

Earthquake insurance proves to be of little help

By BOB SMITH
STAFF WRITER

Santa Cruz County is into its third week of post-quake recovery and many residents are discovering an ugly aspect to the prospect — dealing with their insurance companies.

While at least one major home insurer is stretching the limits of its standard homeowner policy to cover some of the miscellaneous losses, many major companies seem to be turning their corporate backs on their customers.

Even residents and business owners who bought special, high-priced earthquake coverage now face the prospect of collecting little, if anything, from their policies — even if they have suffered several thousand dollars in damage to their homes and contents.

One insurance industry veteran,

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who asked not to be identified, is very upset with the answers policyholders have been getting.

"If anyone thinks the insurance companies are paying out in a time of need, think again," the claims processor said. "They are out-of-pocket very little.

"I've typed up over 200 claim forms and it is a dismal percentage that will receive any money.

"I'm very disappointed, disappointed in companies. What they have done is horrid. Earthquake insurance is very expensive — one-third to one-half the cost of the homeowner's policy.

"The deductibles are horrendous. Most are 10 percent of the coverage. Fireman's Fund is 15 percent. If you are carrying a \$200,000 policy, then the deductible is \$30,000. I don't call that coverage. That is criminal."

Standard homeowners' policies generally have a very low deductible, usually in the range of between \$100 and \$1,000 for each loss.

But earthquake insurance coverage is written differently.

State Farm Insurance, for example, issues earthquake insurance policies with a minimum

value of \$100,000 and as much as \$750,000. But there is a 10 percent deductible on those policies — meaning the homeowner would have to pay the first \$10,000 out of his or her pocket.

The State Farm policy seems to be fairly standard among insurers, although the deductibles vary. Some companies were issuing policies with a 15 percent deductible.

The high deductible comes as a shock to many policy holders.

"Companies are saying, 'submit everything,'" said an insurance worker. "This covers their back-

sides. The policies guarantee an investigation but not coverage. And even though we counsel them that there is no coverage, they still think there might be because the company says to submit a claim."

One complaint came from Patrick James, owner of one of 64 condominiums in a development on Sunny Hills Drive in Watsonville.

The whole complex, as is common with condominiums, is insured by one company — in this case, State Farm Insurance. The condominium owners pay extra for earthquake insurance.

When an adjustor showed up last week to survey the damage to the buildings, he said the deductible on each building was \$25,000 — 10 percent of the building's value. Because each building had four units, each condominium owner had a \$6,250 deductible.

Because of the size of the deductible, James complained, State Farm would cover nothing, not broken windows, not water damage, nothing.

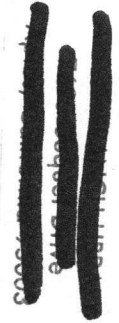
An adjustor, in some cases, asks the policy holder to sign a waiver of rights. Dave Stollis, chief of the state Department of Insurance's claims service bureau, said that is a proper request on the part of the insurance companies.

"The policy holder is asked to sign a waiver, acknowledging that there may not be coverage," Stol-

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lis said. "If the company finds that there is no coverage, the waiver allows them to deny the claim without the consumer saying they were led to believe there was coverage.

"The consumer is not waiving his rights. It is a basic tool and is proper. People are reluctant to sign anything, but all they are asking for is permission to go ahead and investigate the claim."

Stollis said the state insurance department is urging everyone with quake damage to file a claim, regardless of whether he has quake insurance.

On the other side of the coin is Mary Barsi, Patrick James's sister. Her home outside Watsonville is insured through the California State Automobile Association's Inter-insurance bureau. She did not carry earthquake insurance on her home, but AAA paid her \$6,000 for broken windows.

CSAA is invoking what it calls "limited all-peril" coverage for its homeowner policy holders.

"There's no difference now than in the floods of 1982," CSAA Public Relations Manager Tom Rohner said. "This policy came out of the 1982 floods. If you have a homeowners' policy and the house is rendered untenable, then you are entitled to living expenses of \$1,500.

"The loss-of-contents clause will cover 5 percent of the unsched-

uled personal property in the home."

Insurance agents say that most policies list personal property at 50 percent of the building's insured value, so a \$200,000 homeowner's policy would include \$100,000 for personal belongings, furniture and the like. Five percent equals \$5,000 - a healthy amount when you're facing only minor to moderate damage.

When Coalinga was hit by an earthquake years later, CSAA used the same policies developed in the aftermath of the 1982 storms that devastated parts of Santa Cruz County.

The association has 220,000 homeowners' policies in force statewide, and as of yesterday, had received more than 5,000 claims, totalling about \$51 million.

CSAA has been magnificent, one competitor said.

"People are reporting their claim one day and AAA is there the next day with check in hand," the competitor said. "It's the best good will that AAA could buy. The public should know about it. The only way that others will change is if people start going elsewhere."

A spokesman for State Farm Insurance, one of the largest insurance companies operating in California, confirmed that the company's earthquake policies have a big deductible, when compared to its homeowners' coverage.

"There is a 10 percent or \$10,000 deductible on earthquake coverage" spokesman Bob Sasser said.

Policy amounts start at \$100,000 and can go to as much as \$750,000.

So far, 15,000 claims have been filed with State Farm after the Oct. 17 earthquake. Company spokesman Jerry Parsons said State Farm will probably spend \$335,350,000 to settle 27,600 homeowners' and business loss claims.

While ordinary homeowners' insurance usually has a \$100 to \$250 deductible, the State Farm spokesmen said, an earthquake raises the deductible (for those having earthquake coverage) to 10 percent of the coverage (\$10,000 minimum).

"Everything is included in that limit," Parsons said.

Most companies have put a 30-day moratorium on new earthquake policies and some had stopped writing earthquake insurance policies months before the earth began moving beneath Santa Cruz County.

The reason for the moratorium, said State Farm's Sasser, is because some people had tried in the past to buy insurance, then claim old damage occurred after the policy came into force.

"We now have a 30-day moratorium within 100 miles of an epicenter," Sasser said. "You can buy a policy now from us but it won't take effect for 30 days. The problem is that they (the underwriters) are worried about aftershocks, but also it is difficult to determine whether damage is from the main quake or a later aftershock."

Stollis said it's too early to begin getting many complaints about insurance company handling of earthquake claims.

Unlike other insurance, such as

health, there is no state law saying how quickly an insurance company must respond to a claim.

"But certainly," he said, "you should hear from the carrier," even if it is nothing more than a form letter or post card.

"The actual handling of the claim varies, depending on the complexity of the damage," Stollis added. "But there should be constant communication between you and the company."

Disasters are a time for an insurance company to enhance its public image by expediting the claims process, Stollis said. Large companies have mobilized small armies of claims adjusters from all over the nation.

Still, if homeowners are unhappy with the way their claims are being handled, they can complain to the state Insurance Department, Stollis said.

Complaint forms are available at the Disaster Assistance Centers in Watsonville and Santa Cruz or people can call a toll-free hot line, 1-800-233-9045, between 8 a.m. and 5 p.m. weekdays.

The department will send the homeowner an acknowledgement of the complaint and contact the insurance company for a copy of its case file.

"We then investigate each claim individually," Stollis said. "We don't have the power to compel payment but generally the companies are responsive to our demands. We do have the power to order a hearing and could, in extreme cases, revoke their certificate of authority (to do business in California). We recovered \$10.5 million for consumers in 1987."