



California Earthquake Authority Announces Major Improvements for Condominium Owners in 2016

By Timothy Cline, CIRMS, Timothy Cline Insurance Agency, Inc.

Starting January 1, 2016, the California Earthquake Authority (CEA) will be rolling out some great new features for California consumers. The coverage, benefits and affordability of earthquake insurance in California will return close to the state-of-the marketplace prior to the 1994 Northridge Earthquake with an average rate reduction of 10%, expanded coverage and more flexible deductibles.

New Deductible Options: Formerly, the CEA only offered condominium unit owners a single deductible option: 15%. Effective January 1, 2016, CEA policyholders will be offered 5%, 10%, 15%, 20% and 25% deductible options!



Personal Property (Contents) Coverage:

Prior to January 1st, condominium owners couldn't purchase more than \$100,000 of contents coverage. After the New Year, the CEA will have expanded Personal Property limits up to \$200,000 - and a new optional coverage will be available to cover breakage of previously-excluded fragile personal property such as dishes, artwork, and collectibles.

Loss of Use (Additional Living Expense): What if your unit is rendered uninhabitable as a result of an earthquake and you have to live elsewhere? Currently, the maximum Loss of Use limit offered to condominium residents is \$25,000. In a post-catastrophe environment, that's an insufficient limit to address the minimum eight to 12 month reconstruction window the Association may face after an earthquake. In 2016, residents will be able to purchase as much as \$100,000 of Loss of Use coverage.

Earthquake Loss Assessment Coverage: Probably the MOST important earthquake coverage for condominium residents (particularly if your Association has no earthquake insurance), this coverage protects against the special assessment the Board of Directors may be forced levy against all owners to address earthquake damage to the Common Area. Of course, if the HOA has no coverage the special assessment will be very high. Formerly, the maximum Earthquake Loss Assessment limit offered was \$75,000. As of 1/1/2016, a higher \$100,000 limit is being offered (still likely woefully inadequate if the Association has no coverage).



Somewhat Obscure, But Interesting Coverage Changes: Few HOA's out there have masonry chimneys, but according to the CEA, the chimney limit has been increased from \$5,000 to \$10,000, and the CEA policy now includes \$10,000 for Energy Efficiency and Environmental Safety Replacement Upgrades.

Board Members Should Not Be Lulled Into a False Sense of Security: Despite these welcomed improvements to the CEA, according to the statistics published by the California Department of Insurance, only 15.39% of California condominium unit owners who purchased HO-6's (condominium unit owner policies) purchased earthquake protection for their private residences in 2014. That means 84.61% of condo owners failed to buy any individual earthquake protection whatsoever. And, that "uninsured" percentage is potentially even higher since previous studies show that 25% of condo owners are going completely bare (fail to even buy an underlying HO-6) which means they aren't offered the opportunity to buy earthquake protection.

The Bottom Line? While we certainly welcome the exciting new limits and deductible options being offered by the CEA in the New Year, board members need to remember that despite the improvements, the vast majority of individual unit owners will not avail themselves of this opportunity to protect their investment. For owners in your project who have equity and want to protect against catastrophic loss, a well-written master earthquake policy will remain the only way to protect each owner's investment.



By Timothy Cline, CIRMS
Timothy Cline Insurance Agency, Inc.



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