

## Earthquake Exposures: Keep Your Clients Shaken, Not Stirred

It's 3 a.m. The water in a glass on the bedside table ripples and, softly at first, the glass starts to shake. Someone tosses around in the bed, but stays asleep. Tremors in Southern California are so normal that most people don't even wake up. Except imagine if this instance isn't in California and it's not a small tremor. What if it's Manhattan and the beginning of a 7.9 quake? Think this is far fetched?

Of the top 20 most powerful earthquakes in the United States, 14 have been outside California—including one that registered 8.1 on the Richter scale over the Madrid Missouri fault in 1811. The 1811 quake caused damage over an area of 375,000 square miles and the shaking was 10 times that of the San Francisco earthquake. Damage was limited because of the small population at the time—but what would happen today?


Risk management looks at frequency and severity. Minor storm and hail damage is a pretty common event while a major storm like Katrina is, thankfully, more of an extraordinary event. However, those less frequent events can be the ones that cause the catastrophic losses. People have a tendency to let the less frequent, scary potential events fade into the background—like those asteroids the news tells us may hit the Earth. While that may be a good thing when it comes to disasters from space, it isn't a good approach when it comes to risks we should be thinking about.

How does this relate to you and protecting your clients from risk? Where is the line between a lack of coverage that should have been considered and protecting against unlikely events?

As agents, we need to recognize that the world is changing around us and that we should not become complacent. That human trait of being able to push risk to the back of our minds may be ok in everyday life, but an insurance advisor needs to be a "professional paranoid" when it comes to protecting their customers. When the public thinks about earthquake coverage they immediately think California. This broad brush can easily lead to trouble.

The New Madrid quake didn't result in a lot of damage because of the small size of the population at the time. But it was a very significant event with shaking that was bad enough to scare people in an area of 1.5 million square miles. What would happen if an event like this hit Manhattan? You might think that because Manhattan sits on granite it's a good thing. The bad news is granite stores the stress of Earth's movement longer than the rock in California. So California experiences a lot of stress relieving "microquakes," but Manhattan granite stores the stress until it suddenly shatters. Also, the granite under Manhattan is covered by a layer of sediment. During an earthquake this could liquefy or slide off the granite bedrock. While modern skyscrapers may fare better, much of Manhattan was not built with earthquakes in mind.

How is this relevant to your agency? The earthquake faults in the Northeast move more slowly, but may have even larger impact when there is an event. The Northeast is densely populated along with expensive "infrastructure." The focus on earthquake issues and the potential for disaster has been a recent event compared to California. That leaves a lot open to damage if something happens. So insurance agents should be "professionally paranoid" when supporting their clients. This means they should: understand the business strategy and future for commercial clients; understand their lives and everything around them when dealing with personal lines; understand the environment they live and do business in and understand that risk is not static. Risk changes as clients change what they do. Risk changes as the world changes.

The bottom line is agents need to know their clients and ensure that they are properly covered for any risks they may encounter. 

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—Dave Hulcher