Insurance Coverage Likely to Get More Respect After the California Earthquake

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One of the most predictable aftereffects of a hurricane or earthquake, such as the weekend's California earthquake, is a spike in interest by homeowners in getting, or improving, their existing insurance coverage.

And there is a lot of room for improvement in California, when it comes to earthquake insurance. The costliest earthquakes in the U.S. have occurred in the state. But just 10% to 11% of California homes with homeowners insurance have earthquake coverage, which must be obtained on top of the standard homeowners policy, according to the California Earthquake Authority, a state-managed earthquake insurer.

In Napa, Calif., the wine-country area jolted Sunday by the largest earthquake in the San Francisco Bay Area in 25 years, only 6% of homeowners have the coverage, according to the CEA.

On Sunday, the website of the CEA had 17,482 visits, more than five times the usual Sunday count, according to Glenn Pomeroy, the authority's chief executive. The authority has 856,000 policies in force, he said.

"Typically there is a spike [in insurance inquiries] after a flood or earthquake and there is an uptick in requests," said Loretta Worters, a spokeswoman for New York-based Insurance Information Institute, a trade group.

But beware: There are some important limits on earthquake policies in terms of covering aftershocks. For policies obtained through the California program, coverage goes into effect for aftershocks as of the 16th day a policy is in effect. If a new earthquake occurs just after a policy has been taken out, coverage would be available, said Mr. Pomeroy. As the saying goes, "you can't insure a burning building," he said.

Across the U.S., earthquake damage is excluded under standard homeowners insurance, though coverage typically can be added with a rider or purchased as a separate policy.

In California, earthquake coverage is typically sold by major insurers through their participation in the CEA program. The authority describes itself as "a publicly managed, privately funded, not-for-profit

organization."
California residents seeking a CEA policy can contact an insurance agent for a premium quote, or go to CaliforniaRocks.com for an estimate.
The authority was set up in the 1990s to keep the annual premiums as low as possible while also allowing the program to be financially stable.
The average annual premium for a California homeowner is approximately $800, according to the authority. Earthquake insurance carries a deductible, generally in the form of a percentage of the replacement value of the structure. In California, policyholders must choose a 10% or 15% deductible. This means that if a house is insured for $400,000 and there is a 10% deductible, the homeowner would be responsible for $40,000. Consumers don't have to pay their share before the policy begins paying, according to the authority.
Around the country, deductibles can run from 2% to 20%, Ms. Worters said. In many instances, consumers can agree to pay higher deductibles order to save money on their annual premiums.
Quake insurance has been a tough sale in part because many people think it is too expensive, and they are counting on state and federal governments to step in with generous aid packages. Mr. Pomeroy said that could be "a false hope" in terms of the terms, condition and speed with which such aid would be available.
The basic CEA policy covers only the house; structures such as garages and pools aren't covered, according to the authority's website. The CEA also offers additional insurance for other structures and personal items. Premiums vary widely, based on the type of house, its age, the nature of the soil and proximity to known fault lines, Ms. Worters said.
"I'm sure more people are going to buy [earthquake] insurance now," Amy Bach, executive director of San Francisco-based consumer advocacy group United Policyholders, said in an email. "The estimate that only 6% of Napa homeowners have it means there will be very few people recovering insurance benefits to pay for repairs and there will be pain in the pocketbooks—a lot more pain than if they'd shelled out the money for the insurance."
For those now shopping for coverage, Ms. Bach's main buying tip is: "Don't forgo buying it [because] you think the high deductible is a rip-off. No [earthquake] insurance means you're carrying a 100% deductible!"
As for those Napa-area people with earthquake coverage, she advises they "get their home thoroughly inspected by an experienced professional." In the past, some postquake inspections—such as by an insurance adjuster lacking the experience or motivation to know where to look for structural

problems—“have missed hidden damage, tallied up only cosmetic,” she says. “The result: no payment because the estimate doesn’t exceed the deductible.”