

Got Insurance? Enough? You Sure?

Wall Street Journal

Many U.S. homeowners haven't insured their homes against earthquakes and other disasters, but the devastating losses in the wake of the recent earthquake and tsunami in Japan may cause people to give their insurance policies another look.

As well they should.

Earthquakes have occurred in 39 states since 1900, according to the Insurance Information Institute, a nonprofit supported by the insurance industry. Earthquakes have caused damage in all 50 states, according to the group.

April 18 marks the 105th anniversary of the great San Francisco quake of 1906. That temblor caused an estimated \$524 million in property loss at the time; it would have cost \$96 billion had it occurred in 2009, according to AIR Worldwide, a provider of risk modeling software and consulting services.

With a standard homeowners policy, you're not covered for damage to your home or possessions in the event of an earthquake, meaning the damage occurring from the shaking and cracking. Flood damage also is typically not included in your basic policy, says Scott Spencer, world-wide appraisal and loss-prevention manager at Chubb Personal Insurance.

To be covered for both, you have to buy an endorsement or separate policy.

"Most people are not adequately insured for a total loss, but total losses are so rare," says Amy Bach, executive director of United Policyholders, a nonprofit advocate for insurance consumers. But, "if you lose the bet and something really bad happens, it can be pretty awful to not have the coverage you thought you had."

Even in California, only 12% of residents have earthquake coverage. That's partly because earthquake coverage in high-risk areas can be prohibitively expensive, Ms. Bach says.

While people pay in the range of \$500 to \$2,000 a year for basic homeowners insurance, the total cost of insuring an older home in San Francisco with earthquake insurance, for example, can cost an additional \$2,000 to \$5,000, Ms. Bach says.

The cost of coverage varies based on where in the country you live and how old the home is, since newer building codes often make structures more resilient, according to Pete Moraga, spokesman for the

Insurance Information Network of California, a nonprofit aimed at educating consumers.

California isn't the only part of the country where earthquakes pose a risk. For example, earlier this year, a 4.7 magnitude earthquake occurred in Arkansas — the most severe quake the state experienced in 35 years, according to the Insurance Information Institute.

Flood insurance is typically less cost-prohibitive to those who need it. To protect a home against flood damage, recognize the area's flood history and know if your home is in a flood zone, Mr. Spencer says. Earthquake insurance is available through private insurance companies, as an add-on. In California, it's available through the California Earthquake Authority, says Jeanne M. Salvatore, senior vice president of public affairs for the Insurance Information Institute. Flood insurance is made available through the National Flood Insurance Program as well as private insurance companies.

On the other hand, wind damage caused to a home by a tornado is generally covered through your standard homeowners insurance, Ms. Salvatore says. The tornado season runs from April through July, but some of the most severe storms hit in the spring, according to the Insurance Information Institute. And in most states, wind damage due to a hurricane is also covered in the standard contract, Mr. Spencer says. That said, some policies in certain states exclude wind coverage — though that practice isn't typical.

"Wind deductibles are more common than policies excluding wind all together," he says, adding that the policies require homeowners to pay either a percentage or a flat dollar amount for losses due to wind-related damage.

So it's worth checking to make sure your policy will adequately cover any losses.

Insurance is determined based on what it would cost to rebuild your home, not its market value — and the cost of construction has gone up in recent years. The replacement value of your home may have been \$250,000 when you bought it 10 years ago, but it might cost \$500,000 to build it today. Coverage should be re-evaluated regularly, Mr. Spencer says.

To protect against increased construction costs, homeowners can add extended replacement-cost coverage to their basic policies, Ms. Bach says.

She also recommends buying building-code upgrade coverage, which ensures that if the codes have changed and you need to rebuild, the insurance company pays for the increased costs. When you add these items, Ms. Bach says, raise your deductible to at least \$1,000 to keep your premium affordable. Finally, research insurers, selecting one that offers a good quality of coverage — not just the lowest price, Mr. Spencer says. "Many people think insurance is insurance and you buy a policy and they're all the same," he says. "But the offerings are as vast as cars. You can buy a Dodge Neon or a Cadillac Escalade."



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