

Who Is The California Earthquake Authority?

You might call the California Earthquake Authority a financial shock absorber for the Golden State, home to nearly 40 million people and to two-thirds of the country's earthquake risk.

Created in 1996, the California Earthquake Authority (CEA) is the largest residential earthquake insurer in the U.S., issuing about two-thirds of the residential earthquake policies sold in California. It also manages the state's Wildfire Fund, which pays claims stemming from wildfires sparked by certain electric utilities.

The CEA, a nonprofit entity that's privately funded and publicly managed, serves as a marketplace for earthquake insurance. It receives no money from the state budget. A five-member board, including California's governor and insurance commissioner, oversees the agency. Glenn Pomeroy, a former insurance executive and North Dakota insurance commissioner, is the CEO of CEA.

Born Out of Crisis

CEA was established to address a serious financial crisis. In 1994, the 6.7-magnitude Northridge earthquake hit Southern California's San Fernando Valley, causing an estimated \$26.4 billion in insured losses (as measured in 2018 dollars). It ranks as the costliest quake in U.S. history.

In response to the Northridge disaster, insurance companies accounting for about 93% of California's homeowners insurance market either dramatically cut back on issuing new homeowners policies across the state in 1995 or stopped issuing them at all. Reacting to this threat to California's housing market, state officials authorized CEA in 1996.

"The CEA is now the only option for many California property owners who want to buy quake coverage," according to United Policyholders, a San Francisco-based advocacy group for insurance consumers.

How Does the California Earthquake Authority Work?

The CEA fills an insurance void in California.

State law mandates that [homeowners insurance companies](#) must offer earthquake coverage to residential customers. But also under state law, these insurers have excluded damage caused by earthquake shaking from coverage for more than 30 years. Therefore, a separate policy is required for residential earthquake coverage.

Californians can purchase CEA [earthquake insurance](#) from 25 residential insurers that are CEA members, but not directly from CEA. Coverage is available to homeowners, condo owners, mobile home owners and renters. Someone buying earthquake coverage from a CEA insurer must maintain their residential coverage with the same insurer.

If your insurer doesn't participate in CEA, you won't be able to buy CEA earthquake insurance, CEA spokesperson Sarah Sol says. Instead, you must purchase coverage from another provider of earthquake insurance.

Here's a [list of the companies that offer CEA earthquake insurance](#).

By the way, homeowners who have a mortgage must carry homeowners insurance, but they're not required to buy earthquake insurance.

More than 1 million CEA insurance policies are in force. Insurers like Allstate, Farmers and State Farm that no longer sell their own earthquake policies are required to participate in the CEA. Insurers under the CEA umbrella issue the policies, collect the premiums and handle claims.

What Does CEA Earthquake Insurance Cover?

Basic California Earthquake Authority insurance covers:

- **House damage**, up to the same dollar amount covered by your homeowners insurance policy. Some items are excluded, such as pools, fences and landscaping.
- **Personal belongings**, from \$5,000 up to \$200,000. This includes furniture, TVs, clothes, toys and computers. Things like china and crystal are covered through optional breakables coverage.
- **Additional living expenses (ALE)** or loss of use, from \$1,500 up to \$100,000. This covers temporary and extra costs to live somewhere else while your area is evacuated or while your home is fixed due to earthquake damage.

The CEA's Homeowners Choice policy lets you purchase separate coverage options instead of the basic bundled package. For instance, coverage for personal belongings and for ALE/loss of use is optional under Homeowners Choice.

Deductibles for CEA insurance range from 5% to 25% in 5% increments, with the percentage being tied to the amount of your dwelling coverage. The deductible is the amount subtracted from an insurance claims check; you do not pay the deductible to the insurer.

What's Not Covered by CEA Insurance?

While CEA earthquake insurance covers a number of scenarios, it ordinarily doesn't cover:

- **Fire damage.** A homeowners policy will cover fire damage, even if it's caused by an earthquake.
- **Damage to land,** such as sinkholes.
- **Water damage.** This includes damage caused by a flood, tsunami or sewer backup.
- **Vehicle damage.** This type of damage can be covered under comprehensive coverage in an auto insurance policy.

How Does CEA Compare with Other Earthquake Insurance Providers?

While CEA insurers offer the bulk of residential earthquake policies in California, other insurers also sell coverage. And CEA coverage may be different from other earthquake insurance options. For instance:

- Insurance companies Arrowhead and GeoVera don't sell earthquake policies to renters, while CEA insurers do.
- Insurance company Jumpstart covers only your immediate needs after an earthquake, such as living expenses and moving costs. The policy limit is \$10,000, with no deductible.
- The average premium for a CEA policy was \$727.76 in 2019, compared with \$874.51 for residential earthquake coverage from non-CEA insurers.
- There are discounts available for retrofitting. See the CEA's discount page.

How Many Californians Have CEA Insurance?

The CEA controls 67% of the California market for residential earthquake insurance, with non-CEA

insurers accounting for the remaining 33%. Overall, just 14% of residential home insurance policyholders had earthquake coverage in 2019, with homeowners and condo owners around 16%, renters at 14% and mobile home owners at 20%.

Under state law, CEA's rates must let it stay financially sound yet be able to pay claims. Also, the rates "must be based on the best available science for assessing earthquake risk," the CEA says. Premiums for CEA policies are based on the age, location and type of structure being covered. The CEA collects more than \$630 million in annual revenue from premiums.

How Does the CEA Promote Itself?

The California Earthquake Authority views itself as both earthquake protector and earthquake educator.

The CEA and its partners engage in a lot of educational outreach through efforts like fairs and webinars, as well as the annual Great California ShakeOut earthquake drill. Over 6.6 million Californians registered for the 2020 Shakeout, down from more than 10.8 million Californians in 2019.

It also finances earthquake research aimed at shoring up homes. For instance, the CEA and the Federal Emergency Management Agency (FEMA) teamed up in 2019 for a project to make it simpler and more cost-effective for owners of one- and two-story single-family homes to do earthquake retrofits.

A 2018 article in Risk Management and Insurance Review noted that more than 20 years after its formation, "CEA is no longer just a bright idea—it is a mature insurance provider with a broad portfolio of ideas: market-leading insurance products, unique loss-mitigation programs, and innovative financing techniques. CEA is the largest and by far most active California player in addressing and mitigating both structural and financial residential earthquake risks."

Common Misconceptions About the CEA

One of the biggest misunderstandings about CEA revolves around what it does. It's not an insurance company. As such, the CEA itself does not sell earthquake policies or provide customer service for these policies. All insurance applications, billing questions and claim inquiries must be directed to the appropriate insurer that's participating in the CEA program.

Furthermore, some people might mistakenly think CEA is a state government agency. It's not included in the State of California budget. Instead, it's financed solely through insurers' contributions, policyholder premiums and investment returns.

Also, some people might be unaware that not just any insurer can offer CEA policies. Only those insurers that participate in CEA can sell them, but most companies in California that sell homeowners or renters insurance are members of CEA.