

# California Earthquake Authority

## Seismic-Event Report to the Legislature on the August 24, 2014, 6.0 South Napa (or American Canyon) Earthquake

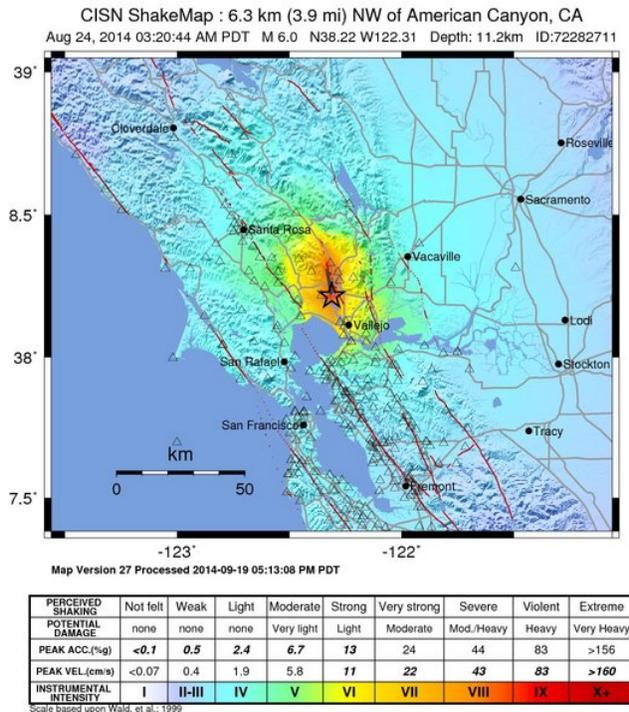
California Insurance Code section 10089.13, subdivision (e), requires the California Earthquake Authority (“CEA” or the “Authority”) to file a report within 120 days following a seismic event that results in the Authority’s payment of claims.<sup>1</sup>

This report is duly and respectfully submitted to the California Legislature and the Insurance Commissioner to describe the CEA’s response to the 6.0 magnitude earthquake that struck just south of Napa in Northern California at 3:20 a.m., Sunday morning, August 24, 2014. This report includes progress on claim payments, both made and anticipated, and the functioning of the Authority in response to the seismic event.

### *California Integrated Seismic Network (CISN) – Electronic notification kicks off CEA process-flow*

Within seconds following this earthquake, CEA leadership and staff received a notice to their cell phones and began the CEA’s earthquake response. CISN generated a ShakeMap that was used by the CEA to evaluate preliminarily the number of CEA policyholders who might have had impacts from the event.

The CISN seismic-network data and other instrumented data from around California are critical to the CEA, the CEA’s participating insurers (who handle defined tasks on behalf of the CEA, in accordance with contract), and emergency organizations responding to earthquakes.



The United States Geological Survey (USGS) reported that, based on measured parameters of the earthquake, about 15,000 people experienced “severe” shaking, 106,000 people felt “very strong” shaking, and 176,000 people felt “moderate” shaking.

<sup>1</sup> **10089.13(e):** *The authority shall, within 120 days following a seismic event that results in the payment of claims by the authority, and within one year of a major seismic event that results in the payment of claims by the authority, submit to the President pro Tempore of the Senate, the Speaker of the Assembly, the Chairpersons of the Senate and Assembly Insurance Committees, and the Chairperson of the Senate Committee on Judiciary, and the commissioner a concise written report of program operations related to that seismic event. The reports shall include, but not be limited to, progress on payment of claims, claims payments made and anticipated, and the functioning of the authority in response to the seismic event. Copies of this report shall also be made available to the public.*

## ***Location and Impact***

According to the CISM ShakeMap, the South Napa earthquake was 11.3 km (6.7 mi.) deep.

The epicenter was reported to be close to the following cities:

- 4 miles NW of American Canyon, California
- 6 miles SSW of Napa, California
- 8 miles NNW of Vallejo, California
- 9 miles ESE of Sonoma, California
- 51 miles WSW of Sacramento California

News and Twitter reports confirmed that shaking was widely felt in the San Francisco Bay Area and that there was serious damage to some older buildings in Napa.



### ***The Authority Responds***

Despite it being early on a Sunday morning, the CEA's earthquake-response team was discussing the earthquake by 4:00 a.m. and were in the CEA office by 7:00 a.m.

The CEO and Chief Mitigation Officer (who is a structural engineer) were on-site in Napa by 9:00 am. The onsite visits allowed CEA personnel to engage officially and quickly with media representatives and to answer questions about CEA earthquake insurance and insuring capacity.



Immediately after the earthquake and periodically thereafter, CEA Governing Board members were notified of CEA's response activities.



Following every earthquake, the CEA's primary goal is to provide customer service to policyholders and assist those who experience earthquake damage through a claim process that is expressly established as *fair, prompt, and consistent*. Toward that end, CEA participating insurers also received the CISM earthquake notification, and they mobilized their catastrophe-claim-handling response teams to the Napa area. [The accompanying photos are but a few examples of this aspect of the CEA response.]

### ***Progress on CEA Claim-Handling***

Within hours of the earthquake, the CEA determined that there about 4,000 CEA policyholders felt MMI shaking of 5.5 or greater. (On the Modified Mercalli Intensity scale ("MMI), shaking of 5.5 is described as "moderate" shaking, which would ordinarily result in light damage. Higher MMI numbers indicate more intense shaking and therefore more potential for greater damage.)

563 CEA policyholders felt “very strong” shaking, bringing the potential for heavy damage to weaker structures.

As of November 24, 2014—90 days after the earthquake—the CEA has:

- Received 472 claims from the South Napa earthquake.
- Handled and closed 90% of the claims received.
- Paid 166 CEA policyholder/claimants a total of \$600,000 in claim payments, meaning about 35% of claimants have received payment.
- Several CEA-insured houses experienced serious damage, where the policyholder and their contractors and engineers are still working on appropriate repair recommendations and assessing the associated costs. CEA participating insurers are working with those claimants on behalf of the CEA.
- Case reserves (estimates of future event-specific claim payments) are presently set at about two million dollars.
- Payments are expected to go up as claim-adjustment proceeds and costs are accurately established and worked out with claimants.

A relatively new and highly useful feature of CEA policies is a no-deductible \$1,500 available very quickly to address emergency repairs needed to protect the insured property against further damage. Typical emergency repairs would be removing broken-glass residue from the residence or replacing windows broken by the earthquake.

The CEA policy also pays for loss of use of the home, including the additional living expense associated with having to move from the home due to earthquake damage. This coverage is provided at various limits selected by the policyholder and comes with a zero deductible.

When the Napa Local Assistance Center was opened, the CEA dedicated a staff member to staff the location for several weeks, until the claim-related traffic died down.

The CEA Claim Manager made four trips to the Napa and Vallejo areas, to work with participating insurers to ensure consistent and high quality CEA-related claim service.

### ***Financial Impact to the CEA***

The CEA’s total claim-paying capacity is approximately \$10.5 billion, and the CEA has had for a number of years a financial-strength rating of A- (*Excellent*) from *A.M. Best Co.*, the oldest and most authoritative insurance company rating agency in America.

This earthquake, combined with two earlier 2014 earthquakes, have not had—and are not expected to have—a material impact on the finances or financial strength of the CEA.

### ***Conclusion***

Typical home insurance policies (that is, “homeowners insurance”) do not cover earthquake shake damage—that peril and that damage are expressly excluded from those policies—a separate, earthquake policy is required. But only about 4% of condo owners, renters, and homeowners in the South Napa earthquake zone have earthquake insurance.

Although the law requires that all homeowners policyholders are offered earthquake insurance once every two years, based on statewide average figures, we know that only about 10% of households accept that offer. The 865,000 CEA policyholders, however, can be assured that the CEA is financially strong and that, together with our participating insurers, there is the structure, staff, and expertise to quickly and properly handle earthquake claims.

The CEA will continue to closely monitor the South Napa claim process to assure that all CEA claims are handled promptly and fairly.

Final notes:

1. A CEA-sponsored and CEA-funded mitigation/retrofit grant program, which operates under an formal arrangement with the Governor's Office of Emergency Services, is moving into Napa in early 2015 to take applications. The program provides no-strings grants of up to \$3,000 per house to do earthquake retrofits.
2. The CEA is funding and conducting engineering-based research in the city of Napa, commencing immediately, to determine the level of earthquake retrofits already in place in that municipality and their effectiveness at preventing damage in the South Napa earthquake. The conclusions of this program will inform CEA mitigation programming going forward and will be added to the growing store of public information about mitigation that the CEA has been instrumental in building.