coverages A and B property) = \$5,000
Damage to personal property = \$20,000
Deductible = 15% x \$200,000 = \$30,000
\$ 5,000 Loss to covered items under Coverages A and B property
\$30,000 Deductible on Coverages A and B

\$ 0 Payment under Coverages A and B since loss did not exceed the deductible
\$20,000 Personal property loss
20,000 Personal property loss not covered since Coverages A and B deductible not met
\$ 0 Total amount paid on this claim for personal property

Read the deductible clause in the policy to determine what will be applied to meet the deductible.

It reads in part:

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

- a. *The reasonable and necessary **replacement cost** of the covered damage to property covered under “COVERAGE A: DWELLING,” and*
 - b. *The reasonable and necessary **replacement cost** of the covered damage to property covered under “COVERAGE B: EXTENSIONS TO DWELLING,” but only up to the amount of the applicable **sublimit** for property for which there is a **sublimit** under “COVERAGE B: EXTENSIONS TO DWELLING,” and*
 - c. *The reasonable and necessary cost of emergency measures covered under “OTHER COVERAGES,” item 1, that **you** actually take to protect property that is covered under “COVERAGE A: DWELLING” and “COVERAGE B: EXTENSIONS TO DWELLING” against further damage, but only up to the **sublimit** of 5% of the combined single **limit of insurance** for “COVERAGE A: DWELLING” and “COVERAGE B: EXTENSIONS TO DWELLING,” and*
 - d. *The reasonable and necessary cost to replace, rebuild, stabilize or otherwise restore the land that is covered under “OTHER COVERAGES,” item 4, but only up to the **sublimit** of \$10,000.*
3. *The cost to repair or replace personal property, or any other cost not set forth in 2a. through 2d. above, will not be applied to meet the deductible. 4. The deductible will be applied one time for each **seismic event**.*

Important! *There is no deductible for Coverage D: LOSS OF USE. Please note that even if the insured does not have a real property loss in excess of the policy deductible, the insured can still claim the Loss of Use coverage at a later date if forced to move out of the dwelling while covered earthquake-related repairs are being made to the property.*

LOSS SETTLEMENT

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

The real property Loss Settlement condition of the policy (Condition 5) specifies that, once losses on building property exceed the deductible, settlement ... *will not exceed the smallest of the following:*

- (i) *The **replacement cost** at the time of loss;*
- (ii) *If the damaged property has been actually repaired or replaced, the amount actually and necessarily spent to repair or replace the damaged property; or*
- (iii) *The applicable **limit of insurance** or any applicable **sublimit(s)**. Personal property is also settled at replacement cost, except for certain limited categories of personal property that are settled at actual cash value. These categories are described in Condition 6 of the policy:*

We will settle losses to covered property described under Coverage C: PERSONAL PROPERTY

. . . at **replacement cost**, except that we will settle losses to property in items (i), (ii), and (iii) of this paragraph, below, at **actual cash value** only.

- (i) Property which by its inherent nature cannot be replaced;*
- (ii) Property not maintained in good or workable condition; or*
- (iii) Property that is outdated or obsolete, or property not useful for its intended purpose.*

Unlike many Participating Insurers' underlying policies, actual repair or replacement is not required to collect the replacement cost with regard to Coverage A Dwelling, Coverage B Extensions to Dwelling or Coverage C Personal Property (except for certain limited categories of personal property which are payable at actual cash value only). However, if the property has already been repaired or replaced at the time payment is made, that amount payable is limited to the amount spent. The exception to this rule is losses covered under "Other Coverages for Building Code Upgrades." This cost is paid only if the property is actually repaired and the cost is incurred. The CEA permits the pre-payment of code upgrades if it is clear, in the claim representative's professional judgment, that property is going to be repaired, the code upgrade cost is known (or it is known that code upgrade costs will exceed the Building Code Upgrades coverage limit), and making this payment would complete the claim process.

--END EARTHQUAKE COURSE--

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