

Foundation for Taxpayer and Consumer Rights
Contra Costa Times (California)

December 24, 2003

by Jessica Gynn; CONTRA COSTA TIMES

More homeowners dump quake insurance each year than buy it

Another aftershock from the deadly 6.5-magnitude temblor in the central wine country: The shrinking number of California homeowners with earthquake insurance has revived concerns that a major earthquake striking a densely populated area would leave uninsured homeowners in deep financial straits.

State officials hope to encourage more homeowners to take out policies through the California Earthquake Authority, which insures two-thirds of the 1 million homeowners in the state with earthquake coverage by offering policies that are less expensive and provide more protection.

"We're very concerned about the lack of coverage that exists around the state," said state Insurance Commissioner John Garamendi. "We are anxious to increase the number of insureds. The potential losses in a large urban earthquake are extraordinary, off the charts. That's why we are looking at a better product to hopefully encourage more people to buy the insurance."

Less than 15 percent of California homeowners have earthquake insurance, down from 30 percent in 1996 when the state Legislature created the California Earthquake Authority to issue earthquake policies. The agency stepped in after insurance companies threatened to pull out of the California homeowner's insurance market a decade ago on the heels of the 6.7-magnitude Northridge quake, which caused more than \$40 billion in damage.

More homeowners dump earthquake insurance each year than buy it because policies cost too much and cover too little, consumer groups say. The state's three-year economic slump and rapidly receding memories of the Northridge and Loma Prieta quakes also factor into the decline.

"The further they get away from an earthquake, the less people feel like they need earthquake insurance," said Stan Devereux, director of public and government affairs for the California Earthquake Authority.

That drop is reflected in the exposure insurance companies face in California. The Northridge earthquake cost insurance companies between \$12.5 billion and \$15 billion, estimates Risk Management Solutions, which advises the insurance industry. The same magnitude quake today would carry only a \$9 billion price tag because so many Californians have dropped the coverage, the Newark-based company's chief geologist Don Windeler said.

Insurance companies make money when large numbers buy policies, spreading the risk. Fewer homeowners buying earthquake insurance -- especially in lower-risk areas -- has shrunk competition in California, said Amy Bach, executive director of United Policy Holders, a nonprofit consumer organization in San Francisco.

Take Kevin Nish, chief executive officer of GeoVera Insurance Co. in Fairfield, which sells earthquake policies in California. He has no coverage on his own home in Fairfield, which runs a lower risk of damage in a major earthquake. But the president of the company took out a policy on her home in higher-risk Marin County.

As private insurers become even more selective, the California Earthquake Authority is often the only option for some homeowners. One insurer recently stopped renewing policies, Bach said.

Typical earthquake policies are separate from homeowner's policies and are designed to cover catastrophic, not minor or moderate damage. The policies have steep deductibles with limited coverage for household contents and no coverage for detached structures such as garages and swimming pools.

The California Earthquake Authority has taken steps to increase coverage. One of five homeowners who have policies through the agency pay higher premiums to lower the deductible from 15 percent to 10 percent of the home's insured value or expand coverage for personal effects, Devereux said.

Homeowners have to weigh the high premiums against the risks: the amount of equity in their home, the extent of retrofitting work, and proximity to fault lines, said financial planner Libby Mihalka. In a major earthquake, a typical homeowner could face tens of thousands of dollars in repairs. Federal budget cuts also could restrict emergency low-interest loans from government agencies, consumer advocates say.

If your \$300,000 home insured with a 15 percent deductible was completely destroyed in an earthquake, you would be responsible for \$45,000 to rebuild. Without insurance, you would be responsible for the entire amount. "That's a 100 percent deductible," Devereux said. "The key thing for people to remember is that in California every day is earthquake season."

Uninsured or underinsured homeowners face substantial financial risks: foreclosure, even bankruptcy. California taxpayers also would shoulder a massive burden, said Doug Heller, senior consumer advocate for the Foundation for Taxpayer and Consumer Rights.

The California Earthquake Authority is considering ways to reduce deductibles, increase the amount of living expenses coverage on a basic policy from \$1,500 and add coverage for other structures on the property, said Bach, a member of a team of insurance industry officials and consumer advocates advising the agency on how to make earthquake policies more attractive to California homeowners. Expanded coverage could come as soon as early to mid-2004, Devereux said.

Consumer groups urge state officials to act swiftly. "The insurance commissioner and the CEA need to do work to make the policy more useful for more Californians," Heller said.