What are the Impacts of an Earthquake on Los Angeles Residents?

Glenn Pomeroy, California Earthquake Authority

January 16-17, 2014 - University of California, Los Angeles
Northridge Earthquake

$40 Billion in property damage

Half of all damage was residential.

Half of residential damage was covered by insurance.
Northridge Earthquake

40% of the recovery dollars (*Federal, State and Insurance*) that rebuilt Northridge came from residential earthquake insurance.
The Great California Disconnect

More than 90% of California homes have no earthquake insurance
Why are so many Californians unprotected today?
CEA CALIFORNIA EARTHQUAKE AUTHORITY™

THE STRENGTH TO REBUILD®

Educate  Mitigate  Insure
Recommendations

1. Develop tools to help renters and homeowners understand and evaluate their risk of loss from damaging earthquake.
Develop More Information for Homeowners

Most risk evaluation tools are designed for earth scientists and engineers rather than homeowners.

Develop user friendly tools for homeowners and renters to create a better understanding of hazard and damage.

(e.g., exactly what does 1 in 475 mean and should I be worried)
Recommendations

2. Continue to increase the awareness, affordability and value of earthquake insurance.
To maintain financial strength, CEA must spend heavily on reinsurance.

**Rating Agencies:**
- 1-in-500 year capacity

**Reinsurance:**
- Costs CEA $225(+) Million each year
- Comprises 2/3 of CEA’s overall expenses
- Absorbs 40% of policyholder premium

**Costs borne by consumers:**
- Expensive premium
- High deductible

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**Projected 2014 CEA Financial Structure**

- Participating Insurer Assessments Revenue Bonds:
  - $2.0B
- Reinsurance:
  - $3.5B
- Capital:
  - $4.5B
- Total:
  - $10.3B
40% of CEA-policyholder premium goes to reinsurers

1996-2013
- CEA policyholders have paid $8.3 billion in premium.
- CEA has paid $3.6 billion in reinsurance premium*.
- CEA has received $250,000 in paid reinsurance claims.

Premium Received: $8.30B

$3.58 Billion
Paid to
Reinsurers

$3.17 Billion
Accumulated as
CEA Capital

$1.70 Billion: Other
Expenses Paid**

Reinsurance Premium

$3.58 Billion
for Reinsurance

Reinsurance claims paid
to CEA: $250,000

CEA needs additional, more
efficient risk transfer solutions

* Projected through 12/31/14
** Other Expenses Paid
  • Agent Commissions
  • Debt Financing
  • Participating Insurer Fees
  • CEA Operations

*As of 11/30/13
Earthquake Insurance Affordability Act

- A limited federal guarantee for post-event bonds issued by eligible state programs
- Stringent requirements administered by U.S. Department of Treasury
- Total debt guaranteed under the program is capped at $3 billion
- No cost to the taxpayer.

More affordable, valuable insurance
More money for education and mitigation
Post event bonding potential will lower costs and increase financial strength

- The potential for a limited amount of post-event borrowing will reduce exclusive reliance on pre-funded reinsurance program.
- Probability of borrowing will be less than 2%.
- More flexible capital management strategies will enable more affordable coverage and strengthen CEA’s ability to prepare for subsequent events.
Reform Mandatory Offer Law

Current notice is hard to read, inaccurate, boring... and 30 years old

YOUR POLICY DOES NOT PROVIDE COVERAGE AGAINST THE PERIL OF EARTHQUAKE.

CALIFORNIA LAW REQUIRES THAT EARTHQUAKE COVERAGE BE OFFERED TO YOU AT YOUR OPTION.

WARNING: THESE COVERAGES MAY DIFFER SUBSTANTIALLY FROM AND PROVIDE LESS PROTECTION THAN THE COVERAGE PROVIDED BY YOUR HOMEOWNERS’ INSURANCE POLICY. THERE ARE EXCLUSIONS AND LIMITATIONS SUCH AS OUTBUILDINGS, SWIMMING POOLS, MASONRY FENCES, AND MASONRY CHIMNEYS. THIS DISCLOSURE FORM CONTAINS ONLY A GENERAL DESCRIPTION OF COVERAGES AND IS NOT PART OF YOUR EARTHQUAKE INSURANCE POLICY. ONLY THE SPECIFIC PROVISIONS OF YOUR POLICY WILL DETERMINE WHETHER A PARTICULAR LOSS IS COVERED AND, IF SO, THE AMOUNT PAYABLE.
Reform Mandatory Offer Law

Change how Californians learn about – and buy – earthquake insurance
3. Develop mitigation opportunities for California homeowners, including structural and non-structural retrofits.
Guidelines

Financial Incentives

Mitigation Discount
Typical Raised Foundation

New guidelines developed

Floor supported directly on the foundation
Pilot Program

20 Homes in 2 Neighborhoods

231 Applicants in 30 Days

$3,000 Incentive