



Commercial Insurance Survival Guide for Office Owners in Earthquake-Prone Regions

Your guide to commercial earthquake insurance



Nearly 75% of the US could experience damaging earthquake shaking, according to a recent US Geological Survey-led team of 50+ scientists and engineers.¹



Welcome to the Commercial Insurance Survival Guide for Office Owners. This comprehensive guide is designed to provide valuable information on protecting your property, choosing the right coverage, and mitigating risks in areas prone to earthquakes. With ICAT's expertise in earthquake insurance, we are here to help you safeguard your office investment.

Does commercial property insurance cover damage caused by earthquakes?

Commercial property insurance protects your business against property damage claims, but standard policies often exclude earthquake damage. To ensure your business is protected from seismic events, you will need to purchase additional earthquake coverage. This coverage is essential for businesses located in high-risk earthquake zones.

How does earthquake coverage work?

Unlike a traditional commercial property insurance policies, earthquake insurance often covers:

- › **Structural damage** to your building caused by seismic activity.
- › **Business interruptions** due to necessary repairs after an earthquake.
- › **Contents coverage** for damage to office equipment, furniture, and inventory.

ICAT makes it easy by offering additional coverage specific to the risks associated with earthquakes for office owners. For example, offices 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.

We recommend talking to your agent to ensure you're properly covered.

What's the difference between Replacement Cost and Actual Cash Value coverage?

- › **Replacement cost coverage** refers to the amount of money that an entity would need to spend to replace an asset with another asset of the same type and functionality at current market prices.
- › **Actual cash value coverage** pays replacement cost minus depreciation. Depreciation is a decrease in value because of wear and tear or age. If you have actual cash value coverage, the policy might not pay enough to fully rebuild your business.

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.



According to a 2023 survey, 75% of small businesses in the United States are underinsured. Many business owners buy a policy when they're just starting out but don't update it as their business grows.²

How do I know if I have enough coverage?

Understanding accurate valuation is an important part of determining how much insurance you need. Work with your agent to ensure you're considering not just the value of property, but also the contents, the cost to rebuild, loss of income and more.

Consequences of undervaluation include the property owner having to pay out of pocket to rebuild. Insurance to Value (ITV), considers the property value along with other factors, such as inflation, materials, and service costs to replace the property should a loss occur. 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 business growth, a new roof, an increase in property value, and more. The example below shows how undervaluation can impact out-of-pocket cost for an office owner.

ITV Calculation Example

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 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.

By focusing on these key areas, property owners can significantly enhance their resilience against earthquakes. Visit [icat.com](https://www.icat.com) to view a library or resources on risk mitigation and preparedness.



Over 70% of small business owners don't understand what their business insurance covers.

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\[INSHM\]](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[INSHM])¹

² Sill. "Most small businesses fail in first 6 hours after a fire, how a public adjuster may help save your business" Nov. 9, 2023. <https://www.sill.com/latest-news/posts/most-small-businesses-fail-in-first-6-hours-after-a-fire-how-a-public-adjuster-may-help-save-your-business/#:~:text=FEMA%20says%2040%25%20of%20businesses,25%25%20fail%20within%20a%20yea>

³ Hiscox. "Three in Four Small US Businesses Underinsured." Insurance Business America, Oct. 12, 2023, <https://www.insurancebusinessmag.com/us/news/sme/three-in-four-small-us-businesses-underinsured--hiscox-462866.aspx#:~:text=Majority%20do%20not%20understand%20what%20business%20insurance%20covers&text=A%20new%20>

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