



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

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# 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.**

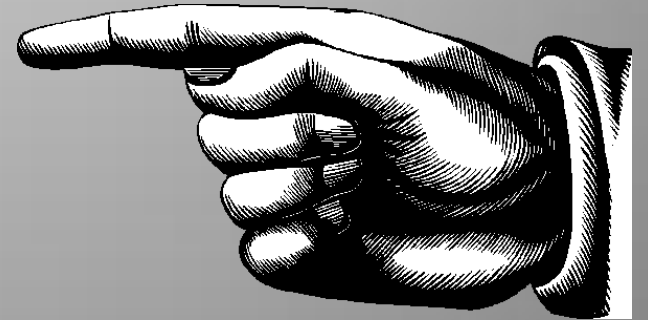
# **The Great California Disconnect**



**More than 90% of  
California homes  
have no earthquake  
insurance**



**Why are so many Californians unprotected today?**





**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

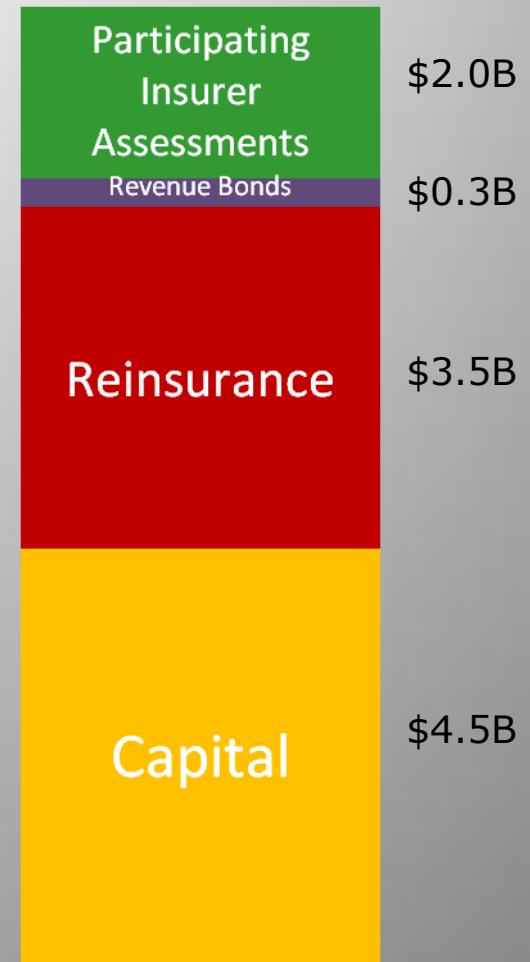
## Reinsurance:

- **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

### Projected 2014 CEA Financial Structure



Total \$10.3 B

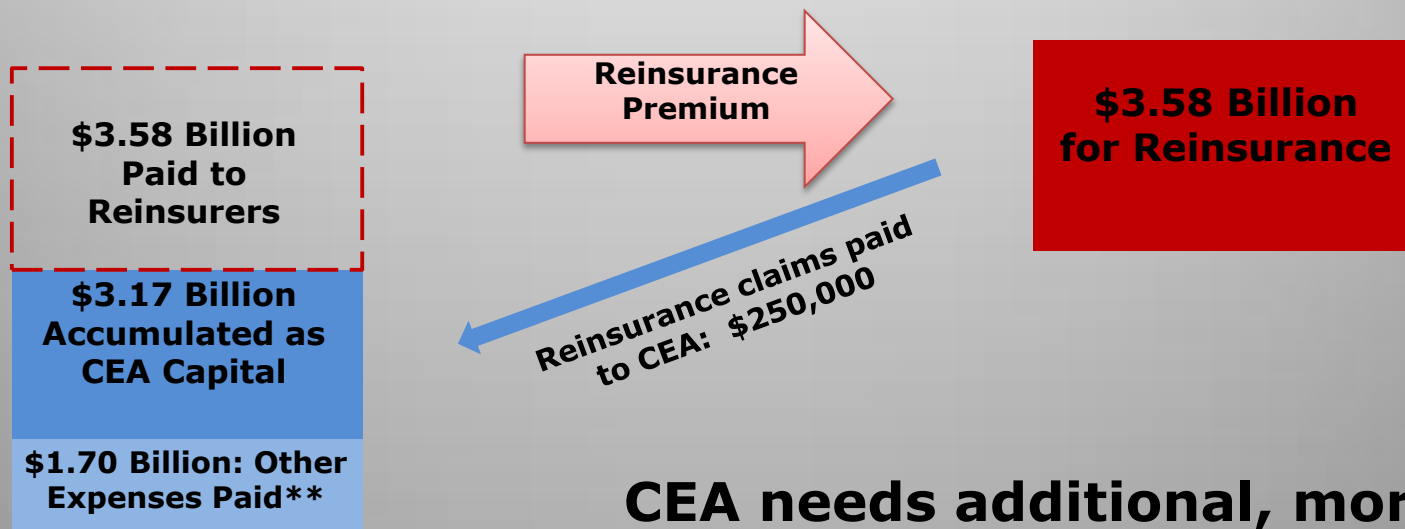
# 40% of CEA-policyholder premium goes to reinsurers

## 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

Paid to Reinsurers: \$3.58B



**CEA needs additional, more efficient risk transfer solutions**

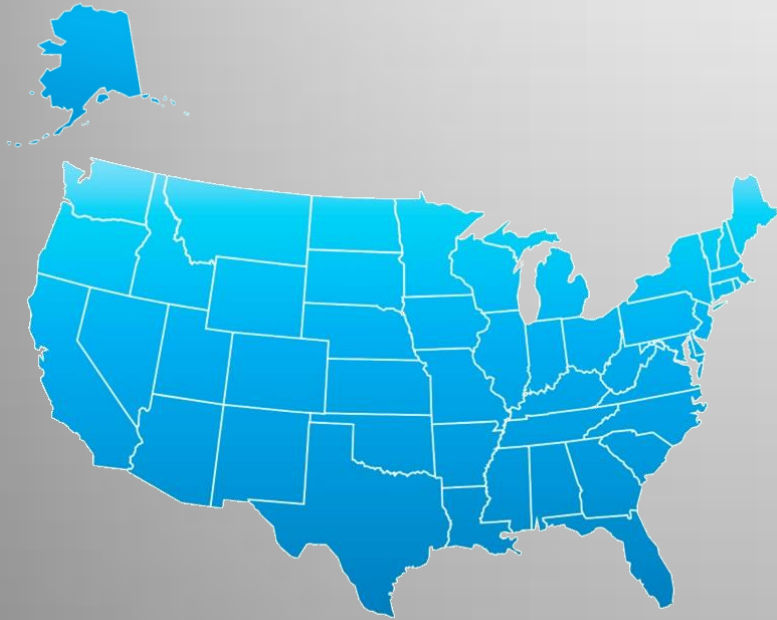
\* Projected through 12/31/14

\*\* Other Expenses Paid

- Agent Commissions
- Debt Financing
- Participating Insurer Fees
- CEA Operations

\*As of 11/30/13

# Earthquake Insurance Affordability Act



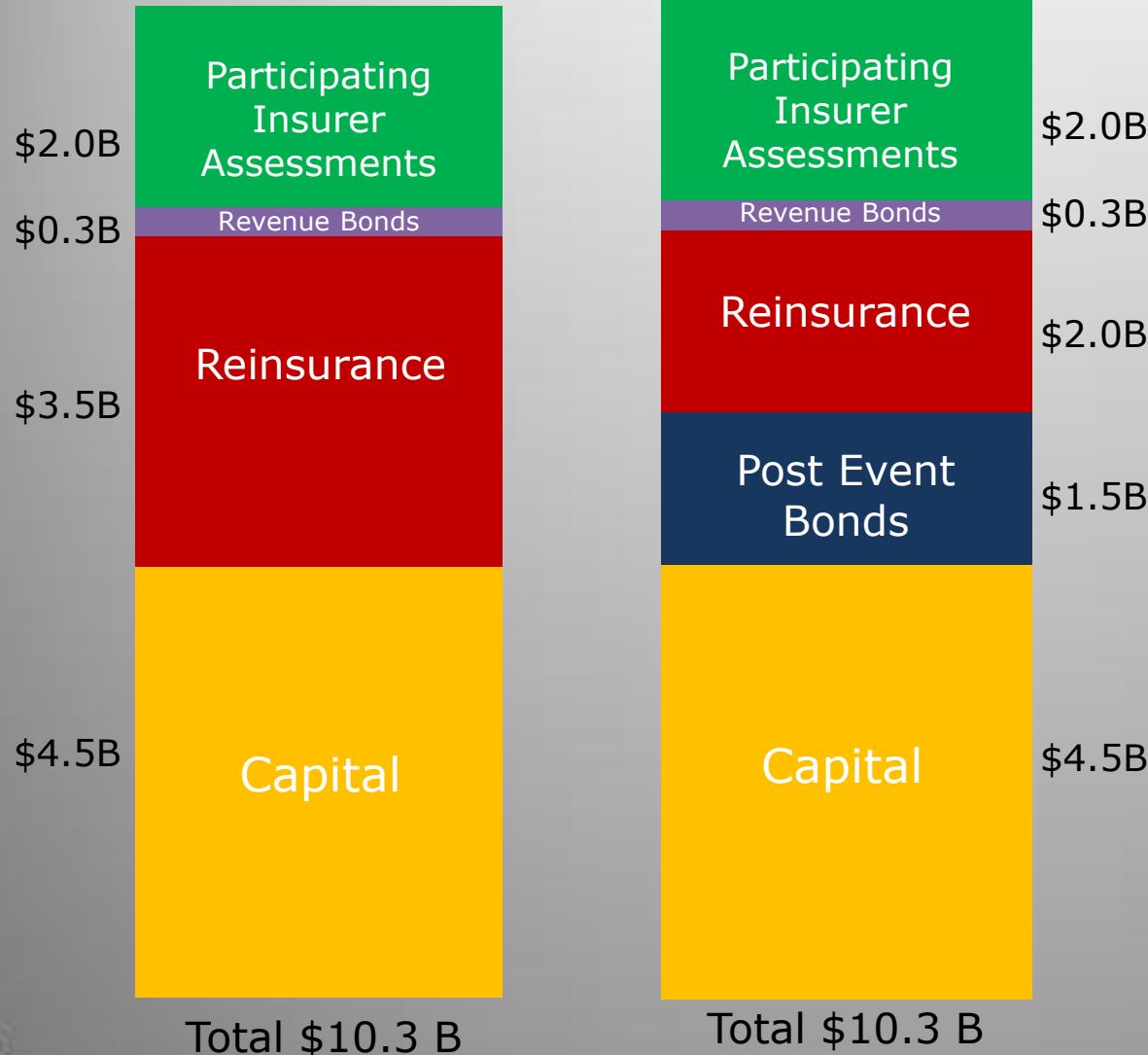
- A limited federal guarantee for post-event bonds issued by eligible state programs
- Stringent requirements administered by U.S. Department of Treasury
- Total debt guaranteed under the program is capped at \$3 billion
- No cost to the taxpayer.

**More affordable, valuable insurance  
More money for education and mitigation**

# Post event bonding potential will lower costs and increase financial strength

**Projected  
2014 CEA Financial  
Structure**

**Illustrated  
One potential structure with  
diversified risk transfer**



- **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

YOUR POLICY DOES NOT PROVIDE EARTHQUAKE COVERAGE.  
CALIFORNIA LAW REQUIRES THAT EARTHQUAKE COVERAGE BE OFFERED AS AN ADDITIONAL  
OPTION.

WARNING: THESE COVERAGES MAY DIFFER SUBSTANTIALLY FROM THE EARTHQUAKE COVERAGE PROVIDED BY YOUR CURRENT POLICY. THERE ARE EXCLUSIONS AND LIMITATIONS SUCH AS MASONRY FENCES, AND MASONRY CHIMNEYS. THIS IS A GENERAL DESCRIPTION OF COVERAGES AND IS NOT A COMPLETE DESCRIPTION OF YOUR POLICY. ONLY THE SPECIFIC PROVISIONS OF YOUR POLICY WILL DESCRIBE THE PARTICULAR LOSS IS COVERED AND, IF SO, THE AMOUNT OF COVERAGE.

Residential Insurance Company Logo



Dear Policyholder:

Did you know that your homeowners policy does not cover earthquake damage to your home or its contents?

**For earthquake coverage, you need a separate earthquake insurance policy from the California Earthquake Authority (CEA).**

[Company] has teamed up with the CEA to get you covered – so you can get your life back to normal after the next damaging earthquake. A CEA policy sold by [Company] combines the customer service we're proud of with the financial strength you can count on.

Protect yourself and your family for when an earthquake strikes.  
Call for your quote today!



# Recommendations

3. Develop mitigation opportunities for California homeowners, including structural and non-structural retrofits.



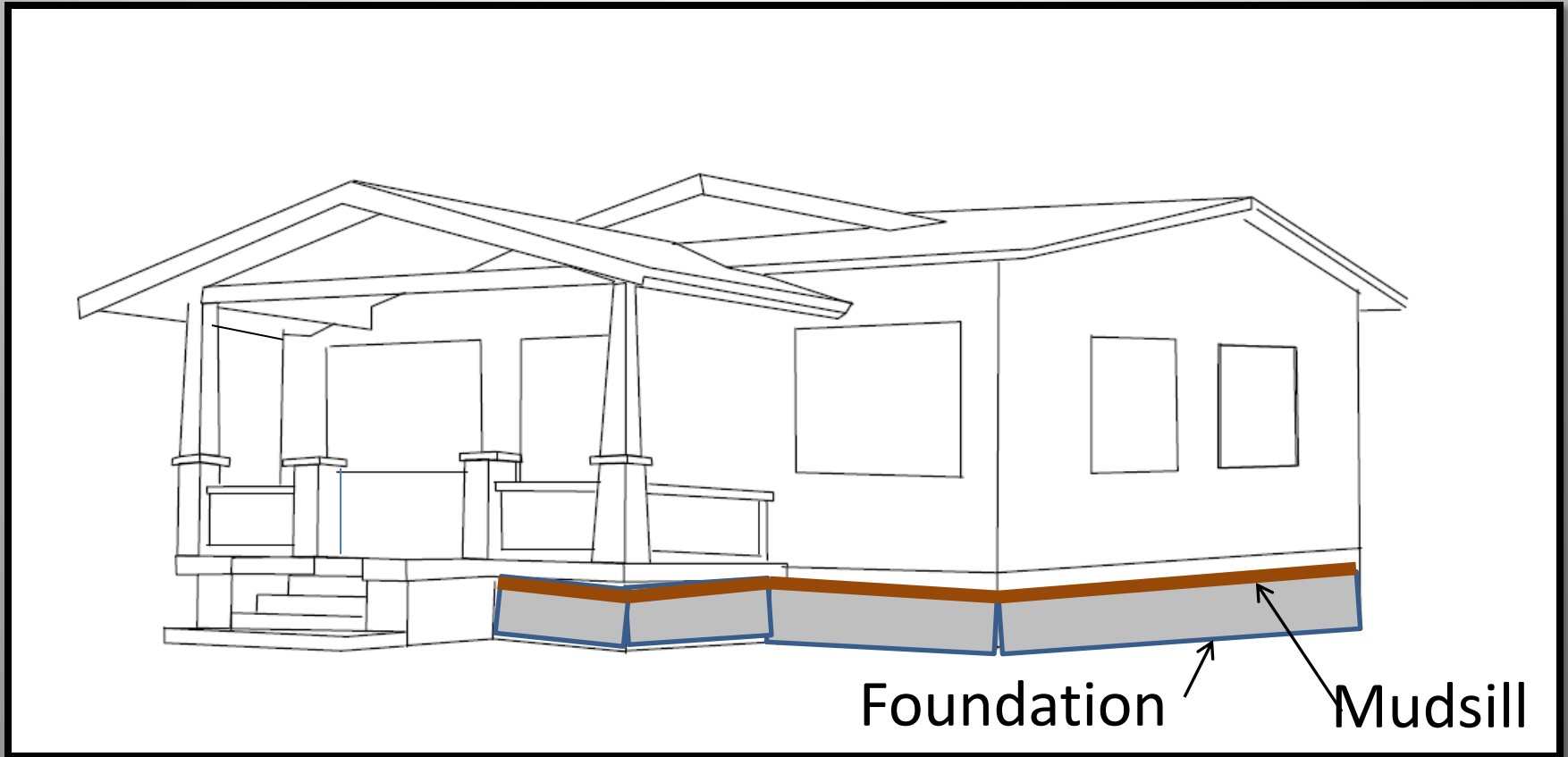
Guidelines

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



[www.EarthquakeBraceBolt.com](http://www.EarthquakeBraceBolt.com)



**EARTHQUAKE**  
**BRACE+BOLT**  
Funds to strengthen your foundation.



