Don't Let an Earthquake Shake Up Your Agency

Most independent insurance agents know that earthquake coverage, like flood coverage, is not included in a standard homeowners insurance policy. But most policyholders are probably not aware of this. As a result, many homeowners do not even consider asking for an earthquake endorsement on their homeowners policy or a separate earthquake policy altogether.

Whether they know it or not, most Americans do not have earthquake coverage. Even in California (site of the 1989 Loma Prieta earthquake in Northern California and the 1994 Northridge earthquake in Southern California), only about 12% of homeowners have this coverage. This could be largely due to the fact that the coverage tends to be expensive and has significant limitations. Unlike deductibles on homeowners policies, which are typically a relatively small set amount, deductibles on earthquake policies are based on a percentage of the policy limit—often 10% or 15%. On a typical American home, that means that the damage from an earthquake has to be fairly substantial before the earthquake policy will pay anything at all toward a claim. Moreover, earthquake policies typically only cover the home itself; separate structures, landscaping and pools are usually excluded, and coverage for personal property can be very limited (often as little as $5,000). Loss of use coverage can also be quite minimal.

Some property owners mistakenly believe they don't need earthquake coverage because they assume that government disaster relief will be sufficient to take care of them should an earthquake occur. Such relief, however, is often quite limited and usually comes in the form of loans intended to help people get back on their feet but not necessarily to replace their home. Homeowners may also not be giving due consideration to the fact that they will still owe on their mortgage even if their house is destroyed or damaged by an earthquake.

Most Americans associate earthquakes with the West Coast. Consequently, homeowners in the rest of the United States may not consider requesting the coverage. However, earthquakes can occur in nearly every state in the country and the damage can reach all 50 states. Thousands of earthquakes occur every year in the United States, although most are low magnitude and cause little damage. According to the U.S. Geological Survey, about 150 earthquakes of magnitude 1.0 or higher occur each year in the central United States alone.

As recently as 2011, significant earthquakes occurred in seemingly unlikely places as varied as Colorado, Oklahoma and Virginia—all of which were felt in neighboring states. While California and Washington are the top two states in terms of direct earthquake insurance premiums written, Missouri and Tennessee are next on the list, followed by Oregon, Illinois, Kentucky, New York, Texas and Florida. The California legislature has created a quasi-public insurance company to provide earthquake coverage to vulnerable California property owners. Not surprisingly, this company is the top writer of earthquake coverage by net written premium. Many other carriers also write earthquake coverage, however.

Because earthquakes can cause damage anywhere in the country, it may be worthwhile for agents to present their customers with information about earthquake coverage so they can determine whether it makes sense for them. While earthquake coverage certainly has its limitations, a property owner should probably look at it as catastrophic coverage and consider their financial situation should the worst case scenario occur: namely, that they would be without a home, with no insurance to pay to replace it and most likely without adequate finances to replace it themselves. Viewed in that light, a seemingly high premium may look more reasonable.

If nothing else, independent agents should be familiar with the earthquake exposure in their area, the carriers that offer coverage in their market and the options available, and they should at least present the potential implications of forgoing coverage to their customers. This will help homeowners make informed decisions. Documenting the fact that earthquake coverage was discussed and rejected can be an agent's best defense against an errors & omissions claim. IA

Let the Customer Decide

In working with customers, agency staff often runs into several types of customers: price shoppers and ones who know "exactly the coverage they need." While it's true nobody likes a pushy sales person, just because you don't think a customer is going to buy coverage doesn't mean agency staff shouldn't offer it. If the customer has risk exposures that can be filled by stand-alone coverage or endorsements, offer the coverage and let the customer decide if they want to purchase it. Uncovering potential customer exposures and offering coverage isn't being pushy, it's being professional. This professionalism will not be lost on the customer and will result in revenue growth for the agency. In addition, the file documentation will provide a valuable defense if an E&O claim against the agency develops.

—J.N.

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