



When well-known insurance carrier, State Farm began slowly non-renewing earthquake coverage on some of their condominium associations in late 2009, HOA Boards grudgingly faced a new challenge: purchasing "stand alone" earthquake coverage in the formidable "excess and surplus lines" marketplace. The experience can be numbing, the policy language more limiting, and the deductible and terms more restrictive. On top of it all, the pricing of the coverage can be a complete shock to the Association's annual budget. The entire process is not for the weak of heart. If this is your challenge this upcoming year, here are some tips for navigating the waters:

Start early. There are nearly three dozen earthquake carriers writing stand-alone earthquake coverage in California. While this



sounds like a lot, only a handful of those carriers may be interested in your particular condominium association as a result of your project's age, property values, type of parking, soils and distance to fault. Unlike State Farm, E&S carriers may only release their quotes thirty days prior to the proposed effective date, but starting early will assure your Board adequate time to get responses from all the potential markets.



Ask to review the "Statement of Values." One common-thread exists with nearly all earthquake policies: the coverage is not blanketed. Instead, the deductible is applied, and probably more importantly, the coverage is apportioned, based on a detailed schedule which lists the values assigned to each building and appurtenance. Be sure to ask your agent/broker to see a copy of this document which is being submitted to the carriers on your behalf. If a location or building was inadvertently omitted, or the coverage has been incorrectly allocated, the result could be devastating at the time of loss. It's your responsibility as a policyholder to determine how much coverage you'd like to maintain on the common area improvements.

Know the unknown costs. Earthquake insurance premiums are only paid in two ways: (1) a lump sum payment at time of binding; or (2) a down payment equal to 25% of the premium (plus all applicable inspection and policy fees) and the use of a third-party finance company for the balance. In the infamous words of Donald Rumsfeld, there are "unknown unknowns" in this world. The things "we don't know we don't know..." and when it comes to financing the earthquake premium, it's important to know the things you...well ... might not know. One of these unknowns you'll want to know is the actual cost of financing. Depending on the size of the premium involved, the interest rates should be between 4.25% and 10.25%.



If your agent/broker is suggesting a finance company that's charging a higher interest rate than that (15% to 20%), you might want check the details or look elsewhere. (There's potentially some hidden broker fees in the form of "interest points" being buried in the minutia of the finance agreement which is causing the rate to be ridiculous.)

Common area details matter. Does your association have private streets, curbs, sidewalks, drainage ditches, retaining walls, tennis courts, swimming pools, spas, entry features? These items are highly prone to earthquake damage. Be sure your agent/broker has these items included in the Statement of Values and an approximate

replacement cost assigned for each. Remember: If they're not in the schedule, the carrier won't cover them. Tip: Provide your agent/broker with a copy of your Reserve Study; it will be a good starting point.

Who was approached? Want to make sure your agent/broker is doing a thorough job? Ask him/her for a list of all the earthquake markets that were approached on your association's behalf and what their response was to the submission. This document is commonly referred to as a "marketing report." At the end of the day, you want to be certain that the agent/broker is making a recommendation to you after having approached every available market. Earthquake coverage is an expensive purchase. You'll want to go back to your general membership confident that you've got the very best carrier and the broadest coverage - at the most affordable premium.



What's the scope? There is no uniformity in master earthquake forms, so it's important that your



agent/broker has requested/negotiated the right coverage endorsements. Does your proposed earthquake policy cover any portion of the interior of the units or just "bare walls?" Is there any coverage for increased cost of construction to bring the building to current code? How about coverage for monthly homeowners dues that become uncollectable after an earthquake event renders a unit uninhabitable?

EARTHQUAKES by the NUMBERS

15 Number of earthquakes worldwide that were magnitude 8.0 or greater since 2000.



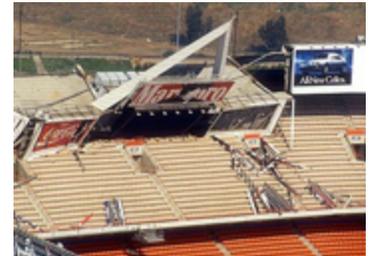
9.0 Magnitude of the deadly Honshu earthquake which struck the northeast coast of Japan on March 11, 2011.

3 Number of earthquakes that hit normally seismic-free rural Oklahoma between November 5th and November 8, 2011.

17 Number of years which have elapsed since the Northridge earthquake which struck at 4:31 AM PST on January 17, 1994 and caused an estimated \$20 Billion in insured losses.

50 Distance in miles between the epicenter of the Northridge earthquake and the scoreboard at Anaheim Stadium which collapsed during the event falling into several hundred stadium seats.

9.2 Magnitude of the strongest earthquake in United States history which struck Prince William Sound on Good Friday (March 27th) 1964 and lasted a reported four minutes.



Source: US Geological Survey National Earthquake Information Center



By Timothy Cline, CIRMS

Timothy Cline Insurance Agency, Inc.



This letter contains only a general description of coverage and is not a statement of contract. For a more detailed description of the policy conditions and exclusions, please consult the policy itself.

© 2012 – TIMOTHY CLINE INSURANCE AGENCY, INC. – ALL RIGHTS RESERVED

For more information please visit us at: www.timothycline.com
or call us today at: (800) 966.9566