The San Francisco earthquake of 1906: An insurance perspective

The earthquake and fire that devastated San Francisco on April 18, 1906 was one of the most significant natural disasters in the United States, as well as in the history of insurance. It produced insured losses of $235 million at the time, equivalent to $4.9 billion in 2005 dollars. In 1906, just as today, shake damage from earthquakes was excluded from standard property insurance policies. Damage from the fire which followed the earthquake was covered and constituted the vast majority of insured losses.

In the 100 years since the earthquake San Francisco has grown and prospered. But the threat of a similar disaster remains. What if it were to happen again? Estimates of insured losses range from $30 billion up to $105 billion.

According to the USGS Earthquake Hazards Program estimates, 1906-type earthquakes occur at intervals of about 200 years. Thus, it is unlikely (a 2 percent chance) that a quake of the same magnitude (estimated at 7.7 to 8.3) would happen in the next 30 years. However, scientists predict that there is a 60 percent chance that a strong, magnitude 6.7 or higher, quake will hit the area within the next 30 years

Though commonly known as the San Francisco earthquake, the impact of the 1906 quake in fact stretched from southern Oregon to south of Los Angeles and inland as far as central Nevada; however, with the ensuing fires in the city, the majority of the fatalities occurred in San Francisco proper. Current estimates put the total death toll at over 3,000, well over the traditionally cited figure of 700-800.

In spite of the inevitability of a severe earthquake, few Californians (about 13 percent) buy earthquake insurance. Even fewer people living in earthquake zones in different parts of the country purchase earthquake insurance.

Insurance Facts

- Of the $235 million in insured losses, only about $180 million, or $3.75 billion in 2005 dollars, was paid out in claims as many financially-strapped insurers could pay only a share of the actual losses.
- Insurers settled approximately 100,000 claims.
- At least 12 American insurers went bankrupt as well as one Austrian and one German company.
- The amount paid in claims was roughly 100 times the amount paid for fire insurance polices that year.
- The earthquake losses effectively wiped out the industry profit earned over the preceding 47 years.
- The losses occurred despite the fact that earthquake exclusions were already standard in 1906.
- Of the buildings destroyed, only 2 percent were from the quake, while the remaining 98 percent were destroyed by fire.
- Dynamite was used to level buildings in the path of the fire in an attempt to create a fire break.

This resulted in new fires and is believed to have caused more damage than it prevented. Dynamited buildings were covered under property policies.

Sources:

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