



Procedures and Accounting Manual

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California Earthquake Authority Procedures and Accounting Manual

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Section I - Introduction

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

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

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

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

Those CEA documents include:

- The California Earthquake Authority Act;
- CEA Insurer Participation Agreement;
- CEA Plan of Operations;
- CEA Claim Manual;

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

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

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

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

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

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

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

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

Section II - Issuing a CEA Policy

A. Applying for CEA Coverage

1. A completed CEA Earthquake Insurance Application is required for all new CEA policies, to ensure all pertinent rating information is obtained and provided. The CEA Earthquake Insurance Application must be completed in accordance with the CEA Earthquake Insurance Application Instructions and must be processed by the Participating Insurer. CEA Earthquake Insurance Applications are not processed at the CEA office; agents, producers, and brokers must coordinate CEA Earthquake Insurance Application processing with the Participating Insurer for handling.
2. CEA Earthquake Insurance Applications, as well as the applicant signature, may be in paper or an electronic format that complies with electronic signature legal requirements.

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3. CEA Earthquake Insurance Applications must be rejected by the participating insurer if not in compliance with any of CEA's requirements which include but are not limited to: property not meeting any CEA Eligibility Standards, incomplete CEA Earthquake Insurance Application information, any material misrepresentation on the Application, and failure to obtain a companion policy from the same Participating Insurer that is issuing the CEA policy. In such instances, the Participating Insurer must immediately notify, and return any premium due to, the rejected applicant.
4. Renewal policies, and policies rolled over from a new Participating Insurer's in-force business, do not require a CEA Earthquake Insurance Application. In those cases, the Participating Insurer must provide to the CEA all information requested on the CEA Earthquake Insurance Application from documentation already on file at the Participating Insurer (such as prior inspections or other application data) or obtained directly from the policyholder. The CEA requires that all pertinent rating information be obtained and provided so that the CEA policy may be rated properly.
5. The Participating Insurer must remit CEA policy premium to the CEA under the procedures described in Section III, Administration (CEA Payment Plans).
6. Policyholder payments – including the initial installment – are described in Section III, Administration (Policyholder Payment Plans).

B. CEA Coverage: New Business Effective Dates

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

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

C. Coverage Limitations after an Earthquake Event

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

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2. If at any time the CEA Governing Board determines that the CEA's available capital may be exhausted and no additional funds are or will be available to the CEA to pay policyholder claims, the Board must present to the Insurance Commissioner a plan to pay policyholder claims on a pro rata basis or in installment payments. Upon presentation of such a plan, and by law, the Commissioner must order the CEA to cease renewing or accepting new earthquake insurance policies and may seek court orders or injunctions to prevent events and occurrences adverse to the Authority. See: California Insurance Code section 10089.35, subdivisions (a) and (b).

D. Policy Issuance

1. Issuance Requirements

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

2. CEA Earthquake Policy Disclosure

Concurrent with the issuance or renewal by a Participation Insurer of a CEA residential earthquake insurance policy, the following written disclosure must be provided to the insured in 14-point boldface type²:

² See: California Insurance Code section 10089, subdivision (b), effective January 1, 2016. For policies with an effective date before January 1, 2016, the California Earthquake Authority Policy Disclosure can be found in California Insurance Code section 10086, subdivision (a), paragraph (3).

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California Earthquake Authority Policy Disclosure

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

The CEA is not part of your homeowners insurance company.

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

- 1. CEA policy coverages are different from the coverages provided in your homeowners' insurance policy. For example, this policy does not cover earthquake damage to swimming pools, and it may provide more limited coverage for chimneys, outbuildings, and masonry fences. These are examples of possible differences between your CEA policy and your homeowners' policy, and you should consult your CEA policy to understand the types of losses that are limited or excluded and those that are covered.**
- 2. If CEA's liability for earthquake losses exceeds the CEA's available resources, the CEA may reduce its payment to you or pay you in installments. This policy is not covered by the California Insurance Guarantee Association and therefore the California Insurance Guarantee Association will not pay your claims if the CEA becomes insolvent and is unable to make payments as promised.**
- 3. In certain cases, your CEA policy premium may be subject to future surcharges if the CEA's obligations to pay earthquake losses rise to a pre-defined level. In that case, in addition to your annual premium you may be charged up to an additional 20% of that premium.**

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3. Endorsements

- a. If there is any **non-material change** to the CEA policy during the policy term, including, but not limited to, a change in limits, coverages, effective dates, or policyholder mailing address, the Participating Insurer must issue a new declarations page displaying all such changes. All premium adjustments resulting from these changes must be submitted to the CEA, at a minimum, once a week and no later than the next weekly Participating Insurer CEA premium deposit after the effective date of the change. Participating Insurers may modify CEA policies during the policy term to reflect changes to the Participating Insurer's companion policy; any additional CEA premium will be computed pro rata. Additional premiums of \$5 or less may be waived.
- b. If there is any **material change** to the risk insured by the CEA policy, a new CEA Earthquake Insurance Application and a new policy are required. An example of a material change would be a change in the risk address (location) or a change in policy type (e.g., the policyholder moves to a new home or changes from a homeowners policy to a renters policy). The CEA requires a new CEA Earthquake Insurance Application and a new policy in response to material changes in the risk so that it may appropriately rate the new property, ensure that the risk meets all CEA Eligibility Standards, and provide the policyholder with new policy information.
- c. Any additional or return premium is calculated on a pro-rata basis.
- d. The CEA always uses a 365-day year when counting the number of days to charge premium, even if the policy or endorsement term contains a leap day; February 29 is not counted as a day for premium calculations.

Section III – Administration

A. Inspection of Records

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

B. Reporting Specifications Formats

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

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fundamental data-reconciliation requirements between the CEA and each Participating Insurer data-management system.

C. Premium Deposit and Collection Procedures

1. Fiduciary Duties of the Participating Insurer

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

2. Premium-Data Submissions

- a. Each CEA Participating Insurer must report all CEA premiums collected to the CEA insurance-data system according to the specifications in the CEA TRI Premium Submission Format.
- b. Due dates for CEA policy premium data:
 - i. For new CEA policies, the full premium, or the first installment of premium, is due no later than the submission deadline of the week after the effective date of the policy or the date of policy issuance, whichever is later. The final premium payment must be submitted to the CEA within 90 days of the CEA-policy cancellation or expiration date.
 - ii. For renewal CEA policies, the full premium, or the first installment of premium, is due no later than the submission deadline of the week after the policy effective date. The final premium payment must be submitted to the CEA within 90 days of the CEA-policy cancellation or expiration date.
- c. Submission deadlines are stated in the CEA TRI.

3. Premium Billing - CEA to Participating Insurers

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

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D. Billing and Installment Payments and Fees

1. Policyholder Payment Plans

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

2. CEA Premium: Payment Plans

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

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3. Errors in Premium

- a. If the Participating Insurer determines that a policyholder has paid a CEA policy premium greater than the correct policy premium for the insurance placed, the Participating Insurer must return the excess premium to the policyholder and submit corrected record data to the CEA. The CEA will then reimburse the Participating Insurer for the returned (excess) premium.
- b. If the Participating Insurer determines that a policyholder paid a CEA policy premium less than the correct policy premium for the insurance placed, the Participating Insurer must correct the policy premium and submit the record data to the CEA. Premiums lower than the correct policy premium must be corrected and submitted to the CEA at the next policy renewal. Any additional CEA premium will be computed pro rata. Additional premiums of \$5 or less may be waived. Policyholders must be notified at renewal when such a correction affects their renewal premium. (See *Appendix 4: Notice of Change in Policy Premium* for more information.)
- c. At its discretion, the CEA may collect a CEA-premium adjustment made necessary by a Participating Insurer's submission error or rating error on prior policy terms.

E. Claim-Reimbursement Procedures

1. The Participating Insurer must adjust CEA claims in accordance with the CEA Claim Manual and CEA operating procedures. If the CEA Claim Manual or CEA operating procedures fail to address a particular claim-related subject or situation, in whole or in part, and if the CEA has not provided guidance despite the Participating Insurer's request, the Participating Insurer may apply its own reasonable operating practices.
2. To obtain reimbursement from CEA of monies paid to a policyholder for an approved claim and to obtain reimbursement for related claim-expense fees or related salvage- or subrogation-expense fees, the Participating Insurer must submit the claim and claim related data to the CEA using the TRI Claims Submission Format. The corresponding reimbursement detail will be posted electronically in the CEA insurance-data system (605 Claim Reimbursement Report).
3. The CEA will accept claim-reimbursement submissions every day, and the submissions will post to the CEA insurance-data system on a daily basis.
4. The CEA will issue claim-reimbursement funds using the Fedwire system, electronically depositing the funds directly into the Participating Insurer's designated bank account. Once the Fedwire transfer has been completed, the Fedwire number associated with the related reimbursement is entered into the CEA insurance-data system. The CEA insurance-data system generates a file that states in detail the claim records associated with the wire transfer, including the nine-percent claim-expense-fee reimbursement. The

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entire procedure should be completed within 15 business days following receipt of the reimbursement submission.

5. The Participating Insurer is not required on behalf of the CEA to advance any claim payment to any CEA policyholder, except payment for claims made under Loss of Use/Additional Living Expense (ALE) coverage in accordance with the CEA insurance policy and CEA guidelines. Participating Insurers may, however, advance other (non-ALE) CEA claim payments in their discretion and obtain reimbursement from the CEA, and this practice, while not required, is encouraged by the CEA.

F. Compensation

1. Commission

- a. Each Participating Insurer is solely responsible for compensating its agents, producers, brokers, adjusters, and other employees for all services and expenses incurred on behalf of the CEA. The terms and amount of such compensation, except as noted below, is to be determined by each Participating Insurer.
- b. As required by the Insurer Participation Agreement and regulations promulgated by the California Insurance Commissioner, the CEA pays to Participating Insurers as producer compensation a 10% commission.

2. Operating Expense

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

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

3. Claim Expense

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

For each claim payment under a CEA policy, the CEA will add nine percent of the total amount of the CEA earthquake insurance claim payment as and for payment of the

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Participating Insurer's claim expenses associated with servicing that CEA earthquake insurance claim. The CEA does not pay claim expenses or loss adjustment fees on claims that close with no payment.

4. Salvage and Subrogation

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

5. Retention or Receipt of Compensation

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

6. Repayment of Monies to CEA

The Participating Insurer must repay to the CEA any monies paid it by the CEA in violation of the CEA Plan of Operations, provided that in the case of litigation instituted

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by either party or other official proceeding to determine any issue arising from such violation, no repayment will be required until an administrative or judicial order finding a violation by the Participating Insurer of any provision of the CEA Insurer Participation Agreement has become final.

G. Training Requirements

1. Agent Training

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

2. Claim-Handling: Training

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

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available in the California Code of Regulations (Title 10, Chapter 5, Subchapter 7.5.1: Insurance Adjuster Training for Evaluating Earthquake Damage). Required activities and responsibilities of the CEA Claim Liaison are described in the CEA Claim Manual.

H. Forms and Supplies

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

I. Documents, Records and Reports; Responsibilities

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

J. External and Internal Audits

1. The CEA periodically reviews, audits, and examines each Participating Insurer to determine whether selected actions and methods of that Participating Insurer comply with the law and with CEA requirements and procedures. Participating Insurers are solely responsible for, and must pay upon demand, any costs, fees, and expenses reasonably imposed by the CEA on the Participating Insurer for reviews, audits, and examinations.
2. Consistency in, and appropriate reconciliation of, data resulting from or memorializing transactions between the CEA and Participating Insurer are crucial. To ensure data integrity, the CEA conducts periodic audits of each Participating Insurer's submission files in order, among other purposes, to identify any discrepancies between Participating Insurer data and CEA data. Participating Insurers must submit or make available data in such detail as stated in the CEA-generated notice of audit. Any Participating Insurer that demonstrates consistent, essential differences in its data as compared to CEA data will be subject to increased frequency in required data reconciliation and CEA-generated audit requests in order to correct and maintain the integrity of CEA-related data.

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3. The CEA may perform, or hire others to perform, periodic claim audits after an earthquake that results in CEA claim payment. All costs and expenses associated with performing any such audit are to be paid solely by the Participating Insurer upon demand by the CEA and presentation by the CEA, in reasonable detail, of cost and expense records.
4. The Participating Insurer must periodically conduct internal audits of its CEA business, comparable to the internal audits it conducts for its voluntary business, at the frequency and detail-level the CEA reasonably requires. Specifically, each Participating Insurer's internal audits must be conducted so as to establish and maintain compliance with all relevant CEA procedures and ensure that the accounting-record and data controls in place at the Participating Insurer's facilities are designed and operating effectively to achieve the company's financial-reporting objectives and are supported by the following financial-statement assertions:
 - a. Existence. CEA-policy transactions are reviewed to ensure that they were recorded at a specific date and that the recorded transactions represent events that actually occurred during a certain period.
 - b. Completeness. All transactions and other events and circumstances that occurred during a specific period, and that should have been recognized in that period, have been appropriately recorded.
 - c. Rights and Obligations. No part of a CEA policy transaction may constitute either an asset or a liability of the Participating Insurer.
 - d. Valuation or Allocation. CEA-policy transactions and associated data are recorded at appropriate amounts, in conformity with relevant and appropriate accounting principles. Transactions are mathematically correct and appropriately summarized and recorded in the Participating Insurer's records.
 - e. Presentation and Disclosure. CEA-policy transactions and CEA-policy data are properly described, sorted, and classified.

K. Cancellation, Non-Renewal and Reinstatement

1. All procedures and policies regarding cancellation, reinstatement, and non-renewal of CEA policies must follow the cancellation, reinstatement, and non-renewal requirements stated below, modified only as provided in the explicit terms of the CEA insurance policy. In any case where the CEA has not adopted a rule that governs a procedure and the CEA insurance policy is silent and does not expressly govern the situation, the Participating Insurer should apply its company rules that govern comparable cases.

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2. Any CEA policyholder may cancel their CEA policy at any time by an oral or written request or by a return of the CEA policy to the Participating Insurer.
3. A Participating Insurer is authorized to cancel an existing CEA policy effective no earlier than the date of its receipt of the request for cancellation. A cancellation date before the date the request for cancellation is received is authorized in the following circumstances:
 - a. The insured no longer has an insurable interest in the insured property, for example, on account of the sale of that property. To document a sale, a copy of the new grant deed or a copy of the closing escrow statement is sufficient.
 - b. There was nothing at risk during the period the policy was in force (e.g., the insured residential structure was demolished, or proposed construction of the insured residential structure never took place). Appropriate written documentation must accompany the cancellation request.
 - c. Coverage for the companion or the earthquake policy was replaced by a policy written by another insurer, with the intent that the companion or CEA policy, or both, be cancelled. A copy of the replacement policy declaration page is sufficient documentation.
4. The Participating Insurer must cancel a CEA policy upon cancellation of the companion policy of residential property insurance. If the companion policy is non-renewed, the Participating Insurer must non-renew the CEA policy as of the effective date of nonrenewal of the companion policy.
5. After a policyholder-generated or company-initiated request for cancellation, a new CEA policy may be written, or the prior CEA policy may be reinstated, only after the Participating Insurer confirms and documents its confirmation that the risk continues to meet current, official CEA Eligibility Standards.
6. The Participating Insurer may cancel, rescind from inception (if there has been a misrepresentation of any material fact by the policyholder or their representative), or non-renew the CEA policy when the applicant or policyholder has failed to pay premium, failed to pay any lawful surcharges initiated by the CEA, or failed to meet any CEA Eligibility Standard. The Participating Insurer must cancel or non-renew the CEA policy in any instance where there has been a material change in the nature of the insured risk, or to the insurance provided (e.g. change in policy type), or any change in the risk that renders it uninsurable or otherwise ineligible for coverage by the CEA.
7. Return premiums on cancellations must be calculated and paid on a pro-rata basis from the effective date of the cancellation.
8. A separate notice of cancellation, rescission, non-renewal, or suspension of the CEA policy must be sent to the policyholder when the CEA policy is cancelled, rescinded,

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

9. Cancellation, renewal, non-renewal, and responses to consumer inquiries regarding changes in annual premium must provide the Participating Insurer's company telephone number on which consumers can call the insurer with inquiries or complaints.
10. All notices of cancellation, rescission, or non-renewal of CEA policies must provide a statement of the reason for the action and include a statement of the insured's right to have the matter reviewed by the California Department of Insurance. See Appendix 3: *Non-Renewal Language* for language that the CEA requires Participating Insurers to incorporate into CEA-policy non-renewal notices.
11. If the insured inquires about a change in annual CEA policy premium, California law requires the Participating Insurer to explain in writing the amount of the premium change and provide a written explanation of the change within 15 days after the date of the insured's request. The explanation must include a statement indicating the insured's right to have insurance-related matters reviewed by the California Department of Insurance. See Appendix 4: *Notice of Change in Policy Premium*, which provides CEA approved language for related circumstances.

L. CEA Cancellation/CEA Reissue — Transactions

1. The CEA does not prohibit "mid-term cancellation and reissues" of CEA policies in response to policyholder-generated requests.
2. Notwithstanding a Participating Insurer's operating procedure to the contrary, both oral and written policyholder requests to cancel and reissue a CEA policy are acceptable, subject to complete file documentation that includes the name of the policyholder making the request, a description of the action(s) requested (including requested effective dates), and the date and time of the request.
3. After a policyholder-generated request for cancellation, a new policy may be written only after the Participating Insurer's confirmation and documentation that the risk continues to meet current, official CEA Eligibility Standards.
4. In cases in which a different CEA policy is being purchased by the policyholder (e.g., in the event of a change from a standard CEA Homeowners policy to a CEA Homeowners Choice policy), the Participating Insurer must cancel the previous CEA policy and reissue the new CEA policy in order to accommodate the change in CEA policy language, terms, and conditions. This requirement applies to changes in CEA policy contract (including new rates or forms) only – it does not apply to the addition or elimination of coverages or limits from policies.

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5. Existing CEA policies cannot be transferred from one Participating Insurer to another Participating Insurer. Example: A CEA policyholder cancels their CEA policy and the underlying policy of residential property insurance. The (former) policyholder places a new residential property insurance policy with an insurer who is a CEA Participating Insurer. If the policyholder wishes to buy CEA earthquake insurance, a new CEA policy must be issued by the new Participating Insurer.

M. CEA Escheat Process

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

N. Claims

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

O. Post-Earthquake Claim Assessments

1. Participating Insurer Assessments

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

2. Policyholder Assessments

- a. In the event of a CEA bond issuance or debt-financing arrangement made pursuant to California Insurance Code section 10089.29, the CEA has the authority to annually surcharge all CEA policies to secure funds for the sole purpose of repaying the debts created by the bonds or other debt, together with related expenses. The net surcharge collected must not exceed the sum calculated pursuant to paragraph 3 of subdivision (a) of California Insurance Code section 10089.23.

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- b. In no event may the surcharge on any individual CEA policy exceed 20% of the annual basic residential earthquake insurance premium for that policy.
- c. In the event of an approved CEA-policyholder surcharge, the CEA will provide the Participating Insurer with instructions and new rate manuals and rate tables in order to effectively implement the policyholder surcharge for new and renewal policyholders.
- d. At the time the CEA discontinues any CEA-policyholder surcharge it has imposed, and following an assessment, review, and approval of the CEA rating structure by the CEA, the CEA Governing Board, and California Department of Insurance, the CEA will promulgate and implement post-surcharge instructions, rate manuals, and rate tables.

P. Application, Service, and Claim-Dispute Mediation

1. Application and Service Disputes

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

2. Claim Disputes

- a. To assist in resolving CEA-claim disputes, the CEA will rely on the provisions of the earthquake insurance claim mediation program established pursuant to California Insurance Code section 10089.70. Participating Insurers are strongly encouraged to incorporate the requirements of that program into their CEA-claim-handling procedures. Upon its receipt of a notice of demand for mediation, the Participating Insurer must provide a complete report, in writing, to the CEA Claim Director, describing the issue and claim made, settlement demands, offers made, and the reasons for the position taken by the Participating Insurer regarding the claim subject to mediation.
- b. All relevant dates pertaining to any pending mediation must be communicated without delay to the CEA Claim Director. The Participating Insurer must furnish a knowledgeable member of its staff to attend the mediation; the CEA, at its option, may cause its representative to attend as well. The Participating Insurer must provide notice of the mediation to the CEA sufficiently in advance of the mediation to

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enable the CEA to make an informed decision about its participation and whether to attend the mediation session(s).

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

3. Participating Insurer Disputes with the CEA

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

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Section IV - Appendix

Appendix 1- CEA Deposit Specifications:

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

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

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Appendix 2 – Operating Expense Calculation Example

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

Effective July 1, 2019, the Operating Expense is calculated as follows:

Estimated Gross Premium.....\$ 761,486

Estimated Net Premium = Estimated Gross Premium less Operating Costs, Producer Commission, Reinsurance, and Capital-Market Costs.....\$ 408,010

Participating Insurer Non-Claim Operating Expense
6% of Net Premium ($\$408,010 \times .06$).....\$ 24,481

Operating Expense divided by Gross Premium.....($\$24,481 / \$761,486$)

Percentage of Gross Premium for Non-Claim-Related Operating Expense is 3.21%.

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Appendix 3 – Non-Renewal Language

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

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

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

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

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

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

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Appendix 4 – Notice of Change in Policy Premium

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

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

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

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