

### **The Eligibility Problem:**

## **How does Motus know that over 1,500,000 Common Interest Development (CID)\* homes are INELIGIBLE to Purchase Earthquake Insurance?**

*\* Common Interest Development (CID) Includes condominiums, townhomes, planned developments as defined in California Civil Code section 1351 subdivision (k), stock cooperatives, timeshares, and units in other similar Common Interest Developments (CIDs)*

The fundamental barrier preventing the majority of CID owners from accessing the California Earthquake Authority (CEA) coverage – and similar individual unit owner options from private insurers – is the **Companion Policy Requirement**.

The Companion Policy Requirement means that a CID unit owner must have an individual fire policy (known as an HO-6 policy) in order to purchase individual earthquake insurance. And in California, there are over 1,500,000 CID units that do not have an HO-6 policy.

Why do so many unit owners not purchase an individual fire HO-6 policy?

In many cases they are not required to buy one because of the master HOA fire policy. If the master HOA fire policy covers the unit interiors, lenders do not require an individual fire HO-6 policy.

Due to the Companion Policy Requirement, these 1,500,000 CID owners without an HO-6 policy are ineligible to purchase condo earthquake insurance on their own.

Attached are documents that provide the following:

- The legal / policy language of companion policy requirement – Using the California Earthquake Authority's (CEA) actual policy language
- Data from the California Department of Insurance showing the number of individual fire HO-6 policies in place in 2019
- Analysis of the California CID market – Shows number of CID associations and number of CID units. Thus we can identify that at least 1,500,000 condos do not a HO-6 policy

**The Motus Earthquake Insurance Program offers a solution for these 1,500,000 condos that cannot access earthquake insurance on their own.**

## IMPORTANT NOTICES

Many of the terms of this policy are substantially different from the terms of **your companion policy** and most other policies that cover a condominium unit or other **dwelling unit**. The following items, among others, are unique to this policy; these are not the only terms, however, that are different from the terms of **your companion policy** and other policies — there are many others. Therefore, **we** urge **you** to read the entire policy.

The terms that appear in bold type appear frequently in this policy and are defined below under DEFINITIONS.

1. **Deductible.** No payment will be made for any property loss until the deductible shown on the DECLARATIONS has been exceeded by the amount of covered loss to the type of covered property for which **you** make a claim under this policy. Because of the way the deductible is determined, **you** could have substantial uninsured loss. Please read the deductible provisions relating to each type of covered property.
2. **Companion Policy Requirement.** This policy and California law require that, during the entire policy period of this **earthquake** policy, **you** must keep a **companion policy** in force. That **companion policy** must provide fire insurance for the property that is the subject of this **CEA** policy. That **companion policy** must be issued by a **participating insurer** of the **California Earthquake Authority**. If at the time of loss no **companion policy** is in effect, this **earthquake** policy is void and no payment will be made under this **earthquake** policy.
3. **This is Limited Coverage.**
  - (a) This policy covers only some parts of **your dwelling unit** and does not cover many other components of **your** interest in **your common interest development**. **You** may wish to determine if **your association of owners** has purchased an **association master policy** that includes **earthquake** coverage.
  - (b) Unlike some fire insurance policies, this policy does not have a “guaranteed replacement cost” feature. This policy will not provide full repair or replacement of covered property when the loss exceeds the applicable **limit of insurance** stated in the DECLARATIONS or the applicable **sublimit(s)** set forth in the policy.
4. **Pro-rata or Installment Claims Payments.** In accordance with California Insurance Code section 10089.35, if at any time the available capital of the **California Earthquake Authority** is insufficient to meet anticipated losses and there are no additional funds from specified sources available to pay claims, the **California Earthquake Authority** may pay claims on a pro-rata basis from the remaining funds available, or claims may be paid on an installment basis, based on a plan approved by the California Insurance Commissioner. If this occurs, **you** might not be paid the full amount of **your** claim. Under no circumstances will the State of California be responsible for the payment of claims. Please read the Pro-rata or Installment Claims Payments Clause on page 22.
5. **Surcharge in the Event of Earthquake.** In the event of an **earthquake** or series of **earthquakes** that partially or completely exhausts the **California Earthquake Authority’s** claims-paying capacity, California Insurance Code section 10089.29, subdivision (b), paragraph (1), authorizes **us** to impose a surcharge of up to 20% of **your** annual policy premium. Please read the Surcharge Clause on page 22.

**THE LANGUAGE OF THIS POLICY HAS BEEN SUBMITTED TO AND  
APPROVED BY THE CALIFORNIA INSURANCE COMMISSIONER**

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14. Mortgagee Clause.

- a. The word "mortgagee" as used in this policy includes trustee or beneficiary under a trust deed.
- b. If a mortgagee is named as a loss payee in this policy **and**, as a condition for making a loan to **you** secured by the **dwelling unit** or by **your** interest in the **common interest development**, that mortgagee either (1) required **you** to purchase **earthquake** insurance that covers the **dwelling unit** or **your** interest in the **common interest development**, or (2) required that the mortgagee be named as a loss payee under any coverage on the **dwelling unit** or on **your** interest in the **common interest development**, then any loss payable under "COVERAGE A: DWELLING" or "COVERAGE E: LOSS ASSESSMENT" will be paid to the mortgagee, to the extent of its interest, and to **you**. If more than one mortgagee is so named and otherwise qualifies, the order of payment will be the same as the order of preference of the mortgages
- c. If **we** deny **your** claim, that denial will not apply to a valid claim of the mortgagee, if the mortgagee does all of the following:
  - (i) notifies the **participating insurer** of any change in ownership of any insured property or change in occupancy of the **dwelling unit**, or of any substantial change in risk of which the mortgagee is aware;
  - (ii) pays any premium due under this policy on demand if **you** have neglected to pay the premium; and
  - (iii) submits a signed, sworn statement of loss within 60 days after it receives notice from **us** of **your** failure to do so.
- d. If **we** decide to cancel or not to renew this policy, **we** will take reasonable steps to notify any mortgagee named as a loss payee under this policy at least 10 days before the date cancellation or nonrenewal takes effect.
- e. If **we** pay the mortgagee for any loss and deny payment to **you**:
  - (i) **We** are subrogated to all the rights of the mortgagee granted under the mortgage on the property, which will not impair the right of the mortgagee to recover the full amount of the mortgagee's claim, **or**
  - (ii) At **our** option, **we** may pay to the mortgagee the whole principal on the mortgage plus any accrued interest, in which event, **we** will receive a full assignment and transfer of the mortgage and all security held as collateral for the mortgage debt.
- f. Policy conditions relating to loss settlement and payment, including, but not limited to, the Appraisal, Legal Action, Loss Adjustment, and Loss Payment conditions, apply to the mortgagee.

15. No Benefit to Bailee. **We** will not recognize any assignment or grant any coverage that benefits a **person** that holds, stores, or moves property for a fee, regardless of any other provision of this policy, unless that **person** is named as an **insured** under this policy.

16. Payment. If **you** pay the initial premium for **your** first policy period by check, draft, or any remittance other than cash, **we** will credit **you** with that payment only if the check, draft, or remittance is honored on presentation. If **your** check, draft, or remittance is not honored on presentation, this policy is void from its inception. "Void from its inception" means that **we** will not be liable under this policy for any claims or damages that would otherwise have been covered had the check, draft, or remittance been honored on presentation and had the policy remained in effect.

17. Automatic Termination. If **we** offer to renew **your** policy and **we** do not receive **your** required premium payment on or before the end of the then current policy period, **your** policy will terminate automatically at the expiration of the then current policy period. This means that **you** will have elected not to accept **our** offer to renew the policy, and no notice will be sent to **you**. **Your** failure to accept **our** offer to renew the policy is not a cancellation or non-renewal by **us**.

18. Cancellation.

- a. When the **companion policy** is canceled for any reason, this policy is canceled effective on the same date the **companion policy** cancellation takes effect, and any unearned premiums will be

returned to **you** on a pro rata basis. This policy will not provide coverage if there is no companion policy in effect at the time of loss.

- b. **You** may cancel this policy at any time by returning it to the **participating insurer** and by notifying the **participating insurer** in writing of the date cancellation is to take effect. **You** may return the policy and submit the cancellation date to the agent of the **participating insurer**.
  - c. **We** may cancel this policy for the reasons stated in this condition or for any other grounds permitted by law, by notifying **you** in writing of the date cancellation takes or took effect. The cancellation notice may be delivered to **you**, or mailed to **you** at **your** mailing address shown in the DECLARATIONS. Proof of mailing will be sufficient proof of notice.
    - (i) When **you** have not paid the premium when due and payable, **we** may cancel at any time by notifying **you** at least 10 days before the cancellation takes effect.
    - (ii) When this policy has been in effect for less than 60 days and is not a renewal with **us**, the policy may be cancelled if it is discovered that the risk does not meet the eligibility standards of the **CEA** by notifying **you** at least 10 days before the date cancellation takes effect.
    - (iii) When this policy has been in effect 60 or more days, or is a renewal policy, **we** may cancel at any time by notifying **you** at least 30 days before the date of cancellation takes effect, based on the occurrence of one or more of the following:
      - (A) **your** conviction of a crime having as one of its necessary elements an act increasing any hazard insured against; or
      - (B) **our** discovery of fraud or material misrepresentation by either the **insured** or the **insured's** representative in obtaining the insurance, or by **you** or **your** representative in pursuing a claim under the policy; or
      - (C) **our** discovery of grossly negligent acts or omissions by the **insured** or his or her representative that have substantially increased any of the hazards insured against; or
      - (D) failure of the **insured** to pay an **earthquake** policy surcharge imposed and authorized by the **California Earthquake Authority**, in accordance with California Insurance Code Section 10089.29, subdivision (d).
  - d. When this policy is cancelled, any premium paid for the period from the effective date of the cancellation to the expiration date will be refunded. When the policy is cancelled, the return premium will be pro rata.
  - e. If, when **we** cancel this policy, **we** do not refund the return premium with the notice of cancellation, **we** will refund it within 25 days after the date cancellation takes effect. If **you** cancel this policy, **you** may return the policy to **us**, and **we** will refund the return premium within 25 days after the date the cancellation takes effect.
19. Conditional Reinstatement. If **we** mail a cancellation notice because **you** did not pay required premium when due and **you** then tender payment of the premium by check, draft, or other remittance that is not honored on presentation, **your** policy will terminate on the date and time shown on the cancellation notice and any notice **we** issue that states that it waives the cancellation or reinstates the coverage is void. This means **we** will not be liable under this policy for claims or damages after the date and time stated on the cancellation notice.
20. Non-Renewal. **We** may elect not to renew this policy by delivering to **you** or mailing to **you** at **your** mailing address shown in the DECLARATIONS, written notice of non-renewal at least 45 days before the expiration date of this policy. Proof of mailing will be sufficient proof of notice.
21. Waiver or Change of Policy Provisions. No waiver or change of a policy provision is valid unless it is in writing and signed by **us**. **Our** request for an appraisal or examination does not waive any of **our** rights.
22. Assignment. **Your** assignment of this policy will not be valid unless **we** give written consent.

## EARTHQUAKE PREMIUM AND POLICY COUNT DATA CALL

### SUMMARY OF 2019 RESIDENTIAL MARKET TOTALS

2019 Experience Year	Written Premiums Excluding EQ	No. of Policies Excluding EQ	Exposure Excluding EQ	Avg Prem Per Policy Non-EQ	Avg Rate Per \$1,000 Insurance Non-EQ	Market Share* Non-EQ	Written Premiums EQ	No. of Policies EQ	Exposure EQ Including CEA	Avg Prem Per Policy EQ	Avg Rate Per \$1,000 Insurance EQ	Market Share* EQ	% with EQ**
Insurers with EQ coverage provided by California Earthquake Authority (CEA)	\$ 7,448,088,823	9,075,692	\$ 2,904,060,024,115	\$ 820.66	\$ 2.56	76.05%	\$ 809,028,617	1,111,665	\$ 527,602,015,888	\$ 727.76	\$ 1.53	67.05%	12.25%
Insurers with EQ coverage provided by Non-CEA	2,428,895,716	2,858,767	1,051,160,728,002	849.63	2.31	23.95%	477,645,953	546,185	241,672,625,989	874.51	1.98	32.95%	19.11%
<b>Total Residential Market</b>	<b>\$ 9,876,984,539</b>	<b>11,934,459</b>	<b>\$ 3,955,220,752,117</b>	<b>\$ 827.60</b>	<b>\$ 2.50</b>	<b>100.00%</b>	<b>\$ 1,286,674,570</b>	<b>1,657,850</b>	<b>\$ 769,274,641,877</b>	<b>\$ 776.11</b>	<b>\$ 1.67</b>	<b>100.00%</b>	<b>13.89%</b>
Total Homeowners Market	\$ 7,539,100,753	6,093,914	\$ 3,086,550,356,669	\$ 1,237.15	\$ 2.44	51.06%	\$ 1,122,610,237	1,005,842	\$ 697,854,404,134	\$ 1,116.09	\$ 1.61	60.67%	16.51%
Total Renters Market	439,339,368	2,628,763	77,179,731,062	167.13	5.69	22.03%	28,212,426	370,905	12,212,320,724	76.06	2.31	22.37%	14.11%
Total Condominium Market	543,635,174	924,066	52,346,113,063	588.31	10.39	7.74%	72,473,112	147,640	19,213,242,981	490.88	3.77	8.91%	15.98%
Total Dwelling Fire Market	1,156,667,067	2,008,775	709,855,653,553	575.81	1.63	16.83%	51,916,266	76,780	32,584,330,733	676.17	1.59	4.63%	3.82%
Total Mobilehome Market	198,242,178	278,941	29,288,897,770	710.70	6.77	2.34%	11,462,529	56,683	7,410,343,305	202.22	1.55	3.42%	20.32%
<b>Total Residential Market</b>	<b>\$ 9,876,984,539</b>	<b>11,934,459</b>	<b>\$ 3,955,220,752,117</b>	<b>\$ 827.60</b>	<b>\$ 2.50</b>	<b>100.00%</b>	<b>\$ 1,286,674,570</b>	<b>1,657,850</b>	<b>\$ 769,274,641,877</b>	<b>\$ 776.11</b>	<b>\$ 1.67</b>	<b>100.00%</b>	<b>13.89%</b>
California FAIR Plan	\$ 201,511,809	167,105	\$ 86,240,034,019	\$ 1,205.90	\$ 2.34	8.32%	\$ 3,999,764	4,094	\$ 2,348,248,482	\$ 976.98	\$ 1.70	5.33%	2.45%
Total Dwelling Fire (Excluding CA FAIR Plan)	955,155,258	1,841,670	623,615,619,534	518.64	1.53	91.68%	47,916,502	72,686	30,236,082,251	659.23	1.58	94.67%	3.95%
<b>Total Dwelling Fire Market</b>	<b>\$ 1,156,667,067</b>	<b>2,008,775</b>	<b>\$ 709,855,653,553</b>	<b>\$ 575.81</b>	<b>\$ 1.63</b>	<b>100.00%</b>	<b>\$ 51,916,266</b>	<b>76,780</b>	<b>\$ 32,584,330,733</b>	<b>\$ 676.17</b>	<b>\$ 1.59</b>	<b>100.00%</b>	<b>3.82%</b>

***924,066 HO-6 fire policies were in force in 2019, thus only 924,066 Condo / CID units were eligible for individual EQ insurance.***

# Overview of the CA Condo Market



2018 Census Population		2018 DOF Housing Units		HOAs	HOA Units (est)	%HOA Units to Total Units
California Total		39,809,693	14,157,590	53,458	5,002,905	35%

  

Age	Range (years)	Assns.	% of Assns.
New	0 - 5	3,289	6.4%
YNG	6 - 10	2,570	5.0%
ADL	11 - 15	7,888	15.3%
MAT	16 - 20	4,449	8.6%
OLD	21 +	33,358	64.7%
Unclassified	N/A	1,904	N/A
<b>Average Age (est)</b>		<b>20 Years</b>	

  

Development Types	Assns.	% of Assns.
Condominiums	26,890	54.1%
Condominium Conversions	4,979	10.0%
Cooperatives	610	1.2%
Timeshare Developments	209	0.4%
Planned Unit Developments	17,005	34.2%
Unclassified	3,765	N/A
<b>Total</b>	<b>53,458</b>	
<b>"Condo" Subtotal</b>	<b>35,165</b>	<b>65.8%</b>
<i>(Excludes PUDs; includes 65.8% of Unclassified)</i>		

  

Housing Unit Types	Units	% of Assns.
Single Family Homes	8,390,000	59.3%
Apartments	2,675,647	18.9%
Mobile Homes	304,665	2.2%
Condo Units	<b>2,787,278</b>	19.7%
<b>Total</b>	<b>14,157,590</b>	

  

Size	Range (Units)	Assns.	% of Assns.
SM1	2 - 5	6,912	14.2%
SM2	6 - 10	9,062	18.6%
SM3	11 - 15	4,542	9.3%
SM4	16 - 20	3,660	7.5%
SM5	21 - 25	2,345	4.8%
SM6	26 - 50	7,000	14.4%
MD1	51 - 100	6,203	12.8%
MD2	101 - 150	3,296	6.8%
LG1	151 - 325	3,669	7.5%
LG2	326 - 500	809	1.7%
VL1	501 - 1000	590	1.2%
VL2	1001 +	554	1.1%
Unclassified	N/A	4,816	N/A
<b>Average Size (est)</b>		<b>94 Units</b>	
<b>Aggregate Number (est)</b>		<b>5 million Units</b>	

  

**NOTES ON DATA COLLECTION**

- General population and housing unit data is based on the State of California Department of Finance E-5 Population and Housing Estimates for Cities, Counties and the State
- Number of associations and average is calculated based on county-level data from subdivision public reports, as filed with the California Bureau of Real Estate
  - For associations with unreported unit numbers, the county-level average size is used
- Age figures are based on the association's incorporation date as filed with the Secretary of State

Sources: 2018 Levy, Erlanger & Company LLP, CPAs ([www.hoa-cpa.com](http://www.hoa-cpa.com)), <https://www.nmhc.org/research-insight/quick-facts-figures/quick-facts-apartment-stock/>, <https://www.mercurynews.com/2018/06/11/does-california-have-a-mobile-home-sh>, Motus estimates despite the great research, margin of error 10%