California Earthquake Authority's $774 Million Business Dominates Market

OLDWICK, N.J. - The California Earthquake Authority increasingly dominates a growing U.S. earthquake insurance market, with other leading U.S. earthquake insurers jockeying for position.

Four of the 10 largest U.S. earthquake writers increased market share from 2014-2018: CEA, State Farm, Palomar Specialty Insurance Co. and Axa U.S. Group, according to BestLink.

The king of quake coverage, CEA, saw its direct premiums written rise to $774.3 million in 2018, up 27.6% over the past five years, according to the AM Best five-year trend study.

State Farm's U.S. market share rose to 8.48% in 2018 from 8.15% in 2014, writing $268.1 million of earthquake premium last year. It led in Washington, Missouri, Oregon, South Carolina and four other top-10 states for earthquake insurance, according to BestLink.

Palomar Specialty's market share rose to 2.94%, up from 0.40% in 2014 and Axa's market share rose to 2.38%, up from 1.63% in 2014.

Top 10 quake insurers that lost market share between 2014 and 2018 included Zurich, Chubb, Travelers, American International Group, GeoVera U.S and Liberty Mutual.

Overall U.S. direct premiums written for quake rose 13%, to $3.16 billion between 2014 and 2018. That helped push CEA's share of the U.S. market up 2.8% to 24.5%.

The total direct premiums written expanded in quake-prone states as well.

California was by far the largest market for earthquake insurance, with $1.88 billion in direct premiums written in 2018, according to BestLink data. Direct premiums written in California were up 13.6% between 2014 and 2018.

Direct premiums written in the second-largest market, Washington, totaled just $198.4 million, or about 10% of California's total. They were up 22.3% over the five years.

Other states with the greatest direct premiums written for earthquake insurance were Missouri, Oregon and Tennessee. Rounding out the top 10 were Illinois, Utah, New York, Kentucky and South Carolina.

Each of the top five states has seen the line grow at least 9.1% between 2014 and 2018. Oregon's earthquake DPW jumped more than 36% in that time, according to BestLink. Tennessee's direct premiums written rose 32.9%.

Missouri, one of five states in the New Madrid earthquake zone, posted $100.3 million in DPW. The remainder of the top 10 states for earthquake coverage tallied DPW between $94.9 million in Oregon to $46.4 million in South Carolina.

While earthquake losses have been relatively low, magnitude 6.4 and 7.1 earthquakes and a number of aftershocks in the Ridgecrest area of California in July reminded people of the potential for a major event, resulting in a spike in requests for coverage, said Lew DeFuria, president of special risk at Brown & Brown national program office Arrowhead.

Available market capacity for earthquake coverage is shrinking in California, Washington and Oregon due to renewed concerns over where and when a crippling earthquake could strike.

"This increased rate environment started slowly in the first quarter of 2019 but has risen monthly to levels which have not been seen over the last seven to eight years," DeFuria said.

He said carriers are basing underwriting decisions on scientific models that try to assess loss potential on each account.

Growth this year and likely into 2020 will come from rates increasing 5% to "high double digits" and from greater demand, DeFuria predicted. "A recent example was the Ridgecrest earthquake that didn't result in great loss … but the event was felt in L.A. and areas over 100 miles from the epicenter."

At the same time, the take-up rate for commercial businesses — as much as 15% in some areas — is rising as lenders increasingly require the coverage, said DeFuria. Business leaders know a major event could "severely impede an entity's ability to grow, prosper and even survive."

CEA Outreach

In 2018, the CEA had 41.14% of the earthquake market in California, with No. 2 Zurich at 8.68%. The CEA's policies in force shot up after the quasi-public company made a concerted effort to "really improve" product, price and the voluntary market in general, Chief Executive Officer Glenn Pomeroy told BestWeek.

The size of the CEA doesn't mean Golden State residents are clamoring for coverage. "California's not adequately prepared," Pomeroy said. The number of insureds generally run slightly less than 10% in the San Francisco Bay area, 15% or more in some parts of Los Angeles — numbers he calls alarming for high-risk cities.

The CEA rolled out an $11 million campaign in the fall of 2015 that was designed, as Pomeroy put it, to attack indifference to a 99.3% probability of a 6.7 or greater earthquake within 30 years. CEA stepped up community outreach and marketing. It addressed concerns about the cost of earthquake insurance by expanding the range of deductibles and posting an earthquake insurance premium calculator online.

"We made a concerted effort to really improve the product offering," said Pomeroy. "We're doing what we can to give people the best choices as affordably as possible, while remaining actuarially sound."

The Almost Big Ones

Prior to 2016, the CEA consistently added about 6,700 policies-in-force annually. In 2016 that number jumped to 52,000, then vaulted to 90,000 in 2017. In July 2019 it gained more than 23,000 policies after earthquakes centered on the Ridgecrest area in the Mojave Desert rattled the ground and nerves as far away as Los Angeles and Sacramento. It was the second-largest monthly net increase in CEA's 23-year history.

The gain in July fell short of the record 26,000 policies added in September 2017, when Pomeroy said news feeds were awash with victims who failed to insure themselves against the risk of flood in the United States and earthquake in Mexico or were underinsured when wildfires devastated California communities.

Each catastrophe reminded residents to look into earthquake insurance. "People spend a moment on our website and say it's a lot more affordable than they thought," said Pomeroy.

Since the 1980s, California has required homeowners insurers to additionally offer earthquake coverage. When the Northridge quake struck north of Los Angeles in January 1994 it caused an estimated $15.3 billion of insured losses and an exodus of carriers (Bests News Service, Dec. 24, 2013). CEA then formed to partner with homeowners insurers.

Pomeroy said he feels good about CEA's financial state. The insurer would incur about $6 billion in losses if another Northridge struck in 2019, easily within CEA's claims capabilities, he explained. "We can handle a 1-in-400-year scenario. Those are pretty good odds."

Data, analytics and science better define areas at risk since then, but earthquakes still can't be predicted with precision. CEA helps fund research that makes it better informed. However, "in the end all they can tell us is probabilities," said Pomeroy. "But if a scientist worries about an earthquake happening, so should you."

California Bound

Considering California's outsize share of the market, it's not surprising that most of the 10 largest U.S. earthquake insurers write a substantial portion of premium in the Golden State.

California accounted for $163.3 million of third-largest U.S. earthquake carrier Zurich Insurance US PC Group's $223.7 million of DPW last year.

Number four Chubb INA Group wrote $99.4 million of $156.4 million overall earthquake DPW in California.

State Farm Group — the second largest writer of the line in the United States — and Liberty Mutual Insurance Cos. counter the norm, each holding less than 1% of the market share in California.

State Farm only offers its own earthquake coverage in California on farm/ranch policies, said spokeswoman Anna Bryant. Residential customers are proffered a CEA policy. In other states it's commonly a separate endorsement on a homeowners policy.

State Farm recently implemented changes that simplify the product and provide more coverage, Bryant said.

"For example, the State Farm homeowners earthquake coverage deductible is applied to all coverages under the policy only once, instead of to individual coverages. The other change to our coverage is that State Farm considers multiple earthquakes within a 168- hour period as a single event. Previously, a single event was considered 72 hours," she explained.

Looking Ahead

In commercial lines the percentage of insured businesses is edging up on tighter lending requirements as geological forecasts predict a major event in the not-too-distant future, DeFuria said.

After the Ridgecrest earthquakes, RMS Senior Director of Model Product Management Chesley Williams pointed out the reason mortgage lenders haven't mandated earthquake coverage — land masses are riddled with fault lines. The most active in the United States are located along the West Coast and east through the Rocky Mountains. Further, she said, a large earthquake is unlikely to reoccur during the lifetime of a mortgage because stress needs time to rebuild (Best's News Service, July 10, 2019).

Yet the majority of the top 10 states for earthquake insurance are east of the Rockies, including four partially within the New Madrid seismic zone: Missouri, Tennessee, Illinois and Kentucky. According to Missouri regulators, the U.S. Geological Survey places a 7-to-10% probability of a magnitude 7.5 or greater earthquake in New Madrid within 50 years, which could generate "the highest total economic loss of any natural disaster in U.S. history" (Best's News Service, Aug. 20, 2015).

Even so, many homes in Missouri are no longer insured for earthquakes, according to a recent annual report from the Missouri Department of Insurance. Premiums, deductibles and exclusions have risen so that 80% of homes most at risk in the event of an earthquake aren't insured for the peril, compared to 40% 15 years earlier, according to the report (Best's News Service, Aug. 20, 2019).

Absent lender rules mandating coverage, Sentry Claims Group President Steven Steckler doesn't foresee that decline reversing in Missouri or insured rates rising appreciably nationally.

While lower-cost premium options widen the market, Steckler said that comes with higher deductibles that many homeowners recognize they couldn’t cover. Outside of California, agents may not offer the option.

Steckler thinks earthquake risk is too concentrated, placing some fault with an industry that continues to approach catastrophes with a silo mentality. Carriers should establish research teams to develop coordinated post-disaster restoration plans with government agencies, utilities, emergency responders, mortgage lenders and building trades.

“This is something that really, really needs to be addressed. Everybody wants to live next to the coast and in cities and California is directly over a fault line. Who knows when the (tectonic) plates are going to shift, but you know they have to. There has to be a balance because after it happens, it’s too late.”

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