



DAVE WINDSOR ANSWERS YOUR REAL ESTATE QUESTIONS

The Economics of Earthquake Insurance

Dear Dave: What do you think about Earthquake Insurance? Is it worth having?

Answer: The whole question of Insurance, be it for your car, your life, your medical or for an earthquake is really an issue of your RISK TOLERANCE which, in turn, is dependent on your belief system.

When you think about it, the idea of Insurance is relatively new, starting in Europe in the 17th Century. In the 400 years since, companies have formed sophisticated models to trade on our many fears. 30th November 2018 aroused considerable anxiety in Alaska and, likely, these commercial enterprises will benefit, even though most insurers have a moratorium on new policies until at least the end of January.

From a practical point of view, you have to weigh the cost/benefit ratio and make a very personal decision about how you live with the risk of an earthquake. When I am flying, I always remind myself that I am actually safer in an aircraft than in a motor vehicle. Similarly, I suggest it is unlikely that the Richter scale will rise to 7.0 again for several decades (not promising, mind you).

For the above reason, less than 1 in 5 households in Anchorage

carry earthquake insurance, especially when you consider the following:-

1) Expensive premiums: Allstate does not offer the insurance at all. State Farm will write it and, otherwise, you need to shop Insurance Brokers for the best premium. However, as a rule of thumb, it can easily run you \$100 month, or around \$2.00 p.a. for each \$1000 insured. For a lower deductible you could pay up to \$3.00 per \$1000 insured. Your lender does not require it when you borrow to purchase a home, so it is an optional extra.

2) Deductible: This is the real blow. Generally, you can expect a 20% deductible (although some insurers offer 10% and 5% deductible policies also). So, if your home is worth \$400,000, don't even bother to call your insurance provider unless the damage was more than \$80,000. If it was more, you will still need to carry the first \$80,000.

Many homeowners feel that the premiums are just not worth the money when the odds of damage above the deductible are fairly low.

If you live in a condo, you depend on the Homeowners' Association for your Insurance coverage. Should significant damage occur in the development, even if your own unit is completely undamaged, the

Association may have to assess all owners to contribute if there is neither insurance nor funds to cover.

One other point - All homebuyers should be alert to the fact that the actual cause of damage in an earthquake is not vibration, but ground failure. Most folks were 'all shook up' on 30th November 2018 but the serious structural damage occurred in seismically weak soils.

When shopping for a home or condo, insist on reviewing the readily available MOA seismic map to determine how susceptible to ground failure the neighborhood is designated.

Is it worth having earthquake insurance? It's up to you and your god.

Dave

Windsor

