California Department of Insurance
Seismic Safety Fee/AB 98 Budget Trailer Bill Implementation
Frequently Asked Questions
July 2013
(Revised July 2015)

Q: How is the AB 98 trailer bill language different than the expired fee that formerly funded the Seismic Safety Commission?
A: In short, the AB 98 fee is calculated based on "earned exposures" while the expired fee was calculated based on "earned premiums."

Q: How is "per earned property exposure" calculated or defined? Does this mean per building or per location?
A: An exposure is a unit of risk based on location of risk and counted on a per address basis. In order to collect the AB 98 fee, CDI will rely on the commonly-used exposure data collected for the Commissioner's Report on Underserved Communities[i] and the Consumer Complaint Study.[ii] There are approximately 11.3 million exposures subject to the assessment.

Q: What about more sophisticated commercial risks that have more than one policy covering the same buildings (e.g. a standard perils policy through one insurer and a difference-in-conditions policy through another)?
A: Properties will not be counted twice. "Earned exposures" follow the same three lines of business[iii] that cover fire losses: 1 fire, 4 homeowners' multiple peril, or 5.1 commercial multiple peril. Other lines of business will not be included.

Q: What about insureds with layered property programs where there are several policies covering the various layers and potentially multiple insurers sharing each layer?
A: The fee is prorated for each exposure with a layered property program based on the share of the loss the policy and/or insurer assumes. The methodology regarding shared accounts (layered policies) is in the instructions to the Community Service Statement data call:

> "**Shared Accounts**: Are those where your company participates in insuring a property/exposure with a % share of the losses, along with other companies. Report the number of exposures commensurate to the % share of the losses. For example, if your company pays 50% of the total loss, report only 50% of the total exposures in this account."

Q: Are rental policies included?
A: No.

Q: Are condo policies included?
A: Yes.

Q: Are umbrella policies included?
A: No.

Q. Are California Fair Plan insurance pool policies included?
A: Yes.

Q. Are commercial farm policies included?
A: No.

Q: Would it include any additional properties (such guest house in the backyard)?
A: An exposure is a unit of risk based on location of risk and counted on a per address basis. Unless the guest house has its own address it would not be counted.

Q: Does the language apply to all insurers including surplus lines? As surplus lines fees and surcharges are typically remitted by the surplus lines broker, how will this be handled?
A: Surplus lines are not included and were not included in the expired fee.

Q: Will some insurers pay more and some pay less under the new methodology?
A: Insurance Code Section 12975.9(c) allows the insurer to recover the $0.15 per exposure assessment from the insured. However, in general, insurers that have a large dwelling fire business could see an increase and commercial insurers that insure large commercial property could see a decrease.

Q: Why might an insurer have informally calculated a higher payment under the new methodology?
A: The new methodology is necessary because the former assessment on *insurance premiums* (i.e. insurers) was determined to be a tax under the provisions of Proposition 26 and thereby violated a constitutional cap on taxes of insurers in California.

Some insurers may pay more under the new methodology, especially during the three-year period when the fee is set at $0.15 per earned exposure to enable repayment of the General Fund loan for the Seismic Safety Commission's 2013-14 operations.

The 2013-14 Budget Act includes a $1.1 million General Fund loan to the Insurance Fund to allow sufficient time for the insurance industry to implement the new fee. The assessment is set at the maximum $0.15 per year for the first three years in statute to enable the General Fund loan repayment and then will be re-evaluated.

Q. If individual policyholders refuse to pay the $0.15 assessment what will happen?
A. It is up to the insurer whether they take legal action to enforce the collection of the assessment. This assessment is not part of the premium and therefore would not be grounds for cancellation of policy.

Q. How will the assessment be collected and what is the timing? Is there a penalty for late payments?

A. The Department of Insurance will invoice insurers annually, beginning in August or early September 2014. The assessment will be due 45 days from the invoice date. Payment of the assessment shall be considered delinquent if not paid within 45 days of the invoice date. Pursuant to Insurance Code section 12975.9(f) the department is authorized to charge a late fee of 1.5 percent per month of the balance due, compounded monthly, for any amount not paid within this period.

Q: Who should I contact with questions?

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[i] http://www.insurance.ca.gov/0400-news/0200-studies-reports/1100-statistical-plans/ccr26466feb1103.cfm

[ii] http://www.insurance.ca.gov/0100-consumers/0040-studies-reports/0020-complaint-study/complaint-study-defin.cfm

[iii] Lines of business as described on the annual statement's Exhibit of Premiums and Losses.