

Firms find cost of earthquake insurance too big a jolt

Many forgo coverage because of the high premiums and deductibles.

Cyndia Zwahlen and Nathan Olivarez-Giles, Los Angeles Times, 4-19-10

Like small-business owners across Southern California, Hilario Sanchez knows all too well the shaking, the damage and, of course, the inevitable cleanup after an earthquake.

But, he says, he has never seen the need for earthquake insurance -- a pricey decision facing small companies each year.

As owner of Goleth's Beauty Salon in downtown Los Angeles, Sanchez said he has suffered earthquake-related damage in the past, but he said neither those quakes -- nor the magnitude 7.2 temblor in Baja California that struck April 4 and the spate of aftershocks that have followed -- have persuaded him to pay for coverage.

"I can remember three or four earthquakes" in the last 20 years, Sanchez said. "I've never had to pay for repairs. Any earthquake damage was paid for by the owner of the building."

The Baja California quakes and the images of damaged businesses in the California border city of Calexico are just the latest reminders of the sudden damage that can confront merchants and other small companies.

Although they may have caught the attention of small firms in the Los Angeles area, the temblors are unlikely to spur many to sign up for earthquake insurance, experts say.

The greatest obstacle is the price of a disaster policy: a \$5,000 premium for \$2.5 million in property coverage is a typical example for a small business, insurance brokers said.

And because the insurance is designed to cover only catastrophic losses, the deductibles are high, ranging from around 10% to 20% or more of the cost of any damage.

"A little retail store is not going to be generally interested in a \$4,000 to \$5,000 premium" for earthquake insurance, said Scott Hauge, president of Cal Insurance & Associates in San Francisco and head of the Small Business California lobbying group.

Insuring for a natural disaster such as an earthquake is not easy for a small-business owner. Quake damage is not covered by standard business insurance policies: Most insurers don't sell it as a stand-alone product. A small business has to already have a policy with the company. And there can be important exclusions to coverage.

A small business that owns its building is more likely to spring for earthquake insurance than those that don't, brokers said.

"I rarely see anybody buy it for contents or loss of earnings," said Dave Nelson, principal and chief operating officer of Tegner-Miller Insurance Brokers in Santa Monica.

In today's tough economy, small businesses say they don't put earthquake insurance, which is voluntary coverage, at the top of a list that includes mandated insurance such as workers' compensation.

"If you have to pick and choose, some of those additional policies don't hit the top of the priorities," said Clark Payan, chief executive of the trade group Insurance Brokers and Agents of the West.

Some do choose the insurance, but they are careful about what they insure. Compass Books & Cafe in Anaheim's Downtown Disney has coverage because the cost to rebuild the \$1.6-million interior of the 10-year-old structure would be so high, the store's owner said.

"The reality is, it's just crunching the numbers," said Mike Tucker, president of Books Inc. of San Francisco, which owns Compass and a dozen other bookstores. The other stores in the chain, which cost \$200,000 to \$300,000, don't carry the insurance because it would be cheaper to repair them, he said.

Many small firms operate in denial about the risks, said Van Nuys business consultant Warren Cooley, who owned a small chain of music and gift stores in the 1990s. He said he once thought premiums and deductibles were too high. But he said he has had a change of heart and now carries earthquake coverage on his own home and a rental property. If he had a business now, he said, he would try to buy quake insurance.

"If I were doing it again," said Cooley, a vice president at the Valley Economic Development Center in Van Nuys, "I would figure out a way."