



## CLIENT ADVISORY

### Property - Casualty Insurance

February, 2010

## Earthquake Risk in Savannah: *You Must Be Kidding Me!*

Leave it to an insurance broker to be concerned about earthquakes hitting our local area. Anticipating risk is the basis of the insurance business so relating events such as the recent earthquakes in Haiti and Chile to our environment is simply a professional habit.

### Earthquake Risk Overview

Savannah has a higher risk exposure to earthquake activity than one might imagine. The U.S. Geological Service reports that Georgia has experienced more than a dozen earthquakes in the last 125 years, the most recent occurring in 2003. Savannah has experienced four earthquakes during that same period, one of which caused buildings to collapse and dozens of chimneys to topple.

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#### FACT:

Earthquakes have occurred in 39 states and caused damage in all 50.

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In 1886, Charleston was devastated by a massive earthquake and much of Georgia felt its tremors. Seventy-two nautical miles from the earthquake's epicenter, the six foot thick walls of the Tybee Lighthouse cracked and its one ton lens moved an inch and half to the northeast.

In 1903, an earthquake of intensity VI on the Mercalli Intensity Scale struck Savannah. Nine years later, an earthquake of intensity V struck Savannah. Neither earthquake caused any notable damage.

In 2002, an earthquake shook residents from Charleston to Columbia and as far south as Savannah. The center of the quake was located in the Atlantic, 16 miles southeast of Seabrook Island and registered 4.2 on the Richter Scale. According to news reports in Savannah, the rumbling lasted 15 seconds.

While the United States experiences only two percent of the world's earthquakes, some 90 percent of its population lives in seismically active areas. According to the Insurance Information Institute, earthquakes have occurred in 39 states and caused damage in all 50 states. The largest earthquake to occur in the Eastern United States was the 7.5 temblor that struck Charleston in 1886.

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**CONSIDERATION:**

Evaluate your exposure to loss of profits caused by earthquake damage to key suppliers located on the West Coast, the New Madrid Fault Line and even Charleston.

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Building codes for hurricanes are much more stringent than earthquake codes, therefore Savannah's newer homes would fare well during earthquake activity. Many of Savannah's historic homes would survive better than expected as steel beams were frequently used in construction during the 1800s to protect against earthquakes. After the Charleston earthquake, many buildings in Savannah were retrofitted with "earthquake bolts" to reinforce the structures, many of which can still be seen in Savannah's downtown buildings.

**Key Facts to Consider**

If you are questioning your business' exposure to earthquake risk, here are a few key facts to consider. First, earthquakes are not covered under standard commercial property policies (or homeowner policies for that matter). Coverage is usually provided by an endorsement to existing property coverage or as a supplemental policy. Although earthquake coverage is not automatically included, ensuing damage such as fire caused by earthquake activity is covered.

Earthquake limits and deductibles vary based on location and total values exposed in a single area. For properties outside earthquake zones, such as Chatham County, typically a \$1,000,000 sublimit is provided and deductibles are usually a flat dollar amount ranging around \$10,000 to \$50,000. Deductibles for properties in high risk zones such as California and New Madrid typically range from 2 percent to 20 percent of the structure's replacement value with a minimum deductible of around \$50,000.

Earthquake insurance rates are determined differently by each insurance company and can vary widely depending on factors such as location, materials, and construction classification. For low risk zones, some insurance companies will include earthquake coverage with a separate sub-limit and deductible at no additional cost. Generally, older buildings cost more to insure than new ones. Wood frame structures usually benefit from lower rates than brick buildings because they tend to withstand quake stresses better.

**Contingent Business Interruption**

Even if you are comfortable self-insuring the earthquake risk exposure for operations, evaluate your exposure to loss of profits caused by earthquake damage to key suppliers located on the West Coast, the New Madrid Fault Line (*Arkansas through Missouri, including parts of Tennessee, Kentucky and Illinois*) and even Charleston. We do not have to experience an earthquake in Savannah to feel the pain of one.

As a reminder, in the years following the Northridge earthquake in 1994, more than 30 percent of Californians purchased earthquake insurance. Today, less than 12 percent purchase this coverage. Time may diminish the perceived need, but the risk remains.

*This notice is provided as information only and should not be considered a legal opinion. If you have questions about this Client Advisory, please contact Seacrest Partners at 912-544-1900.*