INSURANCE INFORMATION INSTITUTE

DON'T BE AT FAULT: BUY EARTHQUAKE INSURANCE

Get Your Home Ready Webinar

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Who We Are and What We Do
The I.I.I. Mission

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- The mission of the Insurance Information Institute is to build public understanding of insurance—what it does and how it works. This is done primarily through the media as well as direct consumer outreach/education.
- We are dedicated to making sure the media covers our business fairly and accurately.
- We also assist our member companies with their communications, information, research and planning needs. Members can tap into a wide variety of resources and benefits.

Who We Are and What We Do

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To fulfill its mission, the I.I.I. plays three key roles:

1. The I.I.I. is the go-to source for insurance information, educating the public on how insurance works by serving as the media's basic source of record on insurance concerns.
2. We serve as the industry's public voice, devoting special attention to issues of critical importance to the industry.
3. And, we are an information resource for the industry, conducting research and analysis, assisting members with their research needs and helping national and state industry groups to communicate more effectively with the public.

The I.I.I. website (www.iii.org) consists of two primary areas:

1. A public area providing insurance related information for consumers and the media.
2. A separate, password-protected area to serve the needs of member companies.

Who We Are and What We Do
Educational Outreach and Content Sharing

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- The I.I.I. conducts a great deal of its consumer outreach/education through the media—both through direct interviews with our Communications staff and information gathered by the media from the website.

- However, we are able to distribute our information even more widely through content sharing agreements—with a variety of outlets, from the Yahoo! Autos portal, and the AOL Latino website, to individual agents and brokers who use our content on small agency sites, or in newsletters to their customers, to state trade organizations, and groups like the AAA that regularly include our articles and releases in their magazines and mailing.

- This makes the I.I.I. website a key information *and* content sharing portal.

Earthquake Insurance

Earthquake Insurance -Facts

- According to the U.S. Geological Survey, earthquakes pose a significant risk to 75 million Americans in 39 states. In fact, from 1975-1995 there were only **four states that did not have any earthquakes**. They were: Florida, Iowa, North Dakota, and Wisconsin.

- Earthquakes are always happening somewhere. Magnitude 2 and smaller earthquakes occur several hundred times a day world wide. Major earthquakes, greater than magnitude 7, happen more than once per month.“Great earthquakes”, magnitude 8 and higher, occur about once a year.

Earthquake Insurance -Facts

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- Although 90 percent of Americans live in areas considered seismically active, few people opt for earthquake insurance.

- Even in California, only about 12 percent of homeowners hold the coverage and yet the southern California area has about 10,000 earthquakes annually. Most of them are so small that they are not felt. Only several hundred are greater than magnitude 3.0, and only about 15-20 are greater than magnitude 4.0, but that doesn’t convince people to buy the coverage.

Earthquake Insurance: Do You Need it?

- Earthquakes are *not* covered under standard U.S. homeowners or business insurance policies. Coverage is usually available for earthquake damage in the form of a supplemental policy to homeowners or business insurance.

- Without earthquake insurance, you will have to finance all the losses to your home and possessions by yourself or rely on the federal government for assistance.

- To help you decide whether or not you need earthquake insurance, first ask yourself this question: How much of a financial investment could I stand to lose if a major earthquake were to damage or destroy my home and possessions?

Earthquake Insurance: Do you Need It?

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CONSIDER THE FOLLOWING:

- The likelihood of an earthquake occurring in your area.
- Is your home close to an active fault?
- What is the nature of the ground under the dwelling? For example, you're at higher risk if the soil is sandy or loose or if you live on a fill area.
- Is your home a single-story, two-story or multi-level?
- Are the walls and foundations properly braced?
- Is your home of wood-frame construction, stone or brick?
- The age of your home. Older homes are at higher risks for damages

Earthquake Insurance: Do you Need It?

If you ultimately decide to purchase earthquake insurance, remember that you should buy enough to cover the costs of totally rebuilding your home.

The amount of insurance you buy should be based on replacement and reconstruction costs, not the fair market value of your property and possessions.

Your premiums will depend on where you live (premiums vary according to your location in a seismic zone) and the type of home you have (wood frame or brick).

Earthquake Insurance: How it Works

- 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 provided by standard homeowners and business insurance policies in most states.
- Cars and other vehicles are covered for earthquake damage by comprehensive insurance, which is optional and also provides protection against flood and hurricane damage as well as theft.

Earthquake Insurance: How it Works

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- Earthquake insurance policies often carry 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 costs $100,000 to rebuild a home and the policy had a 2 percent deductible, the policyholder would be responsible for paying the first $2,000. Deductibles are higher in states where earthquake risk is highest, such as California, Washington and Oregon.

Earthquake Insurance: How it Works

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- **Personal Possessions**: With earthquake coverage, contents are typically covered only to a set dollar amount. To some degree, that's logical – your sofas and beds are unlikely to be destroyed in a quake as theyu are in a fire. However if your big-screen television and computers are broken in a quake, the coverage is unlikely to reimburse you for the damage, unless you opt for increased contents coverage

- **Exclusions:** A typical quake policy does not cover the loss of landscaping, pools, fences and separate structures (including garages) and is likely to exclude claims for broken chandeliers, crystal and china.

Earthquake Insurance: How it Works

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- **Loss of Use:** A standard homeowner's policy will pay to put you up in alternate lodgings if you're forced to move because your home has been damaged in an insured disaster. Typically insurers limit this coverage to 20% of the dwelling limits or base it on a set amount of time, such as 12 to 24 months following the disaster. Loss-of-use limits in quake coverage are far more restrictive. Usually, the loss of use coverage is set at a dollar amount that can be as low as $1,500.

- In California, homeowners can also secure coverage from the California Earthquake Authority (CEA), a privately funded, publicly managed organization. The CEA offers homeowners dwelling coverage deductibles of either 10 or 15 percent. The CEA coverage limit is the insured value of the home as stated on the companion homeowners insurance policy.

Why Don't People Buy Earthquake Insurance?

- Earthquake insurance is costly, particularly in high-risk areas. For example, it would cost about $4,300 a year for earthquake insurance for a two-story wood-frame house in the San Francisco Bay area with an insured value of $750,000. That's with a 10 percent deductible and $25,000 in contents coverage.
- The decision to forgo earthquake insurance isn't as much to do with cost but with psychology and biology.
- Human beings are hardwired to believe in their heart and soul that disasters don't happen and won't happen to them. They are willing to roll the dice.

Why Don’t People Buy Earthquake Insurance?

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- ***Most Americans Don’t Understand The True Risk Of Damage*** You might think that people actually experiencing earthquakes would take a different view. They do - but not for long! In the aftermath of the San Francisco earthquake in 1989 homeowners rushed to buy earthquake insurance. But experience shows that after a year, maybe two, interest falls off again and customers often don’t renew the earthquake insurance they have in place.

Why Don't People Buy Earthquake Insurance?

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- ***<u>People Outside of California Don't Understand The Damage From An Earthquake</u>***

Homeowners who have never seen anything worse than the damage from a serious storm or a hurricane think they can handle that risk. The worst that can happen, they believe, is that a roof is blown off and things get wet. They simply have no experience with the massive devastation that follows a major earthquake.

Why Don't People Buy Earthquake Insurance?

- People on the eastern seaboard have been further lulled by the experience in California. Most people think that San Francisco came through the earthquake in pretty good shape. That's a city, however, that many years ago enacted building codes to make sure that its construction will survive earthquakes.

What an Earthquake Could Mean

- According to a new study by earthquake scientists, the chance of a 6.7 magnitude temblor during the next 30 years is 97 percent in Southern California and 93 percent in Northern California.

- A lack of earthquake coverage isn't just California's problem. With its economy among the top 10 largest in the *world*, California's uninsured property losses after an earthquake would send shock waves throughout the country.

- Meanwhile, efforts such as the Great California ShakeOut, an annual statewide earthquake drill based on a scenario of a 7.8 magnitude earthquake on the San Andreas Fault, are raising awareness.

Things You Can Do to Keep Earthquake Insurance Costs Down

- When purchasing a home, think about the materials it is made with and the impact on insurance. Wood homes, which tend to absorb shock more than brick or stucco, might be less costly to insure against quakes.
- You often can get discounts if you strap down your water heater, meet new building codes for quake safety
- A high deductible means you absorb more of the cost if there was an earthquake, but you pay less for insurance.
- One-story homes are less costly to insure than multiple-story housing.

Don’t Be at Fault: Buy Earthquake Insurance

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- Unlike other disasters such as hurricanes, there are no seasons or warnings for earthquakes. They can happen almost anywhere at anytime.
- This destruction, with no insurance and a mortgage, would be debilitating. Ask yourself this: Are you in a financial position to accept that kind of risk?
- Everyone, no matter where they live, should have a disaster recovery plan which includes securing the right type and amount of insurance, including earthquake insurance.

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Thank you for your time and your attention!