Potential Cost of Earthquakes Is Growing, but Number of Americans with Coverage Is Declining in Many Parts of the Country

New Maps Reveal 42 States Are at Risk for Earthquakes; Only 7 Percent of Homeowners Have Earthquake Insurance Nationwide

August 18, 2014

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FOR IMMEDIATE RELEASE New York Press Office: (212) 346-5500; media@iii.org

NEW YORK, August 18, 2014 â€” In some areas of the country, a combination of increasing urban development in seismically active areas and large numbers of older buildings that do not adhere to current building codes suggests the potential cost of an earthquake is likely to rise, according to the Insurance Information Institute (I.I.I.).

Updated maps from the U.S. Geological Survey show that 42 states are at risk, with 16 states at high risk. Earthquake risk is especially high on the West Coast, in the intermountain west and the central and eastern United States, including New Madrid, Missouri, and Charleston, South Carolina. The new maps also show that the East Coast has the potential for larger and more damaging earthquakes than had been previously considered.

â€œStandard homeowners, renters and business insurance policies do not cover damage from earthquakes,â€• says Jeanne M. Salvatore, senior vice president and chief communications officer at the I.I.I. â€œCoverage is only available in the form of an endorsement or as a separate policy.â€•

Unfortunately, a 2014 I.I.I. survey reveals that only 7 percent of homeowners nationwide report having earthquake coverage, down from 10 percent last year. In the West, 10 percent have earthquake coverage, down from 22 percent in 2013. Seven percent have coverage in the Midwest, and in the South the proportion of homeowners with earthquake coverage stood firm at 6 percent. Only 2 percent of homeowners in the Northeast had coverage.

Even in Californiaâ€”where nine of the most costly earthquakes in the last century occurredâ€—only 12 percent of residents purchased coverage. This is down from 30 percent in 1996, two years after the 1994 Northridge, California, earthquakeâ€—the most costly in U.S. history. It caused an estimated $44 billion in total property damage, including $15.3 billion in insured losses, $24.1 billion in 2013 dollars. The Northridge earthquake is the fifth most costly insured U.S. disaster.

Earthquake insurance provides protection from the shaking and cracking that can destroy buildings and personal possessions. Coverage for other kinds of damage that may result from earthquakes, such as fire and water damage due to burst gas and water pipes, is generally provided by standard homeowners and renters insurance policies. Earthquake coverage is available from private insurance companies. In California, coverage is also available from the California Earthquake Authority (CEA), a privately funded, publicly managed organization.

The cost of earthquake coverage varies depending on the location of the property, how it was built and the terms of the insurance policy. For example, a CEA policy for a typical San Francisco home, worth $750,000, could be around $2,000 a year, but a typical home in Sacramento ($300,000) could cost less than $500. The CEA website has a premium calculator to help California residents estimate the cost of a policy for particular home.

Earthquake insurance carries a deductible, generally in the form of a percentage rather than a dollar amount. Deductibles can range anywhere from 2 percent to 20 percent of the replacement value of the structure. This means that if it would cost $100,000 to rebuild a home and there were 2 percent deductible, the owner would be responsible for the first $2,000 dollars. Insurers in states with a higher than average risk of earthquakes, such as Washington, Nevada and Utah, often set minimum deductibles at around 10 percent. In most cases, consumers can get even higher deductibles to save money on earthquake premiums. The standard CEA policy includes a deductible that is 15 percent of the homeâ€™s replacement cost.

Cars and other vehicles are covered for earthquake damage under the optional comprehensive portion of an auto insurance policy.

â€œEveryone should contact their insurance professional to make sure that they understand their coverage and that they have the appropriate amount and type of coverage for the risks where they live,â€• points out Salvatore. â€œThe time to find out what is in your insurance policy is *before* you have a loss. It is also very important to understand the deductibles in your policy and how they will affect your claim.â€•

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