



EARTHQUAKE DEDUCTIBLES: DO YOU KNOW YOUR COSTS?

When you purchase earthquake coverage, the deductible—your portion of the claim—will be substantial. This is because an earthquake usually affects most of the homes in the area, which can be catastrophic for any insurer who insures a large number of them. High deductibles make it possible for insurers to provide coverage while managing their own financial stability.

Earthquake coverage, whether added to the homeowner policy or written as a separate policy, is subject to a percentage deductible rather than a flat dollar amount. Insurers determine possible deductibles based on several risk factors. They map the location for distance to fault lines and soil stability. Other factors are the age of the home and type of construction. (Frame homes do better in earthquakes than brick ones.) Deductibles range from 5% to 25%, with 10% being a common deductible for homes that are of average risk.

Not All Deductibles are Alike

It can be difficult to have a clear understanding of how the percentage deductible applies and many people are unpleasantly surprised when they have a loss. There are several reasons for the complexity:

- The earthquake deductible is based on a coverage limit, not the amount of loss. This means that a 10% deductible on a \$3,000,000 home is \$300,000. In the event of a partial loss of \$600,000, the deductible is \$300,000 and the insurer will pay the remaining \$300,000.
- There is no standard contract wording for earthquake deductibles and variations can have a material effect on how much your total deductible may be. For example:
 - Some insurers apply the deductible to each coverage. If you have damage to your home, another structure (such as a detached garage), and contents, the deductible would apply separately to each one. A 10% deductible on a \$3,000,000 home that sustains damage to a detached garage and contents would be:
 - Home limit \$3,000,000 Damage \$600,000 Deductible \$300,000
 - Garage limit \$600,000 Damage \$100,000 Deductible \$60,000
 - Contents limit \$1,500,000 Damage \$500,000 Deductible \$150,000
 - Total loss \$1,200,000 Total Deductible \$510,000

- Other insurers apply only one deductible (usually a percentage of the dwelling limit) even if the loss involves the residence, other structures, and contents. In the above example, the total loss of \$1,200,000 would be subject to a \$300,000 deductible. This is clearly the better option whenever it is available.
- Some insurers include earthquake coverage for contents—subject to the standard (flat dollar) homeowner deductible—in their homeowner contract. Earthquake coverage for the residence and other structures (detached garage, fences, etc.) is then endorsed onto the homeowner policy, subject to the special (percentage based) deductible. In that case, a loss involving the residence, other structures, and contents may be subject to two deductibles. The good news is that many insurers waive the contents deductible in that instance.

How to Determine Your Earthquake Deductible(s)

Given the complexity—as well as lack of uniformity between insurers—it can be a challenge to determine how your deductible will apply if you have a claim. It's important to read your policy because claims adjusters use it to determine if a claim is covered and, if so, how the deductible will be applied.

- First, read the earthquake exclusion on your homeowner policy. You may have coverage for your contents already. If so, the exclusion will state that the residence (Coverage A) and other structures (Coverage B) are excluded. If contents (Coverage C) are not excluded, then you have earthquake coverage on your contents.
- Next, read the earthquake coverage form, either attached to your homeowner policy as an endorsement or as a separate earthquake policy. Pay particular attention to the deductible clause, which will state how the deductible will be applied. The deductible percentage will be stated on the earthquake coverage form or on the policy declarations.
- Finally, consult with your Account Manager, who can answer questions and clarify policy wording. We can assist with specific questions about your coverage and provide illustrations of how earthquake claims may be adjusted by your specific carrier.

Earthquake is an important coverage, even with the substantial deductibles. We want to be sure that you have the facts that you need to make an informed decision about all of your insurance coverages, including earthquake. Please don't hesitate to contact your Account Manager with your questions or concerns.