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Empowering the Insured

Divided opinions over value of earthquake insurance

The Press Democrat

Tom Fuller could tell how well folks understood earthquake insurance once he mentioned that he has a policy for his damaged home in Napa.
The uninitiated responded, “Well, you’re lucky.” The more knowledgeable said, “I hope you didn’t hit your deductible.”
Fuller, a public relations consultant, said the repairs from last month’s magnitude-6.0 quake won’t come close to his $48,000 deductible — the amount of structural damage his home must suffer before the insurance company becomes liable for major repairs. That means he will cover virtually all the damage from the Aug. 24 temblor to his 1940s-era home south of downtown.
Even so, his insurance policy still gives him peace of mind that he could rebuild should a massive, 1906-type quake ever level his city.
If needed, Fuller said, “I could afford a $48,000 hit. I can’t afford a $480,000 hit.”
Fuller is a rare breed among Napans, whose city last month suffered one death and an estimated $362 million in damage to its buildings, roads and other infrastructure. Only 6 percent of Napa County homeowners have earthquake insurance, compared to 10 percent of all Sonoma County and California residents, according to the California Earthquake Authority, the public entity that works with private insurers to offer residential coverage.
Only 9 percent of state businesses had quake insurance last year, according to the state Department of Insurance.
The number of residential policies has declined statewide from 1.2 million in 2004 to 1.1 million last year. But with pending changes, more homeowners may begin to consider the coverage.
Even so, earthquake insurance elicits head-jarring differences of opinion among Californians.
Insurance experts say the lack of coverage means that homeowners, businesses and the state as a whole are going to suffer terrible financial harm when a major quake strikes. They consider earthquake coverage similar to other insurance offerings for life, health and automobiles. And they say that other

countries take a more sensible approach to managing the risk of catastrophic quakes.

Many homeowners counter that quake insurance is too expensive and the deductibles are too high.

“The premium cost is so prohibitive that it makes no financial sense,” said Lynda Jensen, a Napa resident who lost a chimney and sustained other damage to her 1902 Queen Anne Victorian near downtown.

Jensen, manager of Wine Country Group real estate brokerage on Main Street, said she has yet to encounter anyone in town with earthquake insurance — not neighbors whose homes were red-tagged or fellow business people who scrambled to reopen their doors or the landlord of her reinforced-stone masonry office building, where interior glass windows blew out into diamond-shaped rubble and heavy roof stonework crashed down outside near the back of the building.

Jensen’s own baby blue and white home soon will have a new chimney, and she plans to have a structural engineer look over cracking and slight twisting at its front and back walls. So far the damage amounts to about $30,000, she said.

Despite the losses, she remains uninterested in earthquake insurance. If she had bought such coverage, she said, the deductible level would have been $58,000, meaning she still wouldn’t have received significant help even after a 6.0 quake.

“So what good is it?” she asked.

Another quake coming?

As the Napa temblor showed, California is earthquake country. And Santa Rosa belongs among the communities with tales of loss.

In the 1906 quake, at least 100 people perished here, while the city’s domed courthouse and many downtown structures collapsed. As well, the wreckage from a pair of 5.6 and 5.7 quakes in 1969 led to the remaking of the downtown, including the construction of a modern shopping center atop six blocks of former hotels, theaters and other businesses.

Looking forward, the state has more than a 99 percent chance of experiencing a magnitude 6.7 quake or larger by 2038, the U.S. Geological Survey predicted in 2008. Such a quake would be roughly 20 times greater than Napa’s, said Glenn Pomeroy, CEO of the publicly managed California Earthquake Authority.

In Napa, about 400 homeowners to date have filed claims with insurance companies whose policies are written in cooperation with the earthquake authority, Pomeroy said. The most common payments likely will be $1,500 per home for emergency repairs, followed by living expenses for those who had to temporarily move from their residences. There also could be payments for damaged contents and structures.

While Napa was a moderately strong event, the magnitude-6.7 Northridge earthquake in 1994 showed the nation’s insurance industry how costly such disasters could be.

That quake killed about 60 people and caused $40 billion in damage, including $20 billion to residential properties.

Insurance companies paid $10 billion to homeowners, Pomeroy said, a sizable amount considering that only about 25 to 30 percent of such owners then had earthquake coverage.

The fact that nine out of 10 California homes now lack earthquake insurance is "alarming," Pomeroy said. His agency is working to offer homeowners new policies "considered to be much more affordable and much more valuable."

'Not ready for anything'

Should a major quake devastate a city, many California homeowners with little equity in their homes likely "would choose to walk out of their loans," said Weili Lu, director of the Center for Insurance Studies and a professor at California State University, Fullerton. Lenders don't require borrowers to take out earthquake insurance, she explained, but they would share in the losses.

California's leaders need to give more attention to the danger to the state's economy from destroyed homes, shuttered businesses and other impacts related to the lack of insurance coverage, Lu said. She called for a task force to bring in key players and researchers to devise a strategy for dealing with such risk.

"At this moment, we're not ready for anything," she said. The state could learn lessons from the success of such countries as Japan and New Zealand.

As with homeowners, fewer state businesses have earthquake insurance today. The number declined last year to almost 84,000 from 119,000 in 2004.

Larger companies are much more apt than smaller ones to buy the coverage, said Alex Michon, a senior vice president in Sacramento with Aon Risk Solutions, a global business risk management firm. And those in higher-risk areas can face hefty premiums. A manufacturer in certain areas of Southern California might pay up to $1 million a year for $10 million worth of earthquake coverage.

Evaluating insurance need

In recent years, premiums have become more expensive, and many smaller businesses have decided to go without coverage, Michon said. They're essentially saying if a big quake hits, "we're just going to take a bath on it."

Earthquake premiums and coverage are "on par" with those offered for homeowners who risk damage from hurricanes and tornadoes, said Amy Bach, executive director and co-founder of United Policyholders, a San Francisco-based nonprofit consumer group. The organization doesn't accept money from insurance companies.

Bach recommends homeowners evaluate the need for quake insurance by considering the style and age of their homes, their compliance with modern building codes, the amount of equity in the properties and their distance from known fault zones.

For the owner of a modern, single-level, ranch-style home in Sebastopol, she said, “it’s probably not worth it” to get coverage. Bach, however, bought insurance for her own 1912-era home with two living levels over a garage in San Francisco’s Inner Sunset neighborhood.

Don’t presume your home is safe because it survived the 1989 Loma Prieta earthquake, Bach said. That reminds her of the people on New York’s Long Island who said their homes had never before flooded but did so in 2012 during Hurricane Sandy. A number of those homes are now in foreclosure because their owners can’t afford to repair them, she said.

Earthquake insurance is meant to protect against a catastrophic event, much like health insurance does for a needed major surgery. “It’s those dollars that the average person could not come up with on their own,” Bach said. “It’s worst-case scenario protection.”

Bach and others cautioned against expecting the government to bail out homeowners. As of Friday, Napa residents were still waiting to learn whether the Federal Emergency Management Agency would designate residents eligible for certain aid, as was previously done for the city’s government. But even if some low-interest loans and small grants are provided, Pomeroy said the federal government is not going to pay to rebuild everyone’s homes.

More coverage options now

More insurance companies in California now offer a choice of deductibles of 10 or 15 percent. Also, the authority recently began to offer policies that set a separate deductible for the home’s contents.

The authority recently asked the Department of Insurance to allow a range of deductibles for contents coverage from as low as 5 percent to as high as 25 percent.

It also sought permission to raise the premium’s discount for those who adequately retrofit homes. That discount now is set at 5 percent, but could go to as much as 20 percent, Pomeroy said.

Another effort seeks to win federal assistance to greatly reduce the more than $200 million the authority now spends each year on “reinsurance,” purchased to make sure it can pay claims from a worst-case quake. About 40 percent of premiums now go to essentially buy insurance for the authority. However, efforts have stalled in Congress to win a federal loan guarantee that could provide a much less costly alternative.

Napa was Northern California’s first large quake in 25 years, and it has once more placed attention on earthquake insurance.

“It does tend to put this back on people’s radar screens,” Pomeroy said. “And it usually shows up in increased policies.”

In Napa, State Farm insurance agent John Cardinale said more clients have been asking him about quake coverage.
"It's on top of people's minds," he said.
Such coverage is just part of the answer to preparing your family, home and community for a major disaster, Cardinale said. But if a 7.0 quake damages your home, "you're going to thank God you bought earthquake insurance."
You can reach Staff Writer Robert Digitale at 521-5285 or robert.digitale@pressdemocrat.com. On Twitter @rdigit