Questions & Answers – Earthquake Coverage

Question: If the master policy covers leaks or fire damage resulting from the earthquake, would the EQ insurance kick in at all? It is a question of what caused the actual damage. If the actual damage was caused by the earthquake, earthquake insurance pays. If the actual damage is done by fire then fire insurance pays. If an earthquake strikes and it breaks the gas line, and then the building burns down from a gas leak, the actual cause is a fire so the HOA master policy pays the claim.

Question: How is partial loss handled? Is deductible applied whether to total or partial loss amount? Yes the deductible must be paid first before any damage is paid for by the insurance company. If there is $10 million in damage and a $5 million deductible the HOA will pay the first $5 million and then the insurance company pays the next $5 million.

Question: Do banks give loans to HOAs that have EQ policies in cases where the association cannot get every member to pay the assessment?
YES – In 1994 banks stepped in and provided loans to associations THAT HAD EQ INSURANCE to cover their deductible.

Question: Is the association vulnerable by using a non-admitted carrier? It's about the financial stability of the carrier. While it can be a natural assumption that non-admitted carriers are riskier than admitted companies, that isn't always the case. Since non-admitted carriers have greater flexibility in pricing their premiums, they can set rates high enough to fund the additional risks they may take. The financial risk a company takes is reflected by its financial rating. The AM Best Company ratings agency assesses the risk of insurers and assigns letter grades for easy comparison, with the most solvent insurers garnering a grade of A – A++.

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