

5.2 INSURANCE PROGRAMS

Natural hazard insurance and voluntary mitigation successfully reduces harm to homeowners in risk-prone regions, and significantly reduces the cost to society. Yet only a small percentage of homeowners in risk-prone regions purchase hazard insurance or adopt mitigation measures voluntarily, even though the insurance is often offered at rates below actual cost (Li, 1998). Few private insurance companies provide coverage for natural hazards as part of their regular homeowners' package. Hazard insurance is highly limited in coverage and variety even among the private insurers who underwrite such service. This absence of supply and demand for natural hazard insurance will impose heavy costs on Riverside County in future disasters.

After the 1994, magnitude 6.7 Northridge earthquake, property owners could not buy homeowners insurance, because the insurers no longer wanted to sell earthquake insurance. Back in 1986, the California Legislature passed a law requiring every insurer selling homeowners insurance to offer earthquake insurance. The homeowner did not have to buy it, but the insurance company did have to offer it. This law was passed because of a court case. Although a higher court eventually overruled the court case, the law is still in effect (Roth, 1998). The only way an insurer can legally avoid selling earthquake insurance is to not sell homeowner insurance.

Also after the 1994 Northridge earthquake, California companies raised deductibles from 10 to 15 percent, lowered coverage for residential earthquake insurance, and increased the cost of premiums dramatically. The number of earthquake insurance policy holders dropped from an estimated 1.68 million in 1994 to approximately 1.3 in 1996 (McCarthy and others, 1998).

Loss estimation has improved sufficiently in the past decade, however, that some insurance companies are today better able to distinguish the level of risk by geographic area. Computerized methods, including Geographic Information Systems (GIS), have made it possible for some of the more sophisticated companies to model and forecast potential losses, based upon information gathered and maintained about localized areas and the structures now being insured. (The Federal Emergency Management Agency (FEMA) has sponsored a similar loss estimation software, HAZUS, which is designed for use by local government and other disaster planning and mitigation agencies. HAZUS is used in this Technical Background Report.) As insurance company uncertainties diminish, so should their reluctance to provide hazard insurance.

5.2.1 Challenges Faced by Private Insurers