

Earthquake Insurance - The Owner's Perspective

By Beth Grimm, Esq., Condo Attorney

I have written extensively pointing out to Boards and Management that dropping earthquake insurance must not be done lightly, even though premiums are sky high and coverage is decreasing. While I find that HOAs are commonly split fairly evenly on the issue, those with considerable equity [understandably] on the side of keeping it, and those that have little equity on the side of letting it go - foregoing the expense, I do not believe that there would be such an even split if the "have nots" and the "haves" fully understood the options in layered coverage, and the ramifications of "going bare", especially in earthquake fault-prone areas.

I own a condo, near a fault, on fill, and my association is considering dropping the earthquake insurance. I am going to encourage FULL DISCLOSURE to the members if/when the option is put to the members for a survey or vote. And personally, I am going to encourage keeping it. I am on the side of the "haves" having owned the condo for about 8 years. It is hard for me to understand that owners who have hundreds of thousands of dollars in equity in property in California can turn down the opportunity for some protection for themselves and fellow owners that could mean the difference between a \$10,000 to \$50,000 special assessment (for serious repair, and depending on the cost to rebuild) to \$150,000 to \$500,000 (more than 10 Xs the cost) to rebuild. These figures may not be exactly tied to your property, but I believe that they accurately represent the difference between EQ coverage - even if not full coverage - to no EQ coverage. Owners even with minimal equity have more incentive to stay on if the ability to recover involves a reasonable monthly payment to repay a small business administration loan as opposed to a double mortgage.

What does FULL DISCLOSURE involve?

I will use the outline of a similar paper that was presented to me by a reader for my paper I plan to submit to my Board, and will prepare the format for use by readers, and post it on my website within the next few weeks. I will add some twists and also give the reader due credit for the format (if he wants it). It was incredibly well written, and answered several important questions. I plan to write a full article on behalf of the owners that are concerned and want to keep the insurance, within which I will put **my slant** but the format informational paper itself need not be indicative of any bias, **just the facts** ... [M'am].

Why do all this? Because I get calls and emails on almost a daily basis from owners that are frustrated and seriously concerned that the Board is talking about or has already dropped earthquake coverage, based solely on the cost/coverage aspect. And I cannot attend all of the meetings I get asked to attend.

I also think it fair to say that having the Association insurance agent or broker attend a meeting to explain the options and encourage keeping the insurance is often met with challenges and (not so friendly) comments that the presentation is "self-serving." It may seem so, but the agents and brokers are the ones with the answers to the questions about how the insurance works, what is covered, what is not, what the cost is, and the owners need them there. Those are not questions I would want to answer.

In case you cannot wait for me to get around to writing this article, here is the information that the Board should be presenting to Owners when they are asked to answer a survey for EQ insurance or are being asked to approve a special assessment:

What is this poll/informational paper all about?

This section is for explaining why the HOA is addressing the members on the subject and can be used to give owners general background on past coverage, and what the documents require (or do not require).

What is the Association's earthquake insurance costing us?

This section should be used to describe the costs for the past year or years, and to present the bids that have been received, or costs increases that have been presented by the Association's insurance vendors.

Who is insuring us?

This section is to describe the current carrier, the rating, and to provide any comparison information you may have on other carriers, for "better or for worse". It is the opportunity to provide information that your broker or agent has provided to you about the availability, or non-availability of other carriers.

Does this policy cover my own unit and belongings too?

This is the opportunity to explain what EQ insurance covers and what it does not (and even throw in a plug for property/fire coverage and the need for owners to understand their personal belongings, fixtures, etc. are not covered by the master insurance policies. It's the opportunity to explain loss assessment coverage (and the difference between the regular loss assessment and the EQ loss assessment coverage).

What can you do to get the individual protection?

This is where you can explain the option for Owners to add to their coverage cushion by purchasing a CEA policy. This is the key to helping boards and homeowners understand that even without full protection under the master policy, a homeowner can close the gaps by purchasing up to \$50,000 in loss assessment coverage, and extra building coverage, relocation insurance, personal belongings insurance, etc.

Won't our reserve fund cover the deductibles?

This is the opportunity to explain why the reserves is not likely to cover EQ damage, without depleting them. If an association is 100% funded, it helps; however, that may mean that there is enough in the bank to replace the asphalt and fencing that are due to be repaired, but not the roofs and siding that are not scheduled for replacement for 15 years.

What is the historical perspective?

This is the opportunity to give a detailed chart or matrix showing coverage for the past years, the percent change in premium and coverage and deductible.

How do the policy limits and deductibles work?

More information can be provided here about scenarios and damages possibilities, etc.

What if the damage exceeds both the deductibles and total loss limit?

This is the opportunity to explain about the possible special assessments, and how much less they are likely to be for shortfalls in the case of serious damage, with coverage, and serious damage, without coverage. It is the opportunity to explain that the "haves" can help the other "haves", themselves, AND the "have nots" by forcing purchase of the coverage. This is because the more resources that the Association has in the event of a big earthquake, the less likely that the owners who stay and pay will have to cover the losses for those who "walk" away for lack of substantial equity (because fewer are apt to "walk").

Since this blog is getting long, I will simply lay out the remaining questions that could be answered in such an informational paper. Believe me, these are things inquiring minds want to know.

What if my building is not damaged – do I have to pay anything?

Can we learn anything from the Northridge Earthquake?

How much was paid out in insurance claims for the Northridge earthquake?

What other steps has the Board taken to address the possibility of earthquakes?

Can the Board be sued for failure to purchase EQ insurance?

Won't FEMA come in and rescue us for free?

Why not drop coverage now, and pick it up again in the future if it gets cheaper?

What about retrofitting instead of insuring?

What about putting the earthquake premiums into our own emergency fund?

What about fire?

And a wrap up.

This sort of communication can be very helpful to everyone - and I believe, with a better understanding of the facts and options, more people will hang on to the insurance. The pendulum will likely eventually swing the other way with the EQ coverage. Historically, it has.