

THE HOUSING SCENE

## Disaster Coverage is a Disaster for Most

Homeowners' Insurance Companies Aren't Prepared for Big Natural Disasters

By Lew Sichelman | Special to Banker & Tradesman | Nov 24, 2019 | Reprints | Print



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Many – if not most – homeowners aren't prepared for a flood, tornado or other natural disaster. And neither, apparently, are their insurance companies.

Take California, where the California Earthquake Authority estimates \$175 billion in residential damage would result from a recurrence of the "Big One" that struck San Francisco in 1906. Yet only \$15 billion in damage would be covered by insurance, warns the CEA, a private nonprofit that offers earthquake coverage to Golden State residents.

Created by the state legislature in 1996, the CEA said it is financially strong enough to cover all claims it receives, should a repeat of the super-catastrophic quake occur.

But the magnitude 6.8 quake that hit Northridge, California, in 1994 caused so much damage that insurers paid out more in claims than they collected in premiums over the previous 30 years, bringing many dangerously close to insolvency, according to the trade journal Insurance Business America.

### What Many Policies Don't Cover

Louisiana-based independent adjusting service Sentry Claims President Steven Steckler said most, if not all, insurance companies have the resources to cover their insured clients' losses, largely because only about 10 percent of all homeowners have earthquake coverage.

But there's another problem: Should another major quake strike – and they have occurred in 42 states – there's "no way" companies could put enough boots on the ground to assess owners' claims and get them the money they need to begin repairs, Steckler said.

For one thing, there just aren't enough adjusters. For another, there isn't enough infrastructure to support them. In a major quake, roads and bridges will be destroyed, so adjusters won't be able to reach people. At the same time, "you can't just show up," said Steckler. "First, you have to have structural engineers check the integrity of the property. Until they put a tag on the door indicating a place is safe to enter, everything is at a standstill."

Now, about the lack of coverage. Many people don't realize that a standard homeowner's policy doesn't cover earthquakes – or floods, for that matter. You'll need either a rider or a separate policy to cover damage from a quake, and yet another separate policy to cover flooding.

But quake and flood insurance are expensive, Steckler said. The deductibles on an earthquake policy are so high – anywhere from 5 to 20 percent of the coverage amount – that claims are often less than the deductible amount, especially in expensive areas like California. Consequently, homeowners end up paying the cost to repair their homes out of their own pockets.

Worse, perhaps, some people don't even know what's covered by their policies and what's not. Even when people have coverage, 18 percent have never bothered to read their policies, a recent study by ValueInsured found. A third believe their homeowner's insurance covers floods.

The Insurance Information Institute figures upwards of 4 million houses are uninsured, and that two-thirds of all houses are underinsured, some by 60 percent.

### **Most Homeowners Not Prepared**

Meanwhile, homeowners aren't prepared, either. Most don't take the precautions necessary to protect their homes, like raising places in flood-prone areas or tying all joists together so houses act as one unit in quake-prone regions.

At the height of the hurricane season, which stretches from June to November, 3 out of 4 owners in the riskiest coastal states believed they were prepared for whatever Mother Nature sent their way, according to a survey by ValueInsured, a LendingTree subsidiary. But less than half had taken any precautions.

Hurricanes are deadly in a couple of ways: The high winds knock things over, and the tremendous amounts of rainfall and storm surge cause flooding. According to the insurance institute, flooding is the most common and costliest of all natural disasters. The National Flood Insurance Program said 90 percent of all natural disasters in the United States involve flooding.

But flooding can happen for any number of reasons, not just big rains. Pipes sometimes burst, dams break or snow melts too rapidly. And damage from just a few inches of water can be expensive to repair.

### **How to Tell if a Home is Covered**

Standard homeowner's insurance is a package policy covering both damage to property and liability or legal responsibility for any injuries and property damage policyholders or their families cause to other people. This includes damage caused by household pets.

A standard policy covers 16 disasters or "perils," but neither flooding nor earthquakes are on the list. Flood coverage is available through independent agents from the National Flood Insurance Program, or through some private carriers. Earthquake coverage can be added to your standard policy as an endorsement (a.k.a. a rider) or purchased as a separate policy.

To make sure you are covered during any kind of cataclysmic event, Steckler suggests looking for firms with a rating of "A-plus" or "Excellent" in the state where you live. These firms are the strongest financially, and do a good job investing their money, he said.

Another consideration is whether a company is "admitted" or "nonadmitted." The former shares in a state's guarantee fund, which will cover you if the company can't meet all legitimate claims. The latter are large, standalone companies which, while there is no guarantee they will cover all claims, are often the only ones writing policies in high-risk areas.

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