A Consumer's Guide to Earthquake Insurance

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Why Buy Earthquake Insurance?

Earthquakes can cause a great deal of damage that will not be covered under your homeowners, renters or condominium insurance policy. These policies do not cover damage due to natural disasters such as earthquake, flood and landslide. Your home is insured for earthquake damage only if you have added an endorsement to your policy or bought a separate earthquake policy. A homeowners policy and earthquake insurance do not overlap but work together to give your home more insurance protection.

What is an endorsement?

An endorsement is a written change to your insurance policy. It can be used to add or remove insurance coverage, so review any policy endorsements very carefully.

Waiting until after an earthquake to buy insurance is never a good idea. First, you cannot buy insurance to cover damage that has already happened. Second, after an earthquake, insurers likely will not sell coverage for some period of time and when they do, premiums may be higher.

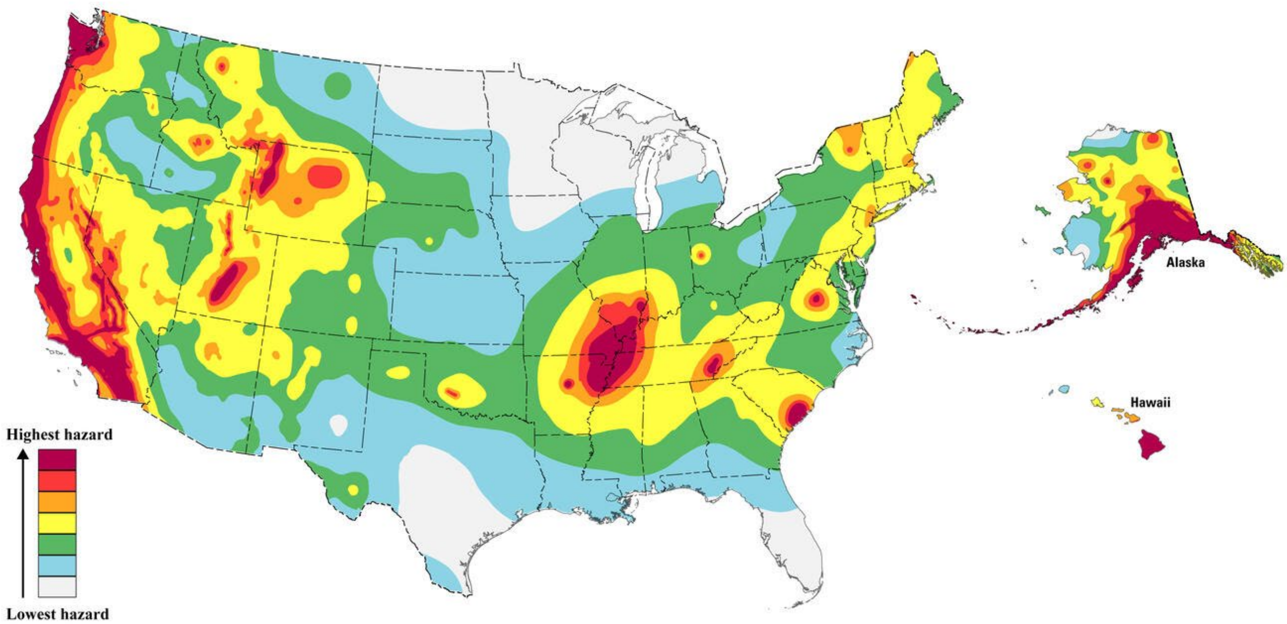
Who Needs Earthquake Insurance?

Whether you should buy earthquake insurance depends on several factors. Do you live in a quake-prone area? Earthquakes can happen in all 50 states and U.S. territories. About 90 percent of us live in areas that have earthquakes. California has the most frequent damaging earthquakes while Alaska has the largest earthquakes, mostly where no one lives. Most earthquakes are west of the Rocky Mountains, but some of the most violent earthquakes have been in the central U.S.

As the 2023 United States Geological Survey's (USGS) National Seismic Hazard Map shows, every state has some risk of earthquake damage. The areas in red and orange have the highest risk.

Think about how you would manage the costs to recover from an earthquake. Without insurance, how would you pay to repair or rebuild your home? How would you pay the costs to live somewhere else while your home is being repaired or rebuilt? How much would you owe a lender, who will expect you to repay the mortgage or home equity loan even if your home is destroyed? How much would you lose if your home were damaged or destroyed by an earthquake and you could not afford to repair it? Earthquake insurance can help with all of these costs.

2023 United States National Seismic Hazard Map



Source: U.S. Department of the Interior and U.S. Geological Survey Fact Sheet, January 2024.

https://www.usgs.gov/media/images/hazard-map-2023-50-state-update-national-seismic-hazard-model-project

Finally, how likely is it that your home will be damaged in an earthquake? Brick homes, wood frame homes with crawl spaces, and multi-story homes are more likely to be damaged in an earthquake. A qualified contractor or engineer can help you assess your home's risk for earthquake damage.

What Earthquake Insurance Covers

Earthquake insurance covers repairs needed because of earthquake damage to your dwelling and may cover other structures not attached to your house, like a garage. It insures your personal property against damage from an earthquake. It may cover increased costs to meet current building codes and costs to stabilize the land under your home. Earthquake insurance covers the cost to remove debris. It also pays for extra living expenses you may have while your home is being rebuilt or repaired. While insurance for earthquake damage is not part of your homeowners insurance, you can add it by buying an endorsement (a written change to your coverage) and paying an extra premium.

All insurers writing homeowners coverage in Kentucky must offer an earthquake endorsement if requested by a consumer. There will be important differences between your earthquake insurance and your homeowners insurance policy. Ask your insurance agent to explain those differences.

What Is Not Covered

What your earthquake insurance does not cover (the exclusions) varies by insurance company. Review your earthquake coverage and declaration page to learn what the exclusions are.

What is a declarations page?

A declarations page is a summary that's usually attached to the front of a policy. Your insurer mails you one each time you renew your policy. It states your name, address, policy number, categories of coverage, coverage limits, endorsement(s), and the name of your lender. You need to have the most current, up-to-date copy to know exactly what your coverages are.

Some of the most common exclusions in earthquake insurance are:

- **Fire –** Earthquake insurance usually will not cover anything your homeowners insurance policy already covers. It will not, for instance, cover fire damage to your home—even if the fire started because an earthquake ruptured a gas line. Your homeowners policy would cover losses from a fire.
- **Land –** Typically, earthquake insurance does not cover damage to your land, such as sinkholes from erosion or other hidden openings under your land. Earthquake insurance will not pay to fill in large cracks or holes that appear in the middle of your yard after an earthquake. If your insurance includes engineering costs coverage, it will pay at least part of the cost to stabilize the land that supports your home.
- **Vehicles –** Earthquake insurance does not cover damage to your vehicles, even if an earthquake damaged cars in your garage. Your automobile insurance policy may cover that damage.
- **Pre-Existing Damage –** Earthquake insurance will not cover damage to your home that was there before the earthquake.
- **External Water Damage –** Earthquake insurance does not cover water damage from external sources— such as from sewer or drain backup or flood. For example, if you live near a lake that floods your home after an earthquake, earthquake insurance will not pay to repair the damage. A flood insurance policy will cover your property for that damage.
- **Masonry (Brick) Veneer –** Some earthquake insurance does not cover masonry veneer—the brick, rock or stone that covers your home's outside instead of stucco or siding. If masonry veneer is not covered, the insurer usually deducts its value from the total cost of your loss before applying the deductible. That means the cost to repair a home damaged in an earthquake would be based on using siding materials that cost less than masonry veneer. If you have any masonry veneer on your home, ask your insurance agent if it would be covered.

How Much Coverage You Need

How much coverage is right for you will depend on your situation. Insurance policies have "limits of coverage" that tell you the largest dollar amount covered for different types of losses. A policy may even have sublimits. For example, a policy could have a $50,000 limit for personal property and a $5,000 sublimit for computers. That sublimit would mean that the insurer would pay no more than $5,000 to repair or replace your computers.

Insuring your home for its appraisal or loan value likely means you will only have enough coverage to repay your lender. It may not be enough to repair or rebuild your home, especially if it is a total loss. Usually, the dwelling coverage limit will be the same on your homeowners insurance policy and your earthquake insurance. If you do not have enough homeowners insurance coverage, you probably will not have enough earthquake insurance either. You should review your dwelling coverage from time to time to be sure it does not drop below the cost to replace your home. If it drops below 80 percent of the full replacement cost of your home, your insurance company may reduce the amount that it will pay on a claim.

The following are questions that may help you decide how much coverage you need:

For dwelling coverage to repair or rebuild your house:

- How much would it cost to repair or rebuild your home? How much of that cost could you personally pay?

For contents coverage:

- How much would it cost to replace your household items (such as furniture, appliances, electronics and clothing)? Could you afford it? Ask what you need to do to be sure the insurance will cover all of your personal property, especially valuable or breakable items such as artwork or glassware/china.

For additional living expense coverage:

- How much would it cost to find a temporary place to live because you could not live in your home after an earthquake? You could be out of your house for many months if there is major damage to your home. This coverage pays the extra costs you have to pay because you are not able to live in your home. For example, it would pay rent for temporary housing while you continue to pay your home mortgage. This coverage does not pay your regular costs of living—for example, your groceries or your car payment.

Understanding Earthquake Deductibles

A deductible is the amount you (the homeowner) are responsible for on each claim. The insurer is responsible for the amount remaining after the deductible is applied, up to the coverage limit.

The deductible for earthquake insurance usually is 10 to 20 percent of the coverage limit. Depending on the policy, there may be separate deductibles for the dwelling, outside structures (such as outbuildings, detached garages and yard fences), and personal contents. This is different from a homeowners policy where there usually is only one flat amount deductible, like $500 or $1,000. You may not be responsible for a deductible for additional living expenses coverage.

In Kentucky, insurers must meet deductible limitations depending on the county where your home is located. In the far west counties (Ballard, Calloway, Carlisle, Fulton, Graves, Hickman, Marshall and McCracken), the lowest deductible offered cannot exceed 20 percent. In the counties designated as near west (Butler, Caldwell, Crittenden, Daviess, Hancock, Henderson, Hopkins, Livingston, Lyon, McLean, Muhlenberg, Ohio, Trigg, Union and Webster), the lowest deductible offered cannot exceed 15 percent. For the remaining counties in the state, the lowest deductible offered cannot exceed 10 percent. Insurers have the option of offering higher or lower deductibles with corresponding premiums.

As coverage and terms of insurance can vary from company to company, ask your agent how the deductibles will be calculated under your policy.

Assume that an earthquake totally destroys your home, and you have earthquake insurance that covers all the damage. The following table explains how one type of earthquake deductible may work.

Example of an Earthquake Deductible

Some policies may pay up to the total of one or more of the coverage limits if the damage is more than the coverage limits. The following table gives an example of how the deductible may work in that type of arrangement. Always check with your agent for an explanation of how the deductible may work for your earthquake coverage.

	Dwelling	Outside Structures	Personal Contents	Total Amounts
Coverage Limits	$100,000	$10,000	$50,000	$160,000
Deductible	20%	20%	20%	N/A
Property Damage	$110,000	$8,500	$62,000	$180,500
Deductible Amount (Coverage Limit x 20%)	$20,000	$2,000	$10,000	$32,000
Total Amount Insurer May Pay	$90,000	$6,500	$50,000	$146,500

In the table above, the deductible is 20 percent for each type of coverage. You would be responsible for the deductible for the dwelling, or $20,000 in this case. You also would be responsible for the $2,000 deductible on outside structures and the $10,000 deductible on personal property.

The earthquake damage to the dwelling and personal property is more than the coverage limit for both of these types of property. For example, there is $110,000 in damages to the dwelling versus a $100,000 coverage limit. But the damage to outside structures is less ($8,500) than the $10,000 coverage limit.

Total reimbursement to you would be based on the difference between your property damage and the deductible, up to the coverage limit. In this example, the insurer would pay $90,000 ($110,000 minus $20,000) for the dwelling and $6,500 ($8,500 minus $2,000) for outside structures. In each of these, the net loss was less than the coverage limit.

The insurer's payment for personal property would be calculated the same way—property damage ($62,000) minus deductible ($10,000). Your net loss would be $52,000. But your policy limit is $50,000 for personal contents, so the total amount you would be paid for your personal property loss would be capped at the coverage limit, or $50,000.

In this example, your total loss is $180,500. You would be responsible for $32,000 in deductibles plus $2,000 in unreimbursed or non-covered damage to your personal property. The insurer's total payment for this claim would be $146,500.

When you shop for insurance, you may be asked what deductible you want. Remember that

earthquake deductibles are already much larger than a typical homeowners insurance deductible. If your deductible is too high, you may never be able to use your earthquake insurance because the damage will never be greater than the deductible.

The deductible you pay is considered an uninsured loss. You are entitled to federal disaster loans to help cover uninsured losses. Remember that you're expected to repay a loan.

Another unique feature of earthquake insurance is time limits. Typically, all earthquake events in a 72-hour (3-day) period are considered one event—with one claim and one set of deductibles. Damage caused by aftershocks more than 72 hours after the first quake could mean a second claim with a second set of deductibles. The period of time may not be 72 hours in all policies. Ask your insurance agent.

How Insurers Determine Your Earthquake Premium

Premiums for earthquake insurance vary by your home's characteristics. Some common characteristics are:

1. **Your home's location** – Is your home in an earthquake-prone area? If the area where you live is likely to have earthquake activity, your premiums will be higher.
2. **The age of your home** – The premium can be higher for older homes.
3. **The construction of your home** – How large is your home and how many stories does it have? Is it a wood frame home or masonry (brick) home? Does it have a masonry (brick) veneer? Does your home have a basement or is it on a concrete slab block foundation?
4. **The cost to rebuild your home** – You can choose to insure your home and its contents for either replacement cost or actual cash value. Replacement cost is the cost to rebuild your home or repair damages using materials of similar kind and quality. Actual cash value is the value of your home considering its age and wear and tear. Actual cash value coverage pays you for your loss but often doesn't pay enough to fully repair or replace the property.
5. **The deductible(s)** – As with homeowners insurance, a larger deductible means you'll be responsible for more of the loss. It also means a lower premium for you. Insurance premiums are lower when insurers pay less in claims.

Smart Shopping

You can find insurance companies and agents through the phonebook, on the Internet and television, and by asking friends and neighbors.

If you already have homeowners insurance, you can begin your search for earthquake insurance by contacting your current agent or company. You will be able to buy earthquake insurance as an endorsement (a written change to your coverage) to an existing homeowners policy.

If there has been a recent earthquake, most insurers will not sell any new earthquake insurance for 30 to 60 days. The time to buy the coverage is before there is an earthquake.

Different insurance companies charge different rates for the same coverage. Not all insurance companies provide the same level of claims service. Customer service is important to most consumers, particularly when they have a claim. So, it makes sense to shop around for the best insurance company for your needs. You can get a sense of how well an insurer serves its customers from a complaint index. Kentucky and other state insurance departments post complaint index information on their websites. A complaint index measures how many complaints your state insurance department receives relative to the size of the company. To review the Kentucky complaint ratio, please go to http://insurance.ky.gov and click on Complaint Ratio under Search Options in the right column.

It is illegal for unlicensed insurance companies or agents to sell insurance. Business cards and websites are not proof an agent is licensed. If you buy from an unlicensed agent or insurance company, the insurance company may not pay your claims; or, if you cancel your policy, the insurance company may not refund your premiums.

To find out if an agent or company is licensed, you can complete an agent/agency or insurer/company search on the DOI website (also under Search Options) or call 800-595-6053 (in Kentucky).

Buy insurance from a company that is financially sound. To check the financial health of an insurance company, use ratings from independent ratings agencies such as Standard and Poor's, A.M. Best and Moody's.

As you compare premiums, be sure the quotes are for the same or very similar coverage. Be sure to get rate quotes and coverage information in writing.

Your Responsibilities

An insurance policy is a legal contract. Read your policy and contact your insurance agent or company if you have questions. If they cannot answer your questions, contact your state insurance department.

When you buy earthquake insurance, you will receive a policy—not a photocopy. If you do not receive a policy within thirty (30) days, contact the insurance company. If you need a company's toll-free number, check their website, call your agent or contact the Kentucky Department of Insurance. Keep your policy in your home files. Know the name of your insurer.

Helpful Hint
Enter your insurance agent's phone number or your insurer's toll-free phone number into your cell phone.

Other helpful tips for earthquake insurance—and any other types of insurance—are:

- Pay the premium on time.
- Keep a file of all paperwork you completed online or received in the mail and signed, including the policy, changes to your policy, renewal notices, correspondence, copies of advertisements, premium payment receipts, notes of conversations and any claims submitted. It is a good idea to keep a second copy outside your home, such as at your workplace.
- Make a household inventory.
    - Go through each room; write down and take pictures or videos of everything in the room. Do not forget valuable items such as antiques, electronics, jewelry, collectibles and guns.
    - Store your home inventory in a secure place at another location, such as your workplace, a safe deposit box, a relative's house or online. Keep a copy at home.
    - Review and update your home inventory, including your pictures/videos each year. Also update your inventory when you buy new items and make repairs. Keep receipts with your home inventory.

After an Earthquake

If there has been an earthquake in your area, there are several things you should do right away:

- Find a radio, television, or internet connection to learn about emergency instructions from your local officials.
- Expect aftershocks, which can cause more damage in the hours, weeks, days or even months after the quake.

- Check utility lines and appliances for damage. If you smell gas, open windows and turn off the main gas valve. If your home's electric power goes on and off, turn off your home's main circuit breaker to prevent power surges.
- Check chimneys for cracks or other damage before making a fire.
- If your home has been damaged, do whatever you need to prevent more damage or property loss. This could include boarding up windows to prevent theft.
- Call your agent or insurance company. Ask about your coverage for earthquake damage and what to expect next. Most importantly, ask when and how a claims adjuster will contact you.
- Keep notes about your contacts with the insurer, your agent and any other insurance company personnel about your claim. Include dates, times and names. Keep copies of correspondence.
- Check your own documents to find your policy and declarations page. Both will tell you more about your coverage.
- Find your household inventory.

Filing a Claim

Each state has its own laws about the claims process, and both you and your insurer will need to follow those rules. The insurance company will assign a claims adjuster to assess the damages and determine the payment. These adjusters may be employees of the company or independent contractors. You should cooperate with the adjuster's investigation of your claim. The adjuster probably will want to meet with you to inspect the damage.

Even if you do not think the damage to your home is greater than your deductible, let your insurance company know that your home has been damaged. A qualified professional should inspect your home for both structural (hidden) and cosmetic damage. You or your insurer can hire this professional, who can be an engineer or an experienced and licensed contractor. The inspection should include the attic, basement, walls, foundation and chimney. After an inspection, you also may want to get other independent estimates of what repairs are needed and how much they will cost.

If you, the insurer and the claims adjuster disagree, first try to resolve the differences with your insurer. Your agent may be helpful. It also might help to have your contractor meet with you and the insurance adjuster.

Do not feel rushed or pushed to agree with something you are not comfortable with; your insurer doesn't have the last word. Ask questions and ask the adjuster for a written explanation of his decisions.

If you and the insurer still disagree about the claim handling or settlement, you may file a complaint with the Kentucky Department of Insurance. If you disagree about the value of the claim, check your policy for an appraisal clause.

Another choice is to hire an attorney or a public adjuster. A public adjuster is not an attorney or a government employee. States that allow public adjusters require them to be licensed and to follow certain guidelines. If you have questions about the use of public adjusters in your state, call the Kentucky Department of Insurance.

Steps to Protect You and Your Home

A homeowner can take steps to lower the risk of earthquake damage. Some of these steps also can mean a lower earthquake insurance premium. Retrofitting (changes to your home to reduce damage) may be an easy and inexpensive way to protect some homes. However, changes to the structure and to some types of homes could be very expensive. A qualified contractor or engineer can advise if retrofitting is practical for your home.

Some inexpensive ways to retrofit your home are:

- Bolt down items such as bookcases, dressers and televisions. Securing heavy items not only can reduce property damage but also can mean fewer injuries.
- Secure and brace the water heater to the dwelling frame.
- Install automatic gas shut-off valves.

More expensive, structural retrofit measures are:

- Anchor a house to its foundation through seismic bolting.
- Install bracing; one approach is to cover cripple walls (in the space between the foundation and the floor where the crawl space is) with plywood.

The Earthquake Country Alliance, based in California, gives specific instructions on how to secure furniture and other items in your home to prevent both injuries and damages in your home. Instructions can be found at the following website: http://www.earthquakecountry.org/prepare/%20.

Another source on how to prepare for earthquakes is the Institute for Building and Home Safety's website: www.disastersafety.org. Click on "Get Prepared," then "Earthquakes."

Emergency experts advise you to always have basic supplies such as water, food and flashlights on hand in case there's an emergency. The Federal Emergency Management Agency (FEMA) (www.fema.org) and your state or local emergency services offices have more information on preparing for an emergency.

Resources and Contact Information

- Kentucky Department of Insurance - For information about your consumer rights or filing a complaint, or if you can't find insurance, visit the Kentucky Department of Insurance website at http://insurance.ky.gov or call 800-595-6053.
- Visit the NAIC Insure U consumer education website at https://content.naic.org/consumer.htm.
- Learn more about the National Flood Insurance Program at http://www.floodsmart.gov.

Scan QR code to access the Kentucky Department of Insurance website.

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