Insurers Hatch Another Scheme

■ Quake coverage: A new state agency fronting for the industry would leave homeowners adrift.

By HARVEY ROSENFIELD

Insurance companies view coverage for natural disasters the way bank robbers look at banks: Get in, grab the money and get out.

For example, hours before Hurricane Andrew ripped into the Florida coast in 1992, causing 89 deaths, displacing 250,000 residents and causing $15.5 billion in property damage, the CEO of AIG Insurance Co. ordered his employees to get ready—to make some extra money. "This is an opportunity to get price increases now. Get it moving today," his internal memo beseeched. Later, when the magnitude of the disaster became apparent, insurance companies tried to cancel homeowners' insurance policies until the insurers were stopped by state regulators.

That's why no one should be surprised that the insurance industry has treated the Northridge earthquake as an excuse to orchestrate a $39-billion heist from consumers and the state treasury.

In the 24 years prior to the Northridge earthquake, insurance companies collected billions of dollars in premiums and interest on homeowner and earthquake coverage, paying out a tiny fraction of that for a dozen or so minor quakes during that time. Until Jan. 17, 1994, homeowner and earthquake coverage was wildly lucrative for insurance companies. But from that day on, the insurance companies reacted as if no one had told them there might someday be a serious earthquake in Southern California.

Initially, insurers sought only extravagant increases in premiums. But six months after the quake, State Farm announced that a "crisis" had arrived and that it could no longer afford to sell homeowners' insurance policies if it also had to sell earthquake coverage, as California law requires. Other big insurers—collectively responsible for 60% of all homeowners' policies in California—got the message and issued similar edicts.

Using homeowners as hostages, the state's largest insurance companies then pushed the Legislature to approve the sale of a so-called earthquake "mini-policy." Few policyholders are aware that their earthquake coverage now contains a deductible equal to 15% of the value of the house—$35,000 for the average homeowner in California. With the exception of the worst quakes, homeowners will get no money from their policy; the average Northridge loss was $22,000. The mini-policy no longer covers garages or pools; insurance companies need only pay a total of $5,000 for the loss of a lifetime of personal possessions. Perhaps most insidious of all, the Legislature allowed insurers to cut the coverage for emergency living expenses from unlimited reimbursement to $1,500. Consumers who are unable to inhabit their homes because of quake damage will either have to accept a low-ball offer from their insurer or pay out of their own pocket for someplace else to live while they try to force the insurance company to pay the fair cost of repairing their home. Industry officials admit that the mini-policy has cut their risk by at least 50%. Yet Insurance Commissioner Chuck Quackenbush has not used his authority under Proposition 103 to order premium reductions.

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But even the mini-policy's virtually worthless coverage is threatened by the greed of the big insurance companies, which won't be satisfied until they have absolutely no responsibility to cover California homeowners against earthquakes. Allstate, State Farm and Farmers and their Sacramento allies want to create a new state agency, an earthquake authority, to provide earthquake insurance, replacing private insurers.

The pending legislation would require residential policyholders and ultimately California taxpayers to bear virtually the entire cost of earthquakes. If the state agency had insufficient funds to cover all claims, it would pay homeowners only a percentage of what they are entitled to. Shortfalls would be made up by annual surcharges on policies issued through this authority. A homeowner could end up paying more in surcharges to the state than what was received in payments.

However, the legislation insures the private insurance industry's profits; insurance agents will get a 10% commission to sell us these government-backed earthquake policies; insurance companies get to keep 6% of the annual premium as a "service charge." Meanwhile, insurers have rigged this legislation so that the more money policyholders pay, the less insurers would have to cough up in the event of a major quake. To make sure the price is high, the legislation repeals Proposition 103's rate controls, allowing an industry-dominated committee to set the state agency's premiums without the public oversight and financial disclosure that 103 requires.

This is corporate welfare of the worst sort. But ideological considerations don't apply when insurance companies throw around big bucks in Sacramento. Republicans and Quackenbush who in the name of the "free market" ordinarily rail against any form of government regulation, are leading the campaign for creation of the state agency.

In June, Quackenbush blocked desperate homeowners from obtaining insurance through the California FAIR Plan, a pooling arrangement in which California insurers must participate.

Rather than permit the industry to cavalierly dodge the needs of the California economy, our elected officials should force insurers to cover homeowners for all disasters as a condition of doing business in California. If they refuse, justifying the contention that only a government agency can protect homeowners against such losses, then lawmakers ought to draft a bill that puts the needs of consumers before the profits of the industry.

Harvey Rosenfield is the author of Proposition 103 and a proponent of Proposition 216, the HMO reform bill on the November ballot.