



Fast Facts on Earthquake Insurance

By John D. Doak, Oklahoma Insurance Commissioner

The recent earthquake swarm in our state has many consumers talking about and purchasing earthquake insurance. The truth is that Oklahoma rests along a fault line and has always experienced earthquakes, but in the past few years they've become more frequent. Since January 2009, the earthquake activity in Oklahoma has been about 40 times higher than in the previous 30 years.

With all that shaking going on, consumers are taking steps to protect themselves. Earthquake premiums topped \$11.6 million in Oklahoma in 2012. My department is encouraging consumers to sit down with their agents to review their insurance policies and consider earthquake coverage, so you need to be prepared to answer their questions. Now I'm encouraging you, as an insurance professional, to explore and educate yourself about the coverage that is available in the market so that you can advise your clients on this important topic.

1. Why should consumers buy earthquake insurance?

Earthquakes are not covered under a typical homeowners or renters policy and can cause significant damage to property. It's important for consumers to consider how they would manage the costs of recovering from an earthquake should they be impacted. For example, can they afford to repair or rebuild and how likely is the home or business to be seriously damaged? Brick homes, wood-frame homes with crawl spaces and multi-story homes are the most likely to suffer serious damage from an earthquake. Consumers should also know that most companies won't sell new earthquake insurance policies for 30-60 days after a quake due to the expectation of aftershocks.

2. How can consumers purchase earthquake coverage?

An earthquake endorsement can be added to home insurance policies, although not every insurance company offers earthquake coverage. Earthquake insurance is also available as a stand-alone policy independent of homeowners insurance.

3. What does earthquake insurance cover?

An earthquake insurance policy covers home repairs needed due to earthquake damage and personal property directly damaged by an earthquake. It might cover increased costs

of repair to meet current building codes and costs to stabilize the land beneath structures. It pays extra living expenses while the home is under repair and covers the cost of debris removal.

An earthquake policy typically does not cover damage to lot or land, such as sinkholes. Earthquake insurance also does not protect vehicles and won't cover the cost of external water damage. Some insurance companies do not cover the replacement of masonry veneer – brick, rock or stone that covers the outside of the home. Be prepared to clearly explain what will and will not be covered for your clients.

4. How much coverage should be bought and how much does it cost?

The price of adding earthquake insurance is a small percentage of the cost of the underlying homeowners policy.

Homeowners decide how much insurance they want to purchase for both the structure and contents. The right coverage value will depend on how much of the repair and replacement costs can be paid out-of-pocket should the consumer suffer a total loss. Earthquake policies vary in cost depending on multiple factors, including the desired level of coverage and deductible amount. They are also determined by the property's location, age and construction.

Insuring a home for just its appraisal or loan value will likely mean that in the event of an earthquake, there will only be enough coverage to repay the mortgage lender and not enough to repair the home. Additionally, it is important to make consumers aware of insurance policy limits of coverage. Often within these limits are sub-limits on specific items, such as a \$50,000 limit on personal property replacement with a \$5,000 sub-limit on computers and peripherals.

5. What is the deductible and how is it calculated?

Earthquake insurance carries a separate and substantial deductible. The deductibles work differently than those of standard homeowners policies, including separate deductibles for the home, outside structures such as a detached garage or a fence, and for personal contents. Remember to clarify all the deductibles your client might face if damage is sustained from an earthquake.

The deductible is calculated as a percentage of the insured property's value – commonly 5 to 10 percent. For instance, a \$100,000 home would require a deductible of \$5,000 to \$10,000.

6. How can consumers learn more about earthquake insurance?

Consumers can learn more by visiting the Oklahoma Insurance Department website at http://www.ok.gov/oid/earthquake_tips.html.

- Learn more about earthquake insurance
- Read before, during and after an earthquake tips
- Find Oklahoma-specific earthquake insurance facts
- Download NAIC's Consumer's Guide to Earthquake Insurance
- Make a Home Inventory list

Oklahoma consumers with questions about earthquake insurance can also call the Oklahoma Insurance Department's Consumer Hotline toll-free at (800) 522-0071.