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More Californians risk financial catastrophe, 20 years after Northridge earthquake

SACRAMENTO – After the Northridge earthquake in January 1994, one of the costliest natural disasters in U.S. history, fully half the residential loss—\$10 billion of \$20 billion—was covered by insurance. If the Northridge earthquake reoccurred today, less than a quarter of the residential loss would be insured—only \$6 billion of \$26 billion—and that would support recovery for many fewer households.

“Californians are less financially prepared to recover from a Northridge-like earthquake today than they were 20 years ago,” said Glenn Pomeroy, CEO of the California Earthquake Authority (CEA).

About 40 percent of residences in the Los Angeles area had earthquake insurance in 1994—today that number is only 16 percent. And today across the state, just 11 percent of residences are protected with earthquake insurance, compared to about 33 percent with coverage in 1994.

“We know that ‘out-of-sight and out-of-mind’ or ‘it won’t happen to me’ thinking—and misperceptions about earthquake insurance—are the primary reasons for fewer policies purchased today,” Pomeroy said.

Research shows that information is lacking about the real costs and responsibilities for household recovery. Some Californians, for example, believe their homeowners policy will cover earthquake damage, which is not true—a separate policy is required. Without an earthquake policy, Californians with damaged homes or contents will be responsible for all costs to repair and rebuild their homes, and replace their personal property.

Some Californians also believe that government funds will pay for homes damaged by earthquakes. In fact, government help may not always be available – and if it is, it may come in the form of loans and not pay for full recovery.

And some have concluded that earthquake insurance is too expensive, with too high a deductible. The CEA has actually reduced its rates by some 45 percent over the past 15 years. And with a CEA policy, once the value of covered damage exceeds the deductible, claim payment can begin – with no cash-out-of-pocket from policyholders.

“CEA is working hard every day to help remove the barriers to earthquake preparedness and household recovery, through education, mitigation and insurance,” Pomeroy said.

CEA also supports newly introduced federal legislation that would further reduce the cost of earthquake insurance in California, has supported a pilot program in selected areas of Los Angeles and Oakland that offers cash incentives to strengthen home foundations, and will introduce a statewide campaign in April 2014 called California Rocks: California rocks as a place to live—yet it rocks with earthquakes, too.

The CEA is a publicly managed, privately funded, not-for-profit organization that provides residential earthquake insurance, and encourages and helps all Californians to reduce their risk of earthquake loss.