

Got earthquake insurance? Most don't but guess what? The rates have come down

KEVIN SMITH, Orange County Register, 1-14-17

Few events can damage a home as severely as a major earthquake, yet only 10 percent of California residents have earthquake insurance.

And it generally comes down to money.

Many haven't opted to get earthquake coverage because they think rates are higher than they really are. But Glenn Pomeroy, CEO of the California Earthquake Authority (CEA), is looking to change that.

He's currently traveling throughout Southern California to get the word out on new options that are available through the CEA.

The CEA is a privately funded, publicly managed organization that sells California earthquake insurance policies through a variety of participating insurance companies, including Allstate, Farmers Insurance Group, the Automobile Club of Southern California, Mercury Insurance, Progressive and Liberty Mutual, among others.

All told, the CEA provides about 75 percent of the earthquake policies that are sold in the state.

The CEA now offers a cost calculator on the agency's website that allows homeowners to input information on their homes and quickly determine what their monthly and annual premiums would be.

And the rates are often cheaper than expected.

Earthquake insurance rates skyrocketed following the 1994 Northridge earthquake but Pomeroy said sound scientific research has allowed the CEA to recalibrate its risk and steadily lower rates by about 50 percent.

"Normally in a given year we'll increase our policy count by about 7,000," he said. "But this past year we grew by 50,000."

Using the CEA's calculator, a user can set their deductible at anywhere from 5 percent to 25 percent, and coverage for personal property inside the home can range from zero to \$200,000. Another category offers loss-of-use coverage (when a home is not habitable following a quake) that runs from zero to \$100,000.

"That's the power of choice," Pomeroy said. "Our range for the deductible used to be just 10 to 15 percent, but now it goes up to 25 percent. And our personal property coverage used to be limited to just \$5,000."

Using the calculator's "Homeowners Choice" option with coverage offered by the CEA through Allstate, information on a one-story Santa Clarita home built in 1970 with an insured value of \$440,000 becomes readily available.

Assuming the home has a slab foundation and frame construction, the premium for basic CEA coverage with a 15 percent deductible is \$67 a month, or \$804 a year.

Pomeroy figures that would be money well spent, as it's only a matter of time before a massive temblor sweeps through California — an event that could be more devastating than the 6.7-magnitude quake that hit Northridge in 1994.

“California is ground zero for quakes,” he said. “We’re home to two-thirds of the risk.”

His fears are supported by a 2015 Uniform Earthquake Rupture Forecast from the United States Geological Survey (USGS). In the study, scientists say there's a 93 percent chance that Southern California will experience an earthquake of a 6.7 magnitude or greater during the next 30 years.

Worse yet, the forecast says there's also a 74 percent chance that the region will weather a quake of 7.0 or greater during that period.

“A 7.0 earthquake is 1.9 times bigger than the Northridge quake but 2.8 times stronger in terms the energy release,” Pomeroy said. “People tend to forget how bad the Northridge earthquake was.”

Lucy Jones, a research associate at Caltech and a retired seismologist with the USGS, said many Californians are under the misconception that their homes will emerge from a strong temblor virtually unscathed.

“One of the things I hear most is, ‘Oh, my house did fine during the Northridge quake,’” she said. “But they live in La Mirada!”

Jones emphasized that severe quakes are rare, but she still advises people to get earthquake coverage.

“Prices have come way down,” she said. “And people who don’t have coverage have to determine if they are willing to walk away from their homes and declare bankruptcy. And when people do that ... property values plummet.”

Coverage for earthquake insurance rose significantly following the Northridge quake when insurers realized how big their payouts were.

“That created \$40 billion in property damage and half of that involved homes,” Pomeroy said. “After that most insurance companies didn’t want to be on the hook for that kind of exposure so they quit offering earthquake insurance.”

Fearing that they might not have enough money to pay out damage claims in the event of another major shaker, many insurance companies opted to drastically reduce the number of homeowners policies they wrote. By January 1995, companies representing 93 percent of the California homeowners insurance market had either restricted or stopped writing homeowners policies altogether, sending California’s housing market into a tailspin.

The state Legislature initially created a no-frills “mini policy” insurers could sell to comply with the law. But it didn’t provide coverage for costly extras like swimming pools and patios. The CEA was created in 1996 to provide homeowners with more comprehensive coverage.

Other companies, including Palomar Specialty Insurance Co., ICAT and GeoVera Insurance also offer earthquake coverage for California homeowners.