Revised September 10, 2018

Oregon Department of Consumer and Business Services

Division of Financial Regulation

2017 Earthquake Insurance Data Call

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Table of Contents

Contents

Executive Summary

The Division of Financial Regulation (DFR) conducted a data call in December 2017 to better understand the admitted residential earthquake insurance market in Oregon. The data call included the top 15 homeowners insurance groups in Oregon as well as the 2 admitted insurers that specialize in earthquake risk.

DFR found that approximately 14.8% of Oregonians with residential homeowners coverage also have earthquake coverage. This percentage of earthquake coverage or "uptake rate" varied by region. The Willamette Valley had the highest uptake rate at 17.2%, followed by the Coast at 13%, the Coastal Range at 9.5%, and Eastern Oregon at 6.3%.[1]

Earthquake coverage was widely available across the state, with multiple insurance groups writing earthquake policies in every county. The admitted earthquake insurance market was concentrated in a handful of insurance groups. The largest insurance group represented 43% of the written earthquake premium surveyed in this data call. The top five groups combined represented 79% of the surveyed market.

Insurers employed a variety of methods in underwriting earthquake risk. A majority of policies took into account the date the home was built, the type of construction, the number of stories, the slope and soil type of the land, whether the home is bolted onto the foundation, and the existence of unrepaired damage due to a past earthquake.

Deductible amount was a significant factor in the cost of earthquake coverage. Insurers offered a wide range of deductibles from as low as 2.5% to as high as 25%. A majority of insurers reported that 10% was the most common deductible elected by policy holders.

In order to get a sense of the cost of earthquake coverage, DFR asked insurers what the yearly premium would be for a hypothetical home in Multnomah County. The cost varied greatly between insurers and depending on a number of factors. DFR found that $420,000 in dwelling and $210,000 in contents coverage ranged from $126 to $1,043 per year for a typical home with a 10% deductible.

Background and Methodology

In December 2017, DFR conducted a data call surveying the 15 insurance groups in Oregon with the greatest market share of residential homeowners premium and asked about the residential earthquake coverage that they provide. These 15 groups represented 91.4% of the homeowners premium written in 2016. In addition, DFR surveyed the two insurers that offer stand-alone earthquake policies. The survey only included insurers in the admitted market and excluded the surplus lines market.

With information from these 17 insurance groups, DFR estimated the uptake rate of earthquake insurance, or the percentage of homeowners policy holders that also have earthquake coverage. The

[1] See page 5 for map of geographic regions.

survey also asked about how residential earthquake insurance is offered, including underwriting guidelines, premiums, deductibles, and marketing efforts.

DFR conducted similar data calls in the past and estimated the uptake rate in 2009 to be 19.5% and in 2014 to be 18.9%. The differences in estimated uptake rates between previous data calls and 2017 is partly attributable to differences in methodology. Past data calls did not include major insurance groups that had a large share of homeowners policies but did not offer earthquake coverage, which may have overestimated uptake rates.

Findings

Uptake

Approximately 14.8% of Oregonians with residential homeowners coverage also have earthquake coverage. Uptake rates vary by region and by county. The Willamette Valley had the highest uptake rate at 17.2%, followed by the Coast at 13%, the Coastal Range at 9.5%, and Eastern Oregon at 6.3%. Washington County had the highest uptake rate at 25.2%, and Malheur County had the lowest at 1.3%.

Region	Uptake Rate
Coast	*13.0%*
Coastal Range	*9.5%*
Eastern Oregon	*6.3%*
Willamette Valley	*17.2%*
Statewide	***14.8%***

These regional differences generally align with the disparity in earthquake risk on either side of the Cascade Mountains. In the case of a 9.0 magnitude Cascadia event, the potential for property damage is much lower in eastern Oregon than the rest of the state.[2] However, in the three western regions, earthquake risk does not correlate with earthquake coverage. While the Coast and the Coastal Range have the greatest potential for property damage, they lag behind the Willamette Valley in uptake.

Oregon, as a whole, has a comparable uptake rate as compared with other western states with similar earthquake risk. In Washington 11.3% of residential policy holders have earthquake coverage.[3] The uptake rate in California is 15.1%.[4]

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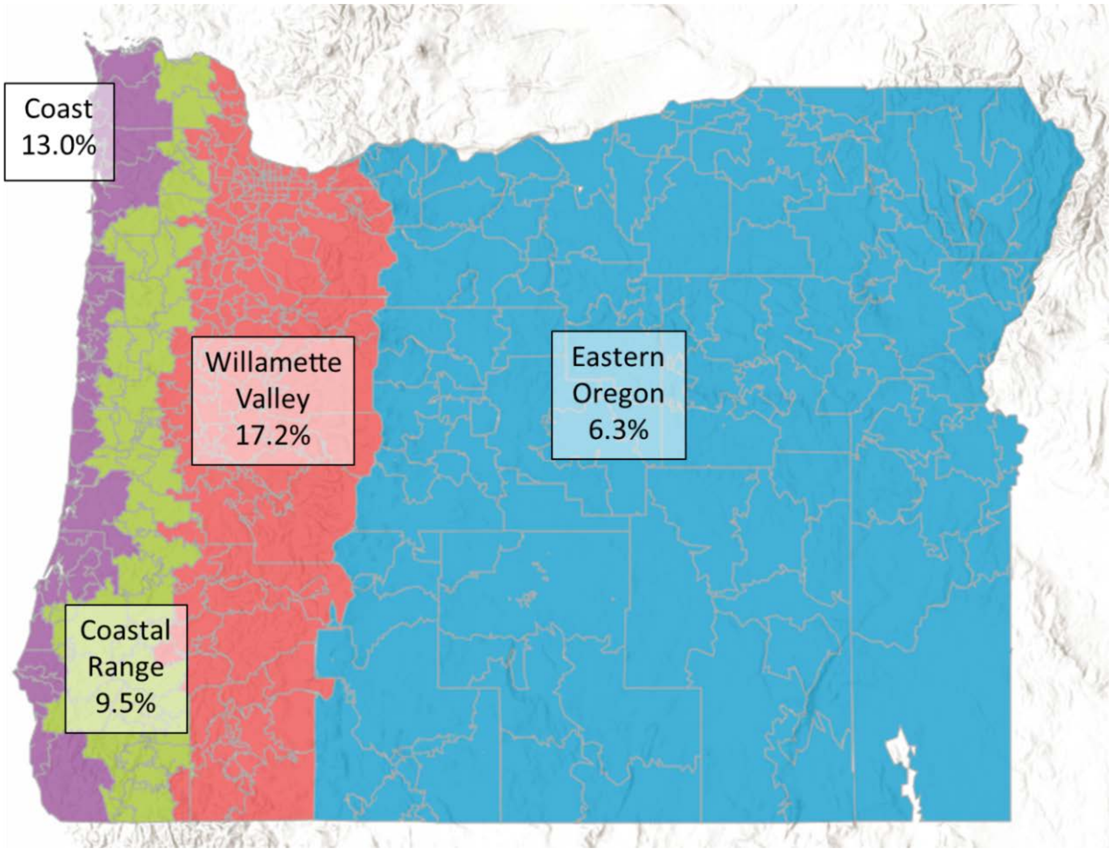
[2] *See* Oregon Seismic Safety Policy Advisory Commission, The Oregon Resilience Plan: Reducing Risk and Improving Recovery for the Next Cascadia Earthquake and Tsunami, 6 (2013). https://www.oregon.gov/gov/policy/orr/Documents/Oregon_Resilience_Plan_Final.pdf

[3] Office of the Insurance Commissioner, Washington State, 2017 Earthquake Data Call Report, 9 (2018). https://www.insurance.wa.gov/sites/default/files/2018-02/earthquake-data-call-report.pdf

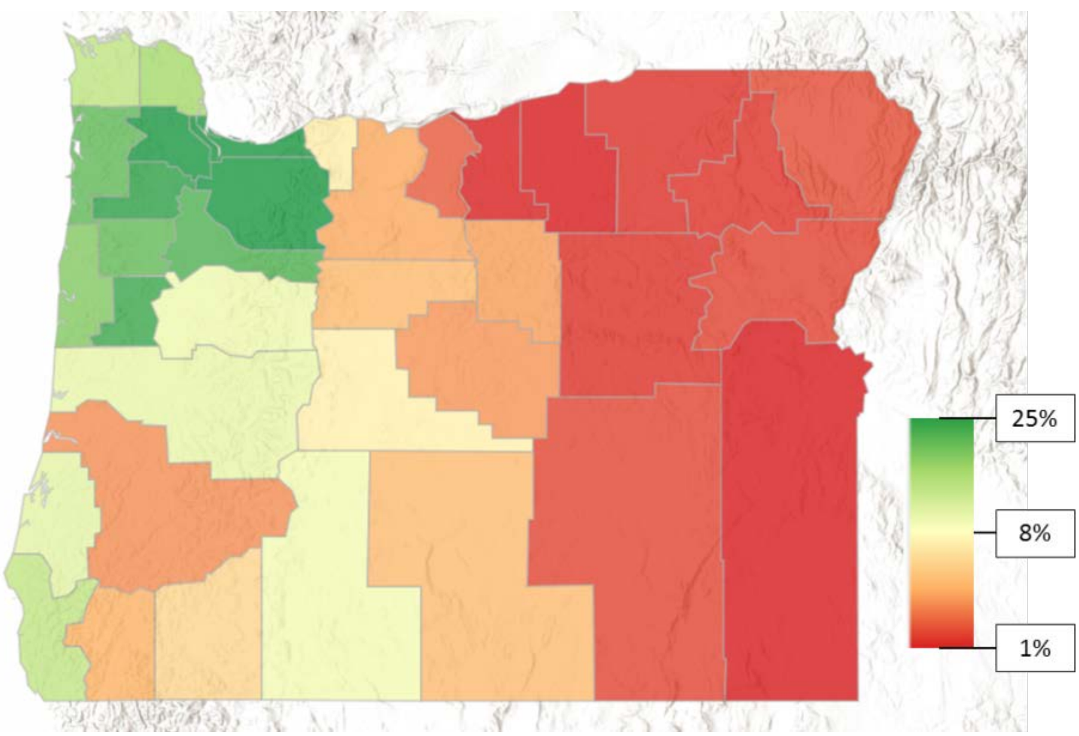
[4] California Department of Insurance, Earthquake Premium and Policy Count Data Call Summary of 2017 Residential Markets Totals (Revised date: 7/24/2018). http://www.insurance.ca.gov/0400-news/0200-studies-reports/0300-earthquake-study/upload/EQEXP2017Summary.pdf

Uptake by Region



Uptake by County

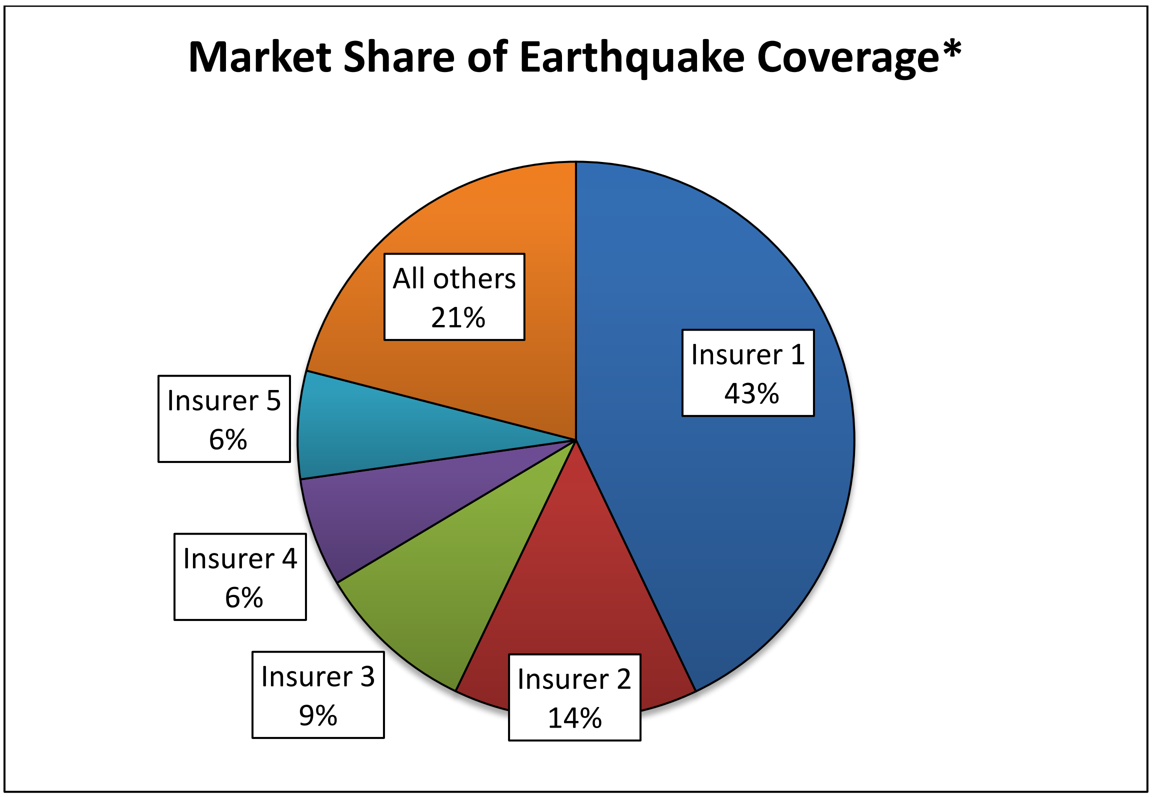
County	Uptake Rate	County	Uptake Rate
Baker	2.9%	Lake	6.0%
Benton	16.6%	Lane	10.1%
Clackamas	20.7%	Lincoln	14.4%
Clatsop	12.2%	Linn	9.9%
Columbia	13.3%	Malheur	1.3%
Coos	10.3%	Marion	16.0%
Crook	4.8%	Morrow	1.8%
Curry	11.9%	Multnomah	18.6%
Deschutes	8.3%	Polk	15.3%
Douglas	4.7%	Sherman	3.4%
Gilliam	2.1%	Tillamook	15.4%
Grant	2.5%	Umatilla	2.4%
Harney	2.9%	Union	2.5%
Hood river	8.2%	Wallowa	3.1%
Jackson	7.1%	Wasco	5.3%
Jefferson	5.9%	Washington	25.2%
Josephine	5.6%	Wheeler	5.0%
Klamath	9.6%	Yamhill	17.0%



Earthquake Insurance Market in Oregon

The admitted earthquake insurance market is concentrated in a handful of insurance groups. The group with the largest share of earthquake policies sold in Oregon represented 43% of the policies surveyed in the data call. The top five groups combined represented 79% of the surveyed market.

Most of the earthquake policies sold in Oregon are offered by insurance groups that also sell homeowners insurance. There are two groups that specialize in earthquake risk and do not offer homeowners policies. Of the 15 homeowners insurance groups surveyed in the data call, 2 did not offer earthquake coverage.



***Market share based on the 17 insurance groups surveyed in the data call rounded to the nearest percentage.**

How Earthquake Coverage is Offered

Earthquake coverage is widely available across the state. Every county had policies sold by at least three different insurance groups. Most counties had earthquake policies written by 10 or more insurance groups.

DFR surveyed insurers about how they offer earthquake insurance. The data call asked about the range of deductibles offered, the most common deductibles chosen, coverage limits offered, factors used in underwriting, and marketing efforts to consumers.

Deductibles

Insurers offered earthquake coverage with a variety of deductible and limit options. Data call respondents reported selling policies with deductibles that ranged from 2.5% to 25%. Most deductibles were applied separately to building and contents. Some policies offered deductibles based on a fixed dollar amount. A majority of data call respondents reported that 10% was the most common deductible sold. Weighted based on market share, these companies represent 65.3% of the surveyed market. The next most common response was 15%.

Deductibles	
2.5%	*Lowest deductible offered*
25%	*Highest deductible offered*
10%	*Most common deductible offered**

*Estimate based on insurance groups representing 65.3% of the surveyed market reporting that 10% was the most elected deductible.

Coverage Limits

Coverage limits offered by insurers varied greatly between products and between insurers. Many offered earthquake coverage up to the same limits as the homeowners policy. Many insurers did not have a limit on either building or contents coverage.

Underwriting

Insurers employed a wide range of methods in underwriting earthquake coverage. Most insurers use the following characteristics as a factor in underwriting:

- Date the home was built (67% of insurers)
- Type of construction (masonry of frame) (73% of insurers)
- Number of stories (53% of insurers)
- Slope/soil type (53% of insurers)

87% of insurers would not write earthquake coverage for a home that has previous earthquake damage that has not been repaired. 47% of insurers would not cover a home unless it is bolted onto the foundation.

Marketing Efforts

DFR asked insurers about their efforts to market earthquake policies to consumers. Many insurance groups indicated that their agents are trained to discuss earthquake coverage or that they provide informational pamphlets when a consumer is purchasing or renewing homeowners policies.

Most insurers indicated that they do not employ mass marketing efforts. Three of the 17 insurance groups reported that they attempted to reach consumers through direct phone calls, direct mail, or print advertising.

Cost

In order to get a sense of the average cost of earthquake insurance, DFR asked insurers to provide a quote for a hypothetical home in Multnomah County. With $420,000 in dwelling and $210,000 in contents coverage , insurers were asked to assume that the home was constructed after 1980, has frame construction, continuous foundation, level ground, and all other necessary underwriting requirements.

The estimated yearly premium varied widely between insurers and on a number of other factors. Due to differences in underwriting practices, many insurers needed to make additional assumptions about the exact location of the property and the characteristics of the land and building. Deductible amount also made a significant difference in price.

- With a 10% deductible, premiums ranged from $126 to $1,043 per year.
- With a 15% deductible, premiums ranged from $111 to $778 per year.
- With a 20% deductible, premiums ranged from $96 to $649 per year.

Conclusions

Oregon has a comparable uptake rate compared to other Western states with significant earthquake risk. Most of the earthquake risk and highest uptake is west of the Cascades. Even though the Coast and the Coastal Range has the highest risk, the coverage rate is lower than in the Willamette Valley.

Earthquake coverage is widely available across the state. Although the market is concentrated in a handful of insurance groups, there are a variety insurers, coverage options, and deductibles from which consumers may choose.