

Earthquake policyholders scarce despite quake risk

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North Bay property owners may be rethinking their insurance coverage following the 7.0 earthquake off the coast of Humboldt County on Thursday morning.

Despite experiencing 90% of the nation's earthquakes, only 10% of California's residents have earthquake insurance, according to the Federal Emergency Management Agency.

"I think a lot of people dropped their earthquake insurance because of the cost of home insurance," United Policyholders Executive Director Amy Bach said, referring to a yearlong bout with insurance companies non-renewals and rate hikes for California policyholders.

The insurance crisis, kicked off by the state's largest carrier, State Farm, dropping 72,000 policies in March, prompted a statewide effort to create a "Sustainability Insurance Strategy" the California Department of Insurance aims to finalize by next year. The plan involves catastrophe rate modeling that bases the price of insurance on future predictions instead of past records.

Rising expenses don't stop with the cost to cover homes for wildfire and liability.

The state-sanctioned agency which provides the majority of earthquake insurance in the state is the California Earthquake Authority. The agency, which has a cost calculator on its website, has reportedly raised its rates across the board and has "stopped advertising" to cut down on its own costs," insurance stakeholders contend.

CEA Renewal.pdf

"It remains a hard purchase because the deductible is so high. It's an individual decision people should

make depending on the risk factors,” Bach said, adding one example is living on a slope. “It’s the same problem we have with flood (coverage).”

The consumer advocate noted homeowners were probably calling right away to inquire about earthquake coverage.

“Sure, they are. It always happens,” she said.

“It is too soon to say whether yesterday’s earthquake will result in more Californians wanting to buy residential earthquake insurance,” CEA spokeswoman Charlotte Fadipe said in an email.

“We also hope that yesterday’s earthquake spurs people to seriously consider taking steps to strengthen their homes against earthquake damage,” she said.

Once a homeowner has decided to go with additional coverage that’s separate from homeowners’ policies, they just might experience sticker shock, with a policy costing on average \$740 per year. Standard homeowners and renters policies do not include coverage for earthquakes.

Insurance coverage may depend on need, availability and affordability, given different homeowners’ circumstances.

The most recent version of the U.S. Geological Survey’s earthquake hazard model, issued in January, shows “a chance for greater shaking” from earthquakes in California than previous models, the agency said.

“They’re getting insurance if the house is flattened,” said Rohnert Park Mayor Susan Hollingsworth Adams, who is also the director of operations at Hollingsworth Insurance Services in Rohnert Park. The wholesale insurance office covers policies not typically available through standard policies such as small employer groups and niche (distressed risk) coverage.

The agency, where Adams’ brother Ron Hollingsworth also works, provides earthquake coverage through GeoVera of Fairfield and not through the California Earthquake Authority.

“If you have a \$1 million home and an \$800,000 mortgage, you may or may not want to pay \$4,500 a

year to protect that \$200,00 in equity. That could be eaten up in the deductible,” Hollingsworth said. “I’ll tell you earthquake coverage is the first thing to go (on a household budget).”

Many factors go into rating insurance, including coverage for earthquake policies. One such policy Hollingsworth wrote at GeoVera involves an East Bay home with \$616,000 in coverage with a 20% deductible for \$827 a year.

In Sonoma County, a policy for a 2-bedroom, 1,172-square-foot town house in Oakmont under GeoVera cost \$755 for \$481,000 in coverage.

Lisa Orloff, the Rohnert Park Chamber of Commerce CEO, worked for State Farm for decades.

She and her husband have a \$1.3 million home in Rohnert Park, which costs \$3,558 a year to insure with a 15% deductible through the CEA, although Orloff’s insurance coverage would not be typical of the average homeowner cost.

“We even got a (personal) umbrella policy,” she said, referring to PUP policies that enhance liability coverage on property. She also pointed to the risk of lawsuits.

Orloff agrees with Hollingsworth’s assessment.

“I always thought, if you’re willing, but you don’t have enough equity in your house, you don’t need it. You just walk away,” she said. “That might be the way to go.”