

Earthquake Insurance

All businesses should have earthquake insurance. In the San Fernando earthquake of 1971, 62% of the damage was in the commercial sector. Although many more single-family homes were affected, these accounted for a much smaller proportion of the costs. Damage that should be insured against includes direct damage to building, contents, machinery, and equipment and indirect damage from business disruption, decreased property value, loss of jobs, workers' compensation losses, decreased rental income, additional costs for living expenses, potential liability, and defaulting on mortgages.

Regrettably many businesses and homeowners prefer not to insure themselves adequately. A number of reasons for this low level of compliance have been proposed:

- Programs are effective only if compliance covers a large enough area. A critical mass of participants is needed to encourage compliance by others.
- Concerns exist over the level at which property can be reinsured after an earthquake.
- Often little accurate and reliable data are available on which to base estimates for rates.
- Earthquakes are rare, and demographic changes often occur in a shorter time period than the interval between earthquakes, making damage and premium predictions difficult.
- Limits on insurance companies' reserves for catastrophes are imposed by the Internal Revenue Service.
- Levels of activities to mitigate the damage from earthquakes vary among states and counties.

All of these have resulted in high deductibles and premiums and therefore low (less than 50%) compliance in businesses. Nevertheless, the single most common advice given by business owners, including veterinarians, who have been affected by an earthquake is to take out adequate insurance. In particular, owners of businesses and homes should pay attention to the details of their insurance policies because the amount covered has to be updated periodically.