CALIFORNIA EARTHQUAKE AUTHORITY

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Congress hears request to reduce costs of earthquake insurance

Proposed legislation seeks to reduce CEA premiums by about 35 percent

SACRAMENTO – California Earthquake Authority CEO Glenn Pomeroy testified today before the U.S. House of Representatives Subcommittee on Housing and Community Opportunity and Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises, in support of H.R. 2555 (specifically Title II), which would allow the CEA to lower its earthquake insurance rates and policy deductibles. The subcommittees met jointly to examine this legislation.

"We believe that offering a more affordable earthquake insurance policy would help more Californians to insure their homes for potential earthquake damage," Pomeroy testified. "By reducing costs, and as a result insuring more California homeowners, financial pressures also could be reduced for the federal government after the next big earthquake strikes."

California is home to about two-thirds of the nation's earthquake risk, with about 2,000 known faults throughout the state, yet only 12 percent of its homeowners (just one-in-eight) with a fire policy also are covered for earthquake shake damage.

"With so much earthquake risk throughout the state, and with a majority of California's large population areas near faults, any opportunity to insure more of its homeowners before the next big earthquake strikes requires urgent Congressional consideration," Pomeroy said.

A study recently completed by the U.S. Geological Survey and other scientists reported more than a 99 percent probability that a 6.7 magnitude or greater earthquake, capable of causing extensive damage and loss-of-life, could strike California at any time within the next 30 years.

The consequences for such a large uninsured population could be devastating following a large, damaging quake.

If a 7.2 magnitude earthquake occurred on the Peninsula segment of the San Andreas fault (on the San Francisco Peninsula, running up through San Francisco), it's estimated that residential losses could be approximately $55.1 billion. At current estimated take-up rates, however, only $4.1 billion of these losses would be covered by insurance, while $51 billion would be uninsured.

Title II of H.R. 2555 would allow the CEA to replace much of its current reliance on expensive reinsurance, with the certainty to access the private debt (bond) market, to the extent needed. All funds borrowed under a federal guarantee would be repaid over time by the CEA after a major event.

Substantial savings from reducing the CEA's reinsurance expenses would be passed through to consumers – reducing current CEA rates by about 35 percent.

If H.R.2555 becomes law, CEA modeling indicates that the probability of borrowing funds would be quite low – between 0.5 and 1 percent – minimizing the need for even a temporary premium increase necessary to repay any federally guaranteed debt. The CEA could pay all claims from any of the following earthquake-event scenarios, for example, without ever accessing the federal guarantee:

- Repeat of the San Francisco 1906 earthquake (M 7.8)
  -Projected CEA losses: $5-6 billion
- Repeat of the 1989 "World Series Earthquake" (M 6.9)
  -Projected CEA losses: $0.5 billion
- Repeat of the 1994 Northridge earthquake (M 6.7)
  -Projected CEA losses: $3.2 billion
- 2008's Great Southern California ShakeOut scenario (M 7.8)
  -Projected CEA losses: $7 billion
- Hayward Fault scenario (M 7.2)
  -Projected CEA losses: $3.9 billion

"There is no doubt that the CEA's current earthquake insurance policy can be expensive, and it comes with a high deductible," Pomeroy said. "Congressional passage of H.R.2555 would represent a dramatic financial game-changer for California's homeowners and the nation's taxpayers alike."

The CEA's Governing Board, with voting members consisting of the governor, state treasurer and insurance commissioner, voted unanimously on November 16, 2009, to support the concepts embodied in H.R. 2555, and specifically endorsed the creation of a federal guarantee for natural-catastrophe post-event debt issued by qualified public entities.

The League of California Cities also supports passage of a federal guarantee for state insurance programs' catastrophe obligations. "The League supports this concept because having a federal guarantee in place will enable California to be better prepared for the next big earthquake by increasing the number of homeowners who have earthquake insurance, and allowing the quality of that insurance to be improved," said League of California Cities Legislative Director Dan Carrigg.

And the California Seismic Safety Commission passed a resolution on January 10, 2010, in support of a Comprehensive National Solution to the Threat of Natural Catastrophes, specifically in support of H.R.2555, H.R.4014 and S.886 – all of which incorporate a federal guarantee for qualifying state catastrophe-insurance programs.

CEO Glenn Pomeroy's congressional testimony can be found here.

About the CEA: *The California Earthquake Authority is a publicly managed, largely privately funded organization that provides residential earthquake catastrophe insurance and encourages Californians to reduce their risk of earthquake loss. By law, the CEA's rates must allow it to remain financially sound and cover claims. It currently has more than 800,000 policyholders, representing about 70 percent of the California earthquake insurance market.*

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