



RICARDO LARA
CALIFORNIA INSURANCE COMMISSIONER

July 11, 2019

TO: All California Earthquake Authority (CEA) Participating Residential Property Insurance Companies, Agents, Brokers, and Other Interested Parties

FROM: Insurance Commissioner Ricardo Lara

SUBJECT: Notice of Requirement of CEA Participating Insurance Companies to Write CEA Earthquake Policies

On July 4th and 5th, 2019, Southern California experienced two significant earthquakes and associated aftershocks. This seismic activity was centered around the towns of Trona and Ridgecrest, but shaking was felt in a much broader geographic area.

As a result of this earthquake activity, many California residents are reevaluating whether to purchase earthquake insurance to protect their home and property. The Department of Insurance has received inquiries and complaints from consumers, public officials, and other members of the public that some California Earthquake Authority (CEA) Participating Insurers are refusing to accept applications for CEA earthquake insurance coverage from their insureds who already have an underlying residential insurance policy with that insurance company. Some insurers, agents, and brokers are advising consumers that there is a "moratorium" on selling CEA coverage, even to those insureds that already have an underlying residential insurance policy with that insurance company. This is incorrect. There is no "moratorium" on selling CEA coverage.

California Insurance Code Section 10083 requires that offers for earthquake coverage made by a Participating Insurer contain a specific disclosure that includes the statement, "If you choose not to accept this offer within the 30-day period, you may apply for earthquake coverage at a later date."

Refusing to write CEA earthquake insurance coverage for policyholders with a residential insurance policy is not in compliance with state law or the intent of the CEA statute and mission. Further, a Participating Insurer refusing to issue CEA earthquake coverage after an earthquake is inconsistent with both the Participating Insurers' agreement with CEA and long-standing directives from CEA.

The CEA has confirmed to the Department of Insurance that it expects all Participating Insurers to take applications for and bind CEA coverage if requested by an insured who has an underlying residential insurance policy with the insurer.

It is possible that some Participating Insurers, and their agents, are confusing the language in CEA's policy form that defines a "seismic event" as a 360-hour (15-day) period after an initial earthquake. CEA has confirmed to the Department of Insurance that this policy language

provides that coverage is not available for an ongoing seismic event that commences *prior* to the effective date and time of a CEA policy, and that this definition is not intended to impose an outright moratorium on the purchase or sale of CEA coverage.

The CEA has not declared a moratorium on earthquake insurance policy sales, either in the affected area or elsewhere in the state (nor has the CEA ever declared a moratorium after any other earthquake event in the CEA's history). We do understand, anecdotally, that some residential property insurers, including but not limited to some CEA Participating Insurers, may have declared a moratorium on the sale of their own new homeowners and other fire insurance policies in areas of California impacted by the recent Ridgecrest earthquakes, and for any CEA Participating Insurer, if that insurer is not writing new companion fire policies then they would not be making the accompanying mandatory offer of earthquake insurance to those homeowners to whom it has declined to issue a new fire insurance policy. A moratorium on sales of their own fire policies issued by any Participating Insurer, however, should not affect sales of CEA policies for that insurer's existing policyholders, who should be assisted in purchasing a new CEA policy immediately.

In the case of the recent series of earthquakes in the Ridgecrest area, the "seismic event" under CEA's policy language commenced on July 4, with the initial magnitude 6.4 earthquake. All related ground-shaking and aftershocks for the next 15 days (including the 7.1 quake on July 5) are part of that same seismic event, and will be covered for those policyholders who had a policy that was in effect when the first earthquake happened on July 4, when that seismic event commenced, but not for policyholders who purchased a policy thereafter. If, on the other hand, an unrelated earthquake was to occur in that period -- for example, a completely unrelated seismic event that occurs tomorrow on a different fault that was not seismically related to the July 4/5 earthquakes -- that would not be part of the same Ridgecrest "seismic event," but rather, it would be a distinct event that would commence a new and different 360-hour seismic event period, and losses from it would be covered for any policyholder whose policy was in effect at the time of that new, unrelated earthquake.

I believe that insurance companies should not be putting up barriers to homeowners and renters who want to protect their assets with earthquake insurance. I hereby request that all Participating Insurers conduct an immediate review of how they and their appointed producers are handling requests for CEA coverage by their policyholders and train their staff, agents, and brokers accordingly and immediately.

If an insurer has questions regarding this Notice, please contact:

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If an insurance consumer has questions or experiences difficulty in obtaining earthquake insurance, please contact the Department of Insurance on our toll-free Consumer Hotline at (800) 927-4357 (HELP) or visit us online at www.insurance.ca.gov.

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