7 Oct, 2019



# Lack of earthquake coverage leaves many California homes vulnerable to 'big one'

Author
Calvin Trice, Jason Woleben

Theme
Insurance

After a catastrophic earthquake and fire in 1906 left much of San Francisco in ruin, a Lloyd's of London insurer **ordered** his local agent to pay all claims regardless of policy terms.

Should another earthquake with a magnitude of 7 or higher strike in California, property owners should not expect the same generosity.

Earthquake risk is widely known in the Golden State but remote in mind when it comes to insurance. Most residents living along the most threatened state fault lines do not bother to buy protection for earthquake damage. The state did see an uptick in policy purchases following the Ridgecrest quakes that caused relatively minor damage in July, but coverage remains relatively paltry as a percentage of insurable residential property.

Though the state offers a program to provide insurance where private insurers have left the market, 90% of Californians do not buy coverage, according to Glenn Pomeroy, CEO of the California Earthquake Authority. In higher-risk areas like Los Angeles County and the San Francisco Bay Area, uptake is slightly higher. But neither region sees coverage even get as high as 20%, Pomeroy said in an interview.

Damage caused by the 1994 Northridge earthquake.

*Source: AP Photo*

Major earthquakes "don't happen with any frequency, so people just put them out of mind," Pomeroy said.

Standard homeowners' policies specifically exclude coverage for earthquake damage. Many residents are unaware of that, Pomeroy said. Purchased separately, earthquake insurance has typically been expensive. With deductibles coming in at 15% of home values, the value proposition has been dubious, though Pomeroy said recent changes in the program should make coverage more attractive.

Among private insurers that write their own earthquake policies, Zurich Insurance Group AG, Chubb Ltd. and GeoVera Holdings Inc. led the market in direct premiums written in 2018, according to S&P Global Market Intelligence data.

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## Bailout assumptions

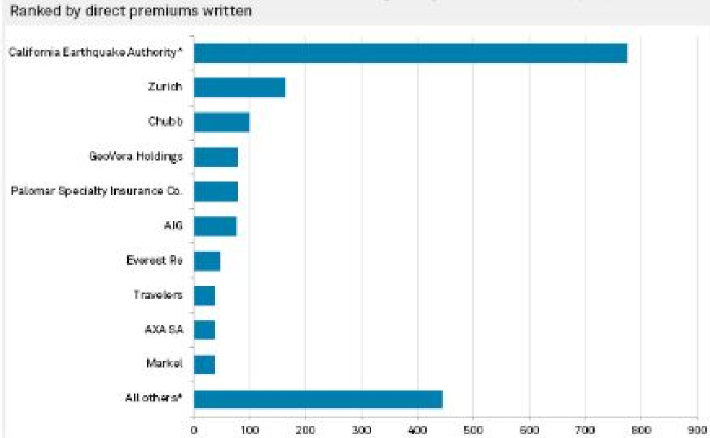
An earthquake of similar size to the magnitude 7.8 tremor that laid waste to San Francisco in 1906 would generate truly historic damage. Risk Management Solutions estimated that such an earthquake could cause $300 billion in economic losses, with a majority of those losses being uninsured.

Another thing that deters homeowners from purchasing coverage is the assumption that they can count on the federal government to make them whole in the event of a natural disaster, Pomeroy said.

Steven Steckler heads a national claims adjusting company that has lately been trumpeting California's yawning earthquake insurance deficit. Assuming there would be a federal bailout following a major earthquake that would make everyone whole is foolish, according to Steckler.

In an interview nearly a year after Hurricane Michael battered the Florida panhandle in October 2018, Steckler noted that the government assistance for that storm was still inching through the system. "It's a process that takes forever," said Steckler, president of Lafayette, La.-based Sentry Claims Group.

**CEA wrote more than 40% of California's earthquake premiums in 2018 ($M)**
Ranked by direct premiums written




Data compiled Oct. 1, 2019.
Analysis limited to the top 10 underwriters of earthquake line of business in California.
Data sourced from the state pages of the annual NAIC statutory property and casualty statement filings for the year ended 2018. U.S. filers only.
Insurers reflects consolidation of data from filers within SNL-defined corporate structure and unaffiliated companies for U.S.-based statutory insurance filers.
^ California Earthquake Authority, or CEA, is a not-for-profit, publicly managed and privately funded entity created by the California Legislature in 1996.
* All others = combined direct written premiums for every other insurer in the state
Source: S&P Global Market Intelligence

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Small tremors in California — and even larger earthquakes — generally cause minimal damage to residences. A 15% deductible in a state with some of the country's most expensive real estate means a homeowner would have to shell out $75,000 on a quake-damaged property worth $500,000 before any insurance money is made available. About 90% of claims for earthquakes come in beneath the deductibles, according to Steckler.

A lack of home equity can be a big deterrent for those who recently purchased their first homes or who struggled to financially qualify for their current mortgages, said Jason Hargraves, a researcher for insuranceQuotes. In the event of a major earthquake, many homeowners would likely abandon their ravaged homes, Hargraves said in an interview.

"If you have so much damage to your house that your earthquake insurance would kick in, that would be way more than you have invested in your house, and it would make more financial sense to walk away," he said.

After the Northridge earthquake of 1994, homeowners abandoned entire neighborhoods, California Earthquake Authority's Pomeroy said.

"They remained abandoned for a long time. They were called ghost towns," he said. The incentive for homeowners to skip out on their mortgages would leave the financial industry "with a mess on its hands," Pomeroy added.

The California Earthquake Authority recently made changes to state-administered policies so that they now offer the flexibility to insure for lower deductibles at higher premiums. That has helped with participation, Pomeroy said. California also offers a subsidy program that secures the foundations of suitable homes for just a few thousand dollars.

Even with changes to the insurance program, insuranceQuotes's Hargraves said the "brace and bolt" option remains a better value to many homeowners.