

Does Earthquake Insurance provide protection or, a false sense of peace of mind to BV homeowners? You decide! *By Lowell Morrow & Jim Carter BV homeowners and retired insurance executives*

This communication is an effort to inform BV homeowners of the reality of Earthquake Insurance (EQ) and, to ask you as the homeowner, since you are paying for this insurance, if you feel the potential benefit is worth the cost. In our research we found that many HOA's have dropped EQ Insurance in recent years as the premium costs have skyrocketed and the coverage amounts have dropped dramatically (*see BVCA coverage and cost history included*).

THIS IS OUR EXPOSURE: To understand EQ Insurance as it pertains to BVCA we must first make some average approximations/assumptions: There are 182 separate buildings in BV and each building has a separate 20% deductible under the EQ policy. Estimating that each of our 374 homes average 2000sf and using \$150 per SF for demo/replacement cost of a damaged structure we have an estimated \$110 million in building value in BVCA. In addition, we have the cost to repair/replace roads, sidewalks, pools and other infrastructure so it is safe to say that we have about \$125,000,000 (million) in insurable property. Fortunately for us, BVCA is of wood frame construction which will sustain less damage than stucco or brick construction but, in a major earthquake the real cost comes from foundation structural damage.

A LOOK AT OUR EQ COVERAGE: Currently, we have only \$5 million in total BVCA EQ Insurance coverage with a 20% deductible for EACH of the 182 buildings in BV. The 20% deductible per building is a homeowner responsibility to pay in the event of a loss and must be paid before the EQ insurance company will pay on the EQ insurance policy. Considering a moderate earthquake, that resulted in approximately \$100,000 in damage per building (not per unit) that would total \$18,000,000 in EQ damage loss to BVCA. To pay for these repairs each of the 374 BV homeowners would be responsible for almost \$10,000 out of pocket for the deductible (totals \$3,600,000); the EQ policy would only then pay \$5,000,000 for a grand total of \$8,600,000 toward the \$18,000,000 total loss. The remaining \$9,400,000 would also need to be paid by BV homeowners which equates to an additional \$26,000 for each of the 374 BV homeowners in addition to the \$10,000 deductible out-of-pocket mentioned above totaling \$36,000 out of homeowner pockets. Remember, this calculation is based upon a moderate amount of damage of only \$100,000 per building which range from 1 to 3 units each; it does not include homeowner interior finishes or contents which are also homeowner responsibility.

In a stronger quake we can all do the extrapolation of math in the event the total damage loss were \$150,000 per building with the same \$5,000,000 EQ policy each homeowners out-of-pocket would be \$65,000 and; at \$200,000 loss per building each homeowners out-of-pocket would be \$94,000; etc.

Let's consider what that EQ policy is costing each BV homeowner. In 2009 we paid \$107,000 premium which equates to \$24 per month per BV homeowner. The BOD does not know what the EQ premiums will be this year as policy renewal does not come due until NOV but judging from the history trend (*see chart*) the premiums will likely be higher and the coverage less. \$5M in EQ insurance compared to a \$125M insurable property replacement value represents only 4% coverage (*thus, BVCA is 96% uninsured for EQ*).

Analogy: This is like insuring a \$50K Lexus for \$2K in case of an accident (4% of its value; 96% uninsured).

Ask yourself, what am I really getting for my money; does paying over \$100,000 annually in EQ insurance premium for a \$5,000,000 EQ Insurance policy provide me real protection?

BVCA Homeowners are asked to share your view, let your voice be heard.

THE DECISION FOR BVCA TO CARRY EARTHQUAKE INSURANCE (EQ) OR NOT TO CARRY EQ INSURANCE SHOULD BE DECIDED WITH HOMEOWNER INPUT. For something so costly and limited in what it provides for homeowners the BOD wants to act based upon how BV homeowners want their money spent. In order to make this important decision the BOD is asking YOU to express your choice and the BOD will take into consideration what the responding homeowners express. *This is a non-binding vote but the BOD wants to involve homeowners in the governance of your community and this major “discretionary” cost decision.*

Please tell your BOD if you would like to continue to pay for limited EQ insurance coverage or not: *please vote for one...*

_____ **NO**, I do not see the benefit, *based upon the cost*, of carrying limited Earthquake Insurance and support it NOT being renewed. I would prefer that the \$24 per month that EQ insurance has cost as part of my \$393 assessment be used to lower my monthly assessment by \$24 beginning DEC 2010.

_____ **YES**, I support continuing to renew Earthquake Insurance. I realize that premiums may increase above the \$24 per month now paid and the increase possibly reflected in my monthly assessment and/or that policy coverage amounts may be reduced from current levels to maintain current assessment levels.

Please return your vote of preference NLT **July 12, 2010** to PCM 23726 Birtcher Dr. Lake Forest, CA 92630 or fax to: 949-206-2332. *For your vote to be considered please complete the following:*

_____ - _____ street number

_____ street name

print homeowner last name _____; _____ signature