

Sinkholes and Insurance

Sinkholes are a natural component of the landscape in many states. Simply put, sinkholes are depressions in the surface of the land caused by the sudden settlement or collapse of the land. They occur when underground voids are created by the action of water on limestone or similar rock. Moving water dissolves small amounts of rock and carries it away, which enlarges natural pores and cracks in the bedrock. Over time, the process may form large cavities and caves, causing the land surface to give way to fill in the voids.

The actuarial risk of a catastrophic sinkhole happening is low. Researchers put it at a 1-in-100 chance of occurring in any given year. No one knows for certain where or when a sinkhole can happen, but there are contributing factors that make them more likely to develop, such as building in vulnerable areas and falling water tables. Sinkholes tend to form in areas where underground water supplies, such as from an aquifer, dissolve rock—typically limestone. When the limestone below the surface disintegrates, underground voids are created and the ground surface falls through. Drought conditions or dry spells followed by sudden rains can cause the limestone to shift, which increases sinkhole activity.

Sinkholes are found all over the world. In the U.S., sinkholes are especially common ^[1] in Texas, Alabama, Missouri, Kentucky, Tennessee, Pennsylvania and Florida, according to the U.S. Geological Survey.

While most insurance policies exclude coverage for earth movement, there are some states that require insurers to offer optional sinkhole coverage for an additional premium. Depending on the mandates established by state insurance regulators, sinkhole coverage can be offered either as an endorsement to a property insurance policy or as a stand-alone policy. Just as California property insurers offer optional earthquake coverage, Florida and Tennessee insurers are required to offer optional sinkhole coverage, which provides comprehensive protection against sinkhole damage.

Florida property insurers are also required to provide insurance for catastrophic ground cover collapse as part of the standard homeowners policy. This is the type of damage that is so severe that it would make a home uninhabitable. It is defined according to four criteria:

- The abrupt collapse of the ground cover.
- A depression in the ground cover clearly visible to the naked eye.
- Structural damage to the covered building, including the foundation.
- The insured structure being condemned and ordered to be vacated by the governmental agency authorized by law to issue such an order for that structure.

Offering insurance coverage for sinkholes is a challenge for insurers. When home insurance policies are priced, the real estate value of the land is excluded. Property is insured for what it would cost to rebuild the structure; the price of the land is not factored into the premium that is collected. For this reason, most property insurance policies in the U.S. exclude damage related to movement of the earth. The problem faced by insurers is that sinkholes are hard to predict, difficult to investigate and extremely costly to repair.

The U.S. Geological Survey says there is not yet an efficient system to determine if there is or isn't a sinkhole on your property. Their advice: Keep your eyes open for things such as small holes in the

ground or cracks forming in a structure's foundation. If you live in a high-risk area, property insurance companies will conduct a visual inspection of your home prior to issuing a sinkhole insurance policy.

To learn of sinkhole activity in your area, check with your county property appraiser or inquire about the availability of a statewide sinkhole database. To find out whether additional coverage for earth movement is available in your state, consult your insurance professional.

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[1] <http://ga.water.usgs.gov/edu/earthgwsinkholes.html>