

# Earthquake Insurance: A Longitudinal Study of California Homeowners

## Abstract

This longitudinal study examines the factors that influence homeowners' decisions to purchase earthquake insurance in California. The study uses data from a survey of California homeowners conducted in 2014 and 2018. The results show that the most important factors influencing homeowners' decisions to purchase earthquake insurance are their perceived risk of an earthquake, their financial resources, and their beliefs about the effectiveness of earthquake insurance.

Earthquakes are a major natural hazard in California. The state has experienced a number of large earthquakes in recent years, including the 1994 Northridge earthquake, the 2003 San Simeon earthquake, and the 2014 South Napa earthquake. These earthquakes have caused billions of dollars in damage and have resulted in the loss of life.



## Earthquake Insurance: A Longitudinal Study Of California Homeowners by Risa Palm

★★★★★ 5 out of 5

Language : English  
File size : 3986 KB  
Text-to-Speech : Enabled  
Screen Reader : Supported  
Enhanced typesetting : Enabled  
Word Wise : Enabled  
Print length : 156 pages



Despite the risk of earthquakes, only about 10% of California homeowners have earthquake insurance. This is a surprisingly low number, given the potential financial devastation that an earthquake can cause. There are a number of factors that may contribute to this low level of insurance coverage, including the high cost of earthquake insurance, the belief that earthquakes are unlikely to occur, and the lack of awareness of the benefits of earthquake insurance.

This study examines the factors that influence homeowners' decisions to purchase earthquake insurance in California. The study uses data from a survey of California homeowners conducted in 2014 and 2018. The results of the study provide insights into the factors that are most important to homeowners when they are making decisions about earthquake insurance.

## **Methods**

The data for this study come from a survey of California homeowners conducted in 2014 and 2018. The survey was conducted by the Public Policy Institute of California (PPIC) and the RAND Corporation. The survey included questions about homeowners' earthquake insurance coverage, their perceived risk of an earthquake, their financial resources, and their beliefs about the effectiveness of earthquake insurance.

The survey was conducted by mail and online. A total of 1,500 homeowners were surveyed in 2014 and 1,000 homeowners were surveyed in 2018. The response rate was 55% in 2014 and 60% in 2018.

## **Results**

The results of the survey show that the most important factors influencing homeowners' decisions to purchase earthquake insurance are their

perceived risk of an earthquake, their financial resources, and their beliefs about the effectiveness of earthquake insurance.

### **Perceived risk of an earthquake**

The perceived risk of an earthquake is the most important factor influencing homeowners' decisions to purchase earthquake insurance. Homeowners who believe that they are at high risk of experiencing an earthquake are more likely to purchase earthquake insurance than homeowners who believe that they are at low risk.

In the 2014 survey, 55% of homeowners said that they were at high risk of experiencing an earthquake. This number increased to 62% in the 2018 survey. The increase in perceived risk is likely due to the occurrence of several large earthquakes in California in recent years.

### **Financial resources**

Financial resources are also an important factor influencing homeowners' decisions to purchase earthquake insurance. Homeowners who have more financial resources are more likely to purchase earthquake insurance than homeowners who have fewer financial resources.

In the 2014 survey, 52% of homeowners said that they could afford to pay for the cost of rebuilding their home if it were damaged in an earthquake. This number decreased to 48% in the 2018 survey. The decrease is likely due to the rising cost of housing in California.

### **Beliefs about the effectiveness of earthquake insurance**

Homeowners' beliefs about the effectiveness of earthquake insurance also influence their decisions to purchase earthquake insurance. Homeowners who believe that earthquake insurance is effective are more likely to purchase earthquake insurance than homeowners who believe that earthquake insurance is not effective.

In the 2014 survey, 65% of homeowners said that they believed that earthquake insurance is effective. This number increased to 70% in the 2018 survey. The increase is likely due to the efforts of insurance companies and other organizations to educate homeowners about the benefits of earthquake insurance.

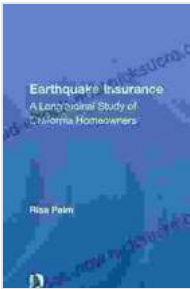
## **Discussion**

The results of this study show that the most important factors influencing homeowners' decisions to purchase earthquake insurance in California are their perceived risk of an earthquake, their financial resources, and their beliefs about the effectiveness of earthquake insurance.

These findings suggest that homeowners are more likely to purchase earthquake insurance if they believe that they are at high risk of experiencing an earthquake, if they have the financial resources to pay for the cost of earthquake insurance, and if they believe that earthquake insurance is effective.

These findings have several implications for policymakers and insurance companies. First, policymakers should focus on educating homeowners about the risk of earthquakes and the benefits of earthquake insurance. Second, insurance companies should offer affordable earthquake insurance policies that meet the needs of homeowners.

This study provides insights into the factors that influence homeowners' decisions to purchase earthquake insurance in California. The study's findings can help policymakers and insurance companies develop strategies to increase the number of homeowners who have earthquake insurance.



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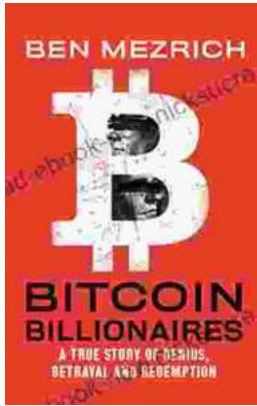
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