



Navigating Property Insurance for Earthquake-Prone
Condos and Apartments:

A Decision- Maker's Guide



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This comprehensive guide is designed to provide valuable information on protecting your property, choosing the right coverage, and mitigating risks in earthquake-prone regions. With over 25 years of catastrophe insurance experience, ICAT is here to help you safeguard your investment.

DOES COMMERCIAL PROPERTY INSURANCE COVER DAMAGE CAUSED BY EARTHQUAKES?

Commercial property insurance provides protection for your property against various risks, including fire and theft. However, in earthquake-prone regions, you likely need additional coverage for damages caused by earthquakes and potential loss of income. Standard commercial property insurance often does not include

earthquake coverage, making it essential for condo and apartment building owners in these areas to secure this additional protection.

ICAT offers Earthquake coverage to habitational property owners in earthquake-prone regions.

HOW DOES EARTHQUAKE COVERAGE WORK?

Unlike traditional commercial property insurance policies, earthquake insurance covers:

- Structural damage to your building caused by seismic activity.
- Business interruptions due to necessary repairs after an earthquake.
- Additional coverage for damage to pools, fences etc.

ICAT makes it easy by offering additional coverage specific to the risks associated with earthquakes for condo and apartment building owners. For example, commercial property owners often need coverages such as Business Income, Business Personal Property (BPP)/ Tenants Improvements and Betterments (TIB), Earthquake Sprinkler Leakage, Additional Property Coverage (signs, pools, fences, etc.) and more to ensure they are adequately protected. ICAT offers commercial earthquake coverage to commercial property owners in earthquake-prone regions of the United States.



FACT: Nearly 75 percent of the U.S. could experience damaging earthquake shaking, according to a recent U.S. Geological Survey-led team of 50+ scientists and engineers.¹

WHAT'S THE DIFFERENCE BETWEEN REPLACEMENT COST AND ACTUAL CASH VALUE COVERAGE?

Replacement Cost Coverage: This pays for the amount needed to replace your property with a new one of the same type and quality at current prices.

Actual Cash Value Coverage: This pays the replacement cost minus depreciation, which is the decrease in value over time. If you have this type of coverage, it might not be enough to fully rebuild your property.



HOW ARE MY EARTHQUAKE DEDUCTIBLES SET AND HOW DO THEY WORK?

Earthquake insurance deductibles are typically calculated as a percentage of the total insured value of the property. Here's how it generally works:

- 1. Percentage-Based Deductibles:** Most earthquake insurance policies have deductibles that range from 2% to 20% of the total insured value. For example, if your property is insured for \$1,000,000 and you have a 10% deductible, you would need to pay \$100,000 out of pocket before your insurance coverage kicks in for earthquake-related damages.
- 2. Flat Dollar Deductibles:** In some cases, policies may offer a flat dollar amount as a deductible, though this is less common for earthquake coverage.
- 3. Location and Risk Factors:** The specific percentage can vary based on factors such as the property's location, the level of seismic risk in that area, and the insurance carrier's underwriting guidelines. Properties in higher-risk areas may have higher deductibles. Construction class can also play a big role in how the deductible and premium is determined.
- 4. Policy Terms:** Always review the specific terms of your policy, as deductibles can differ significantly between insurers and policies.

It's essential to discuss your options with your insurance agent to understand how deductibles will affect your coverage and potential out-of-pocket costs in the event of an earthquake.

HOW DO I KNOW IF I HAVE ENOUGH COVERAGE?

Understanding how much coverage you need is crucial, especially in states prone to natural disasters like earthquakes. Work with your agent to evaluate not just the value of your property but also the contents, the cost to rebuild, and potential loss of income due to closure for repairs. Many condo and apartment building owners don't realize they might be underinsured.



Are you underinsured? A recent study revealed 90% of buildings studied were underinsured, with 68% of the buildings valued from 2020 to 2021 underinsured by 25% or more!²

Consequences of undervaluation

Consequences of undervaluation include the property owner having to pay out of pocket for rebuilding. Insurance to Value (ITV) considers the property value and other factors such as inflation, materials, and service costs to determine the coverage needed in the event of a loss. It is important to review your policy annually to ensure that the coverage is updated based on changes to your business or property, such as an increase in business income, renovations, or an increase in property value. The example below shows how undervaluation can impact out-of-pocket costs for an apartment or condo building owner.

EXAMPLE	SUBMITTED	ACCURATE
Building Value	2,000,000	2,750,000
Premium	15,000	20,625
Loss Amount	2,500,000	2,500,000
Uninsured Loss	500,000	0
Out of Pocket Cost (premium + deductible + uninsured loss)	575,000	103,125



HOW DOES BUSINESS INCOME COVERAGE WORK?

Business Income (BI) covers the reduction in an organization's income when operations are interrupted by damage to property caused by a covered peril. Because the severity of a BI loss is directly related to the length of time required to restore the property, BI coverage is considered a "time element" coverage. In most cases, if your building is damaged in an earthquake and you must rebuild, the loss of income and cost of ongoing expenses would not be covered unless you had business income coverage on an earthquake policy.

Visit ICAT's [Tools & Resources Library](#) to download ICAT's Understanding Business Income brochure, as well as other helpful educational tools.

HOW CAN I MITIGATE RISK FROM EARTHQUAKES?

Mitigating risk from earthquakes is crucial for commercial property owners, especially in high-risk areas. Here are several strategies to consider:

- **Structural Reinforcement:** Retrofit buildings to meet seismic codes and strengthen foundations.
- **Earthquake Insurance:** Purchase comprehensive earthquake and business income insurance to cover potential damages and income loss.
- **Emergency Preparedness:** Develop and regularly update an emergency response plan, including evacuation routes and employee training.
- **Secure Contents:** Anchor heavy furniture and equipment to prevent tipping during an earthquake.
- **Regular Inspections:** Conduct routine building inspections to identify and address structural weaknesses.

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ICAT and Victor provide commercial property insurance solutions to meet your needs.

Contact your agent to get a quote today!

www.icat.com

www.victorinsurance.com

1. USGS "New USGS map shows where damaging earthquakes are most likely to occur in US" Jan.16, 2024. [https://www.usgs.gov/news/national-news-release/new-usgs-map-shows-where-damaging-earthquakes-are-most-likely-occur-us#:~:text=%E2%80%93%20Nearly%2075%20percent%20of%20the,Seismic%20Hazard%20Model%20\(NSHM\)](https://www.usgs.gov/news/national-news-release/new-usgs-map-shows-where-damaging-earthquakes-are-most-likely-occur-us#:~:text=%E2%80%93%20Nearly%2075%20percent%20of%20the,Seismic%20Hazard%20Model%20(NSHM)).

2. Insurance Information Institute. (2024, December 19). Commercial property insurance shows signs of improvement, stable growth, says new Triple-I brief. <https://www.iii.org/press-release/commercial-property-insurance-shows-signs-of-improvement-stable-growth-says-new-triple-i-brief-121924>

This document is for illustrative purposes only and is not a contract. It is intended to provide a general overview of the program described. Please remember only the insurance policy can give actual terms, coverage, amounts, conditions and exclusions. Program availability and coverage are subject to individual underwriting criteria.

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