

California Earthquake Authority

Seismic Event Report to the Legislature on the Magnitude 6.4 and 7.1 Searles Valley Sequence - July 4, and July 5, 2019 Searles Valley (Ridgecrest) Earthquakes

Insurance Code section 10089.13(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 payment of claims by the Authority.¹

This report is respectfully submitted to the California Legislature and the Insurance Commissioner to describe the CEA’s response to the magnitude 6.4 on July 4th, 2019 at 10:33 a.m. and the magnitude 7.1 on July 5th, 2019 at 8:19 p.m. that struck the towns of Ridgecrest and Trona in Southern California.

This report includes progress on claim payments, claims payments made and anticipated, and the functioning of the Authority in response to the seismic event.

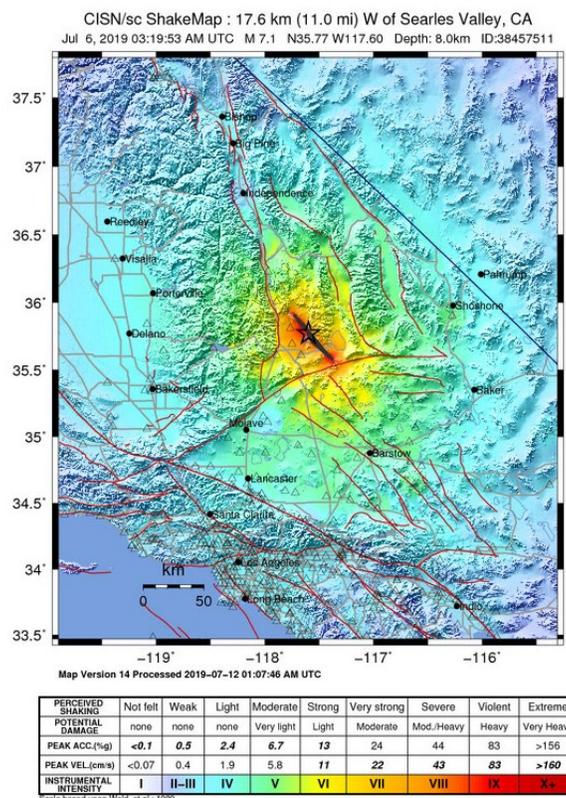
California Integrated Seismic Network (CISN)

Within minutes following this earthquake, the CEA executives received an automated notice of an earthquake to their cell phones and began CEA’s earthquake response. CISN generated a ShakeMap that was used by the CEA to evaluate the number of impacted CEA policyholders.

The CISN seismic network and other data from instruments placed around the state are critical to the CEA, CEA participating insurers, and emergency organizations who all must respond quickly to earthquakes.

Location and Impact

A magnitude 7.1 earthquake struck 17 kilometers north-northwest of Ridgecrest in the Mojave Desert on Friday, July 5th, at 8:19 p.m., on the heels of a magnitude 6.4 earthquake that struck about 12 kilometers southwest of the Searles Valley in the Mojave Desert on Thursday, July 4th, at 10:33 a.m. Multiple aftershocks occurred after both, one as large as magnitude 5.5. News and Twitter reports confirmed that shaking was widely felt from San Diego to Sacramento and there was serious damage to vulnerable buildings in Ridgecrest and Trona.



¹ **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.*

The Authority Responds

Despite it being a holiday weekend, the CEA’s earthquake response team was discussing the magnitude 6.4 earthquake within an hour of the strike and back in discussion the following day after the magnitude 7.1 earthquake struck that evening. Our CEO, Chief Mitigation Officer, and several communication specialists were on site in Ridgecrest on July 6th. The purpose for the onsite visit was to witness building performance, engage with the media to answer questions about CEA earthquake insurance, and to reassure everyone about CEA’s financial strength and stability.

Immediately after the earthquakes, CEA’s Governing Board members were notified of CEA’s response activities.



Our Participating Insurers Respond

Following every earthquake, CEA’s primary goal is to provide customer service to our policyholders and assist those who experience earthquake damage. Toward that end, our Participating Insurance companies also received the CISN earthquake notification and they mobilized their catastrophe claim handling response teams to the Ridgecrest area. These pictures are only a few examples of this response.

In just a few days, some of our largest participating insurers were on the scene to form an “Insurance Village” – answering earthquake insurance claim questions, scheduling adjuster inspections, and paying claims.

Progress on Claim Handling

Within hours of the earthquake, the CEA was able to determine that there were about 3,000 CEA policyholders who felt MMI (Modified Mercalli Intensity) Shaking of 5.5 or greater. MMI shaking of 5.5 is described as moderate shaking with light damage. In addition, there were 2,400 policyholders who felt very strong shaking (MMI VII) with the potential for moderate damage.

CEA is currently conducting claim reinspections to monitor and determine whether CEA claims are being handled by our participating insurers in a prompt, consistent, and fair manner. We also review claim files for adherence to CEA policy coverage, accuracy of claim settlements, and to determine whether claims are being handled in accordance with the California Fair Claims Settlement Practices Regulations and other applicable laws, regulations, and rules.

As of October 12, 2019, 100 days after the initial earthquake:

- CEA has received 496 claims from the Searles Valley (Ridgecrest) series of earthquakes.
- 87% of the claims have been estimated, adjusted, and settled.
- CEA has made claim payments of around \$590,000.
- Reserves (estimates of future claim payments that are not yet specifically known) total about one million dollars.
- There are several homes with serious damage where the policyholder, their contractors, and engineers are still working on an appropriate repair and the associated costs. Payments in advance of final claim resolution have been made to policyholders on several of these claims.
- The reserves and payments are expected to go up as costs are accurately established and policyholders get comfortable with the cost to repair or rebuild.

One of the features of the CEA homeowner policy is that it provides for payment up to \$1,500 for emergency repairs that are taken to protect insured property against further damage. Typical payments for emergency repairs include removing the residue of broken glass from the residence and or replacing windows broken by the earthquake. There is no deductible applied to the first \$1,500 of emergency repair expenses. The CEA policy also pays for additional living expense with no deductible if the policyholders cannot stay in the dwelling due to earthquake damage.

When the Ridgecrest and Trona Local Assistance Centers were opened, CEA's Claim Director and staff member were on location for several days until the Local Assistance Centers closed. Primary duties consisted of explaining the process for obtaining a CEA policy, providing premium estimates, distribution of CEA marketing material, and instructions on how and where to file a claim.

Financial Impact to the CEA

The CEA's claim-paying capacity is approximately \$18 billion and at present is composed of nearly six billion dollars in cash reserves to pay claims, with additional funds coming from reinsurance contracts, contingent assessments on participating insurers, bond proceeds, and policyholder assessments. The CEA has a financial-strength rating of *A-* (*Excellent*) from *A.M. Best Co.*, the oldest and most authoritative insurance company rating agency in America. This series of earthquakes have not had a material impact on the finances or financial strength of the CEA.

Conclusion

The percentage of homeowners with earthquake insurance in the Ridgecrest area is reported to be approximately 17%. This is higher than the statewide average of 13%. By law, all homeowners are offered earthquake insurance once every two years and are provided with an earthquake marketing document (produced by the CEA) annually. With the earthquake risk that we know exists in California, it is unfortunate that more Californians do not have earthquake insurance on their homes. However, for the nearly 1.1 million CEA policyholders that do carry a CEA earthquake policy, they can be assured that the CEA is financially strong and that our participating insurers have the staff and expertise to quickly and properly handle earthquake claims.

The CEA will continue to closely monitor the claims process and evaluate its systems and procedures, all of which are designed and implemented to fulfill the Authority's obligations to its policyholders.