

# Los Angeles Times

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*April 9, 2009*

## **Insurance assurance**

**With federal help, states could manage risks and make policies more affordable for homeowners.**

The earthquake that killed more than 270 people and left 28,000 homeless in central Italy reminded Californians this week how fortunate they have been in the 15 years since the disaster in Northridge. There have been some moderately strong temblors, such as the one in Chino Hills in July that measured 5.4 on the Richter scale, but none as powerful as the one that hit L'Aquila on Monday. And thanks in part to tougher building codes, the damage has been limited. But seismologists say another quake at least as powerful as Northridge is almost certain to hit the state within the next 20 years, raising the possibility of catastrophic losses if the epicenter is in a major city. Neither Californians nor Americans in general are well prepared to cope with the financial impact of such a catastrophe.

The state's problem begins with the fact that seven out of eight homeowners don't have earthquake insurance -- a disdain that reflects how costly and inadequate the policies are. Coverage from the California Earthquake Authority, which was created after the Northridge quake because the disaster prompted many insurers to stop underwriting such risks, is not only expensive, it doesn't kick in until homeowners have lost 10% to 15% of the insured value of their homes. As a result, homeowners who buy policies may not collect a dime in reimbursement until they've sustained more damage than the typical earthquake causes.

To try to attract more customers, the authority is exploring ways to lower deductibles by allowing people to buy coverage for just half the value of their homes -- a damage threshold that's more than adequate for the vast majority of homeowners. The more properties it insures, however, the greater its exposure should catastrophe strike. The same is true for other states' insurance programs for homes threatened by hurricanes; such programs aren't designed to handle devastation on an epic scale.

That's why it makes sense for the federal government to help states create a financial backstop for their programs, rather than routinely providing billions in disaster relief. Congress has flirted with the idea of a national reinsurance fund for more than two decades, and there are several competing approaches that could help manage risks and make policies more affordable for homeowners. Lawmakers should make this issue a priority, while also minding the need to discourage bad development decisions. Providing better access to insurance should go hand in hand with encouraging more responsible choices about where and how to build.