United Policyholders
Empowering the Insured

Why Earthquake Insurance Is Tough Sell, Even In Bay Area

Bill Clingan was around when the Loma Prieta earthquake sucker-punched the Bay Area 20 years ago.
His Walnut Creek home suffered no damage, which is why he feels comfortable today not having earthquake insurance.
"It's very expensive. Deductibles are high. It's just not worth it," said Clingan, a retiree who worked in the chemical marketing industry. "For what you get it's not cost effective."
Not if you ask Girdhar Vander.
"We have it," said the retired structural engineer of the earthquake insurance policy he purchased for his Walnut Creek townhouse about 10 years ago. "It can happen anytime."
Happen it did in a huge way when the 6.9 magnitude Loma Prieta earthquake struck the region on Oct. 17, 1989. Since then several smaller temblors have occurred, providing evidence that Bay Area residents live in an earthquake-prone region.
Not that many consumers choose to buy earthquake insurance, even though the Bay Area has a 63 percent chance of having an earthquake with a magnitude of 6.7 or greater over the next 30 years, according to a study released last year by U.S. Geological Survey. Statewide, the risk is over 99 percent. Only 12.6 percent of California homeowners and 8.2 percent of renters have earthquake insurance.
To obtain earthquake insurance, homeowners must first be covered by an underlying homeowner policy. Earthquake insurance to cover personal possessions is also available to renters, and owners of condos, townhouses and mobile homes provided there is an underlying residential

coverage policy.
Many people mistakenly believe their homeowners insurance will help pay for their home to be rebuilt in the event of an earthquake, said Glenn Pomeroy, chief executive officer of the California Earthquake Authority, which accounts about 72 percent of the 1.16 million residential earthquake insurance policies in California. “Homeowners insurance specifically excludes earthquake insurance. You’ve got to make a choice to buy it. The risk is real and the federal government is not going to bail you out,” he said.
The CEA was formed in response to the high rate of claims paid out for the 1994 Northridge quake. Insurers were threatening to stop writing new homeowners policies in the California market because of a law that required them to offer earthquake insurance to policyholders. The solution was to set up the state-managed, privately-funded CEA. Its members include 17 insurance carriers who offer a basic, no-frills CEA policy intended to provide affordable coverage for the home itself but not other structures such as swimming pools and patios. In mid-2009, CEA had about 793,521 policyholders statewide, most of which are homeowners. In the Bay Area, there are 138,594 CEA policyholders.
Deciding whether to buy earthquake insurance “is very much dependent on your personal financial situation” and not whether “your neighbor says it’s a rip-off,” said Amy Bach, executive director of United Policyholders, a San Francisco-based consumer advocacy group.
Premiums are linked to many factors including how close a home is to a fault line, the age of the home, type of construction, its underlying insured value and policy features.
“The first step is to analyze your risk. Look at your house, what it’s made of and where it is. How likely is it to suffer severe damage in an earthquake? Has there been any work done to strengthen the foundation?” Bach said.
To help evaluate whether you live in area prone to earthquakes, check out www.shakeout.org and www.usgs.gov/hazards/earthquakes/. A third site, http://quake.abag.ca.gov/ is also helpful.

A CEA policy requires either a 10 percent or 15 percent deductible, which is subtracted from the amount of money sent to the insured after a claim is field. The basic policy has a $1,500 limit for temporary living expenses and a $5,000 limit for personal property, although those amounts can be increased with supplemental coverage. Building code upgrade insurance is also available.

Earthquake insurance can also be purchased from stand-alone insurers such as GeoVera Insurance Co. or Pacific Select Property Insurance Co. Stand-alone earthquake policies are offered to consumers who are looking for an alternative to CEA coverage but who have residential coverage through a CEA-member carrier. The third option for earthquake insurance are carriers such as Fireman's Fund, Ace Private Risk Services, and Chubb Insurance, which provide earthquake coverage to their customers who have a residential policy.

After assessing a home's risk profile for earthquakes, homeowners should contact an independent insurance agent to get a side-by-side comparison of the three options, advised Bach. All homeowners can obtain a CEA-backed policy no matter where they live. But stand-alone companies do not have to provide earthquake coverage in high-risk areas and can reject coverage on older houses.

"For a lot of people, they are not going to have a lot of choices if they have an older home," said Bach.

No matter what type of earthquake insurance a homeowner selects, the premium is linked to the home's insured value – an estimate of what it would cost to rebuild the home at the time the event occurred – and not the market value, which includes the cost of the land.

Statewide, the average cost of a CEA policy was $705.29 in 2008 while a non-CEA policy averaged $1,021.14, according to the state Department of Insurance.

Non-CEA policies typically cost more than a CEA-backed policy. But non-CEA policies can offer coverage for other structures besides the home along with higher limits for personal possessions, temporary living expanses and building code upgrades, said David Shaffer, a Walnut

Creek-based independent insurance agent.
"There are some great alternatives to CEA-backed policies)," said Shaffer. "If you don't have any other options it's better than nothing."
The cost of premiums today should not be the only factor in making a decision about earthquake insurance.
"Everyone focuses on what the premium costs. You have to factor in the big picture if an earthquake) happens tomorrow, what your financial picture looks like if you have no earthquake insurance," he said.
Should you buy earthquake insurance?
— No place in California is immune to earthquakes and earthquake damage, and the Bay Area is certainly no exception.
— Also, be aware that damage from an earthquake is not covered by a standard homeowner policy.
— Determine your risk for damage resulting after an earthquake.
— Make a decision – will you purchase earthquake insurance, self insure, or retrofit your home to minimize potential damage? Or will it be a combination of two or three items?
— Can you afford to replace your personal belongings without insurance? If not, you may want to consider earthquake insurance.
— If your home is destroyed following an earthquake, can you afford to live in temporary housing until you can move back into your home?
— Do you have a mortgage? If you do, can you afford to pay the mortgage while at the same time paying to repair or replace your home?
Source: California Earthquake Authority; Insurance Information Network of California