EARTHQUAKE INSURANCE

A form of property insurance that pays the policyholder in the event of an earthquake that causes loss or damage to the property. California law mandates that every residential property insurer offer earthquake insurance to its policyholders.

HOW THEY WORK

PREMIUMS

The annual premium for this insurance is quite high, especially for properties closer to fault zones.

Newer homes must be built according to the latest codes, so they will likely have more favorable rates. For older homes that have been retrofitted for seismic resistance, insurance companies will also typically charge lower premiums.

DEDUCTIBLES

The deductible for this coverage is typically 10-15% of the policy coverage amount, which is higher than compared to deductibles for homeowner and automobile insurance policies. For those homeowners with significant home equity, it protects the investment in the event of a catastrophe. However, earthquake insurance is of little value if the homeowner has not set aside funds to first pay for the deductible.

COVERAGES

Structures

In most policies, only the damage in excess of the deductible is paid by the insurance company. Some policies consider the building structure and its contents as separate entities. In these cases, any deductible will apply separately to the entire loss that occurs to the structure, damage to the external buildings such as a garage or shed.

Personal Items

These are also covered, but in most cases, policyholders will be required to take out coverage for at least 10% of the cost of their dwelling to cover their personal property.

Temporary Housing and Additional Items

Depending on the insurance company, the policy may cover temporary housing (hotel, renting a home) if the home is too damaged to remain in while being repaired. Also, some also cover storage, furniture rental, and utility installation at the temporary residence. It is important to check the terms of the policy as to what is and is not covered after the deductible is met.

CALIFORNIA EARTHQUAKE AUTHORITY (CEA)

A quasi-public (publicly managed, privately funded) state agency started in 1996 which provides earthquake insurance coverage for residential property owners. The CEA does not offer policies directly, but works through insurance companies who participate in the agency's program and participating insurers can only offer CEA policies. Premiums are paid to the insurer, and then pooled into the CEA fund to cover claims from the policyholders of participating insurers. The state of California specifically stipulates that it does not back up CEA earthquake insurance, in the event that claims from a major earthquake were to drain all CEA funds, and it does not cover claims from non-CEA insurers if they were to become insolvent due to filed claims.