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Senate Subcommittee on Earthquake Insurance

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Hearing on
THE LOMA PRIETA EARTHQUAKE:
AN EXAMINATION
OF EARTHQUAKE INSURANCE
PROPERTY DAMAGE

December 8, 1989
Santa Cruz City Hall
Santa Cruz, California
CALIFORNIA LEGISLATURE

SENATE SUBCOMMITTEE ON EARTHQUAKE INSURANCE

SENATOR CECIL GREEN, CHAIRMAN

HEARING ON
THE LOMA PRIETA EARTHQUAKE:
AN EXAMINATION OF EARTHQUAKE INSURANCE
PROPERTY DAMAGE

December 8, 1989
Santa Cruz City Hall
Santa Cruz, California
California Legislature

SENATE COMMITTEE ON INSURANCE, CLAIMS AND CORPORATIONS

ALAN ROBBINS
CHAIRMAN

SUBCOMMITTEE ON EARTHQUAKE INSURANCE
CECIL GREEN, CHAIR
December 8, 1989
9:00 a.m. - 12:00 noon
SANTA CRUZ CITY HALL
809 Center Street, Santa Cruz

AGENDA


I. CALL TO ORDER

A. Opening Statement by Senator Cecil Green
B. Remarks by Senator Henry Mello

II. PERSPECTIVES

A. Homeowners and Business Owners

Hillard Rose - Santa Cruz
Al Stevens - Santa Cruz
Ann Coonerty - Santa Cruz
Orrin Stuart - Soquel
Bob Bailey - Aptos

B. The Local Insurance Marketplace

Charlie Palmtag - Watsonville
Independent Insurance Agents & Brokers of California

C. Local Government

Ron Whip, Risk Manager
County of Santa Cruz
Luther Perry, Director
Santa Cruz County Housing Task Force
III. REGULATORY ROLE - California Department of Insurance
David Stolls, Chief of Claims Services Bureau
Linda Yarber, Senior Insurance Policy Officer

IV. INSURANCE COMPANIES AND TRADE ASSOCIATIONS
A. Association of California Insurance Companies
   Sonja Larkin-Thorne, Vice President of Personal Lines
   John Blakely, Regional Vice President
   Allstate Insurance Company
B. Personal Insurance Federation of California
   Dan Dunmoyer, Vice President of Legislative Policy
   Bill Newlin, Claims Manager Property & Casualty
   State Farm Insurance Companies
C. California State Automobile Association
   Barry Shiller, Manager of Governmental Affairs
D. National Association of Independent Insurers
E. Association of American Insurers

V. UNSCHEDULED WITNESSES

VI. CLOSING COMMENTS

VII. ADJOURNMENT
CHAIRMAN CECIL GREEN: Good morning, Ladies and Gentlemen, and welcome to the hearing. As you know, I’m Senator Cecil Green and I’m Chairman of the Subcommittee on Earthquake Insurance. With me today is Senator Mello who represents Santa Cruz area. And, Henry, thank you for coming this morning and having your presence here.

And as Chairman of the Subcommittee and I am pleased to have the opportunity to have the opportunity to hold this hearing in Santa Cruz. I want to thank both the County and particularly Senator Mello’s staff for their assistance in obtaining the witnesses and with the organization of this hearing today at City Hall.

After the Whittier-Narrows Earthquake in 1987, our Subcommittee held hearings in my district and that was on the earthquake coverage issues for insurance. And in order to find solutions to make that coverage more available and more affordable and as to many -- to as many people as possible, I’ve introduced bills on these issues and intend to continue my efforts to develop legislation which solves the major problems that we encounter.

October 17th, 1989 was the day of the Loma Prieta Earthquake. It was exactly one year ago on that day when we held a hearing which focused on developing a catastrophic risk insurance policy as part of homeowners’ and/or business insurance coverage. Some of the insurance industry representatives at that point questioned the concept and suggested a comprehensive federal government approach.

In 1987 the Legislature met in a Special Session after the Whittier Earthquake and in '89 we had to do it again. We passed numerous disaster relief bills and will spend billions of dollars.

But what about people who had coverage or now want to buy coverage? How can government and the private sector, and working together, make certain that what people pay for helps them after a devastating earthquake? There may be no perfect solution, but I am aware of some of the important factors we need to include in the overall solution.

In conducting this hearing today, we want to examine some of the problems which homeowners and business people of this area faced, and that’s including a perspective
from local insurance agents and brokers and from city and county officials. Each of them have been given a series of questions on which to focus their testimony.

We have asked the Department of Insurance to tell us what their inquiries were from the insurance-buying public. Were there complaints, how many and how were they resolved?

But finally, we will hear from the insurance companies and since this is a fact-finding hearing, we developed a list of 17 questions from which the companies will focus their testimony regarding response to claims, to coverage, to premiums collected, and many more on that list.

We don't have all the answers. And what we want to do is to find solutions which will work. And we have with us here today Senator Henry Mello and please at this time, Henry, would you like to make a statement?

SENATOR HENRY MELLO: Thank you very much, Senator Green. I want to thank you for bringing the hearing here to Santa Cruz and I want to thank you for coming here and I want to welcome all the guests that are here today and members of the staff.

This is a very important hearing and certainly Cecil Green -- Senator Green has provided leadership in this area, himself having experienced a devastating earthquake down in his own district. And now we’re here where Santa Cruz County was the epicenter of the Loma Prieta Earthquake and certainly damage here in the city of Santa Cruz and Watsonville where we lost our nearly entire main commercial areas of these two cities, as well as many, many dwellings.

I’ve had a lot of calls from people about earthquake insurance and I only know just a few that, number one, that had it, and only a few that collected it because I think the problem is -- that’s what I hope Senator Green can address, is the high cost of the insurance, number one. Number two, the high deductible that is on the -- usually on the policy. I don’t know of any policies that are written with no deductible. But if they did, I imagine the rates would be even more higher than they are right now.

So the median cost of homes in this area is about $250,000, so if you have a ten percent deductible based on the price of the home, you’re looking at $25,000-worth of damage. And many homes suffered far worse damage than that, but they were the older homes that were not on reinforced and concrete foundations.

One thing that spoke well, I think, for our ability in the last three or four decades, was to improve upon the building codes. Most of the buildings that were built with the most recent codes were able to withstand this devastating shock. So I think we just look -- have to look to ways in which we can build better buildings and stronger and also retrofit those that remain standing here.

But the main issue is it just wipes out a person’s resources. I know family after
family that don't have the ability to rebuild what they lost and certainly earthquake insurance hasn't been at all effective, only to a few that had it. And I think the ones that did have it were, because of lenders, requiring earthquake insurance as a package of granting a loan. So they were -- they were protected in the event that damage exceeded, you know, ten or twenty percent.

But my hope is that Senator Green and this Committee that we're looking to for leadership can provide a broader base of earthquake insurance at lower cost and spread the risk as broadly as possible and make it more affordable and make it effective so that we can get coverage.

We're living right in -- this area here is right on the San Andreas Fault, but that doesn't mean we're all alone. There's other faults -- the Hayward Fault, other faults. The entire state of California has earthquake faults and so do 38 states in the whole United States have very serious earthquake faults, as well as many countries.

So, Cecil, I want to thank you again and I know that with your leadership and the -- I think the need for moving forward will come about very soon.

CHAIRMAN GREEN: Thank you, Henry, and today we'll be taking testimony here and then next week we'll be in San Francisco taking testimony there. And then in February, the plan is to revisit the city of Whittier for a hearing down there to find facts of two years later. And at that point, we have already amassed enough documentation and in all probability, if the time plan and we are able to put the report together, we'll do a report in February in the local area of Whittier announcing what we can do on this devastating damage of an earthquake.

We do have some concept and ideas of what can be done now with the risk pool. But we're hopeful in our hearing's today and next week in San Francisco, we'll be able to put together a plan and that plan will be discussed and we'll be back probably in Whittier in February. So we're moving along quite rapidly and I'm hoping that maybe this year we'll be able to introduce legislation to be acted on and get something started.

And with that, I want to thank staff and the sergeants and everybody that has organized this meeting. And Sal. You've all done a very, very fine job getting this together today. And let's open with the homeowners. And we have first to testify would be Hillard Rose from Santa Cruz.

MR. HILLARD ROSE: Did you want me here? Is that where you want me?

CHAIRMAN GREEN: Good morning.

MR. ROSE: Good morning. And, Senator, I do want to thank you for coming out to show some interest on the part of the State Legislature. I have quite a lengthy horror story to tell you and therefore, I'd like to emphasize that I do have some positive suggestions based on my experiences and if at any point you feel you've heard enough,
just tell me and I will get to the positive part.

CHAIRMAN GREEN: Well, this is a very important subject and I -- I don’t believe we should muzzle anyone at that microphone because this subject is one that is affecting the entire population of the state of California. And the words that you might say might be that word that would give us the clue as to what can be done in the future.

MR. ROSE: I hope so and I do have some suggestions for you, Sir. Do you want me just to proceed or do you...

CHAIRMAN GREEN: If you would proceed and make it as factual as you can...

MR. ROSE: Succinct.

CHAIRMAN GREEN: ...with as many facts as you can give us.

MR. ROSE: Okay. The wisest thing I have heard said in some time was the person, whoever it was, that indicated disasters don’t just happen, they continue to happen. The frustrations, shock and unhappiness that occurred as a result of the earthquake on the 17th have continued to reverberate and I know that I speak for many, many other people because I’m in contact with other victims.

We are being victimized by the bureaucratic red tape to such a degree. I happen to own my own business. If I did not, I could not possibly cope with what I’ve had to cope with over this period of nearly two months. It’s been an incessant battle to get somebody’s attention to get the moneys needed to do the things that needed to get done and to proceed to rebuild.

The -- I would reserve my comments about FEMA because that’s not what you’re directing your attention to, but let me say that it’s the greatest waste of taxpayer dollars I have ever encountered.

CHAIRMAN GREEN: It’s better here than it was in Whittier two years ago.

MR. ROSE: Well, that may be, Sir, but I -- it still remains a waste of taxpayer dollars and it relates to insurance in the sense that my claim was denied because I had the insurance, which I told them walking in. But that didn’t stop them from sending out inspectors, wasting a tremendous amount of time, demanding proof I owned the house, great amount of time filling out papers and red tape, only to be told the obvious that I had insurance and therefore there was nothing they were going to do for me. That is a great waste of taxpayer dollars and my time.

But let me just start out by saying that the -- on the morning of the 18th, nine o’clock in the morning, I arrived at my insurance agent’s office only to find that it was not open and there were maybe 20, 30 people standing there waiting to talk to the insurance agent because none of us knew what to do. None of us knew how we should proceed. Now I must in all fairness say that the insurance office was damaged. But nonetheless, there was nobody there. There was nobody to answer the phone. There was nobody there all day.
First thing the next morning, which becomes the 19th, the insurance agent was there. Said that he would file an immediate claim for me and he advised me to file with FEMA, which, of course, as we just indicated, was a big waste of time. FEMA, by the way, points to the SBA and that’s all they do for you.

The -- on the -- that was the 19th. By the 23rd no action had been taken. Nothing. I hadn’t heard from the insurance company. Nothing. Nothing occurred. Nobody called me. Nobody had been to my house to the best of my knowledge. I didn’t know what to do. So I complained to the insurance agent. He thereupon called the chief adjuster for the insurance company who said, "Well, they were busy and they would get to me. Did I need some money?" And I said, "Well, yes, I have living expenses." So he did send me a check which was sent out on the 24th and I received it on the 25th for $2,000, which is just an immediate thing.

Well, over the weekend of the 28th and 29th, the adjuster showed up at my house. No notice, no nothing. Left a card -- just a card, saying he had been there. Since I couldn’t live in my home -- by the way, I sustained a $140,000-worth of damage, which I now know. Since I couldn’t live in my home, I wasn’t there.

Now the FEMA inspector had been there within two days. The county inspector had been there within two days. But the insurance people didn’t show up for five or six days and then with no advance notice.

On the -- I took the car the morning of the 30th and tried to get to the adjuster, but he, of course, wasn’t there so that night I was able to talk to him. That was Monday night. And I made an appointment to meet him at the house at 11 o’clock the next day. At 11 o’clock I showed up. No adjuster at 11. No adjuster at 11:30. No adjuster at noon. No adjuster at 12:30. I went back to my place of business. There was a phone call there. He had called to say he couldn’t find my house. Now since he had been there over the weekend and left a card, I thought that was sort of strange. And I then told him I would immediately come back, which I did.

On the 6th, we’re now a week and a half beyond the earthquake, I brought to his house a list of expenses because I needed -- the $2,000 didn’t go very far. And I also was lucky enough to get a builder to come out. And that’s very difficult to get a good builder to come out. And I needed to pay him. So the -- I gave the adjuster the list of expenses and what my builder wanted and so forth.

By the 15th -- now we’re what, three weeks away? Two weeks. November 15th we’re a month away from the earthquake. I was promised that there would be a check. No check arrived. On the 16th I was told there would be a check. No check arrived. On the 17th, I have expenses and the builder is waiting and he won’t do anything without being paid. 17th no check. The 18th no check. On the 20th I called again and they said, "Well, gee you should have it." It did arrive on the 21st. The check -- they had
deposited it in their outbox. In other words, yes, they had cut a check, but they put it in their outbox on Friday night. It didn’t go out until Monday morning. Not really important to them, you see. It just went in their company outbox.

On the 24th I tried to -- well, now this is just before Thanksgiving. Two checks arrived for me. One -- and without any explanation of any kind. I didn’t know what they were. I had asked for a $10,000 advance. I got one check for $8400 and another check for $5400. The one for $5400 was endorsed -- and this is very crucial, what I’m about to say. It was made out to me and my wife and the mortgage holder. Many insurance companies are doing that. And many banks are cooperating. Many are not. Mine did not.

This was the day before Thanksgiving. The builder said, "I need money. I need to be paid. If I’m not paid, I’ve got to go somewhere else and work for another -- another house that will pay me." So I tried -- in fact, I looked at this and I said, "Here’s the check to pay the builder. If I take it over to the mortgage holder -- it was a large bank -- a national bank -- I know what’s going to happen. They’re not going to cash it." So I endorse the check. I put it into my bank. The day after Thanksgiving my bank called me and said, "We won’t accept this check. It’s not endorsed properly." So I went to the mortgage holder. And they said, "Oh, we can’t endorse this check. It has to go to the home office in St. Louis." And I said, "Well, what am I supposed to do?" "Well, gee, I don’t know, we’ll try and help you." So they called. I couldn’t get the check cashed that day because the office was closed in St. Louis. It was open here, but not in St. Louis.

Now we come to Monday. On Monday I try to get the check cashed. No, I’m sorry we can’t cash it because we need a list of damages from the insurance company. I don’t have a list of damages from the insurance company. I don’t even have a list of damages. "Well, I’m sorry then. We can’t -- we can’t endorse the check." "Well, what do you need? What else can I get you?" "Well, we need a complete list of damages. We need to know where the money is going. We want to know that you’re not going to go to South America with the money." It’s a $5,000 check. "We’ve got to have all kinds of documentation." And I said, "You know, you people are a laughing stock because some of the banks around here are cashing these checks without any -- any requirement because they know we’ve got a disaster on our hands." "Well, that’s the way we do things and you’re going to have to do this and you’re going to have to Xerox -- FAX this to us and all this information."

Now these people knew that my house was down because I called them immediately and got an abatement of payment. So this is not a piece of news to them that this was coming. It shouldn’t have been a piece of news to the insurance company. In other words, what I’m starting to tell you here -- I’m building this picture -- that I
couldn’t get anything done because there’s no interplay between the insurance company who says they have to make it out to the mortgage holder and the mortgage holder who refuses to endorse the check because they haven’t got any guarantees that this money is not going to be used for some other purpose. Now everybody is right in this issue. It’s just there’s no cooperation between these entities.

So now this thing finally went on and by really putting pressure and telling these people I was going to testify before this Committee, amazingly, they decided that they would endorse this one check, but nothing more. Then called a meeting with my insurance agent, and the insurance adjuster and the builder, trying to decide what are we going to do? This is going to happen again. How do we avoid this? The builder says, “Look, I need a check by December 1. I need to order materials. I need $30,000 more. What am I -- I can’t -- I can’t continue. Now I need another $30,000.” And I’m saying fine. The agent is saying to the adjuster, “This is what the man needs. How do we get this?” I call the mortgagee and say, “How can we get this cleared?”

Well, I’m standing here -- today is the eighth, I guess it is. I still don’t -- I mean, I got a check. The insurance company forwarded a check. But the mortgagee won’t -- won’t endorse it. What they want to do is they want to get the insurer’s check and then they want to hold the check and wait until it clears and then they will issue me their check.

Now you’ve got to understand that I have a builder here and this builder is now -- he wanted his money December 1st. He gave me until today. And he said, “If I don’t get my money today, I’m going on another project. I’ll see you in six months.” I don’t have that money today. I don’t have the -- I have a check from the insurance company. Now the insurance company issued the check. They, again, issued it on -- because my insurance broker called them and said you’ve got to get this money out. They issued the check on Monday of this week. And I said, “Well, for heaven’s sake,” -- they’re in Monterey, by the way -- “send it next day mail.” Well, the next day comes and no check. “Where is the check?” “Gee, we don’t know.” So there’s tracer numbers. So they give us the tracer numbers, my insurance agent is...

CHAIRMAN GREEN: Well, that kind of -- that kind of testimony -- you’ve made your point.

MR. ROSE: My point is that there’s no cooperation.

CHAIRMAN GREEN: Okay, fine.

MR. ROSE: Then let’s -- let’s get to it. What I’m saying to you is I’ve got to build a house. Now the mortgage holder is saying, “Well, we’re not going to endorse this and we’re not going to let you build until our inspectors come out and we’re going -- our inspector has to see all this stuff. Our inspector has to approve of everything and the moneys have to come to us.” And they are sending a packet of materials, which
I still don't have. Now we're two months from the earthquake. I don't have the packet of materials from them. I don't have the money to pay my builder. I'm sitting here in utter frustration. If my builder walks -- and he has every right to walk -- then it will be another six months perhaps until I can find another builder. In the meantime, I'm out in limbo in a rented place trying to get my life going.

I'm saying there is no cooperation between these people. And the insurance companies have got to find a means and method of cooperating with the mortgage holder -- the mortgage lender -- so that the person who has the property is not in this situation.

I just want to make one other quick comment and that is relative to my business. I sustained about fifteen, twenty-thousand dollars-worth of merchandise that was broken. And another insurance company came to me and I didn't have earthquake insurance on the business and he said, "Well, perhaps we can pay you on some other basis, like loss of electricity." And I said, "Fine," you know, that that's something I was covered for so I couldn't conduct my business. So we go through a whole litany and he wants a complete list and I spent hours and hours getting a list of my property that's broken, not only on this, but in my home. In my particular case, there was $13,000-worth of goods deductible on the -- on my personal goods. But you don't break $13,000-worth of goods in an earthquake. You break dishes, you break, you know, glassware. But you don't break clothes and you don't break soft goods. Pretty hard to come up with $13,000. So it's a ridiculous deductible. It's fine if you have a fire or a flood, but not earthquake.

In terms of the house, it was $19,100 and then I discovered that there's another nineteen-hundred and one -- $1,900 deductible on the appurtenant structures. I didn't realize that before. So I'm something like forty -- $34,000 out-of-pocket, even though I'm insured I'm still $34,000 out of pocket.

The point I wanted to make on the business insurance is the insurance company says, "Well, there's nothing we can do for you because PG&E has not told us and will not tell us why there was a fire at Moss Landing. Was it the earthquake that caused the fire or was it something else?" So here it is two months later and I just had this discussion with them two days ago -- PG&E still has not told the insurance company what caused the fire and because of that I can't get an adjustment of my claim.

So we got a lot of people running around who are making claims about what they are doing for everybody, but the victim turns out to be the homeowner and the business owner because we don't have the money to complete the repairs. We don't have the -- the assurances -- I have no idea what my insurance company is going to pay me. I got a phone call the other day from the insurance adjuster and even my insurance agent couldn't understand what they were talking about and they wanted me to settle the claim.
right then and there and they'd issue me a check. For what? I don't know, you know. It's -- the amount's substantially less than what my builder says it's going to cost. So I'm sitting here -- I'm testifying before you this morning and saying, Senator, I don't know what's going to be paid in claim. I don't know when the money's forthcoming. I don't know when I'm going to be able to rebuild. And we are now two months beyond. Not my fault. I had a builder ready to go within a week.

CHAIRMAN GREEN: This same story I've heard so often in the last two years and so it's -- this is what we're trying to do something about.

MR. ROSE: My pos...

CHAIRMAN GREEN: And we appreciate your coming in this morning and sharing it with us.

MR. ROSE: Thank you. I just want to make one positive suggestion and that is that when you are considering legislation, the lender and the insurance companies must, way in advance of the disaster, be prepared to work together and to get these funds out immediately.

CHAIRMAN GREEN: Yes.

MR. ROSE: Thank you, Sir.

CHAIRMAN GREEN: Thank you very much. Good suggestion.

Next we have Al Stevens from Santa Cruz.

MR. AL STEVENS: Good morning. It's very nice to be here and I thank you to come -- thank you for coming to Santa Cruz. I don't have a horror story for you this morning. I am actually relatively happy with the results that occurred. I -- unlike many people in Santa Cruz, I didn't suffer a devastating loss. I had probably -- and I'm not sure of the exact amount yet -- about $25,000 damage to my house. Not structurally; mostly cosmetic -- tile, chimney, stucco on the outside, driveway cracking and things that -- that are not devastating. I can still live in the house and it is still habitable.

I bought earthquake insurance about a year ago at the suggestion of my agent and it cost me under $300 a year for the earthquake insurance and I have ten percent deductible. I bought it knowing what I was buying and I bought it to prevent the ultimate devastating loss of having to carry another $175,000 mortgage to rebuild my house. I carry it on the structure only and not on -- and not on the lot. The policy is -- will replace my house if it's totally destroyed up to the amount that I put the value on it.

The -- I -- since my house was habitable, it was not an emergency. I didn't rush right down to my insurance agent the next day because I knew they would be swamped with people who were really in serious problems. I waited about a week and called the 800 number that was provided for me and filed a claim. The person I filed the claim with
indicated that someone would be contacting me at a reasonable period of time and I said, "I don't have water coming in the house. I don't have any problems, so do it when you can."

An agent came to my house a couple of weeks later and did an estimate and I have not received yet any reports from the insurance company, so I don't know exactly what his estimates covered. But I went through the house with him and showed him all of the damage. About four days later he cut a check that would cover the amount above my deductible. It will be enough to repair the house, less the deductible and so I am -- I still have earthquake insurance. I'm happy I do. If the deductible could be less, obviously it would be, you know, good for my checking account and my bank account. But I bought it for the purpose of preventing that devastating destruction of, you know, all of my savings and my equity in the house.

CHAIRMAN GREEN: Yeah, what was your deductible?

MR. STEVENS: It was ten percent of...

CHAIRMAN GREEN: Ten percent of the value of the house?

MR. STEVENS: No, ten percent of the value of the insurance policy.

CHAIRMAN GREEN: I see, in other words, so you have a $175,000 policy, it would be $17,500.

MR. STEVENS: That's correct, yes. That wasn't exactly the right numbers, but that is correct.

CHAIRMAN GREEN: Well, that's then would be the way you would figure ten percent of the cost of the replacement of the house. And it was about $300 a month -- a year was your prem...

MR. STEVENS: It was under $300 a year, yes.

CHAIRMAN GREEN: And so you felt your -- your policy was a catastrophic policy period. In other words, in case of a total loss.

MR. STEVENS: Yes.

CHAIRMAN GREEN: But yet you are covered with a portion of what your loss is with the cosmetic thing.

MR. STEVENS: Yes, that's correct.

CHAIRMAN GREEN: You didn't need any temporary housing or... What was the loss of the water? See, this is one of the things that bothers me, too, is that we -- we live with water, gas and electricity and I know we -- we lost that in this area for a period of time.

MR. STEVENS: I had -- I had saved water. I have water in the house for drinking and cooking purposes. PG&E was out for 26 hours in my area. I live in the city of Santa Cruz. And when PG&E came back on, the water system was back in service. There were some areas in Santa Cruz that didn't lose water at all. But I do have emergency
supplies of water and butane stove for cooking in case of -- of things like this.

CHAIRMAN GREEN: You're one of the few that was prepared. That's very good. I
this is one thing we tried to do last year was a preparedness education for the state
and those are the things that everyone should have -- especially living on a fault.
What insurance company were you covered by?

MR. STEVENS: I have a homeowner's policy with Allstate with an earthquake rider.

CHAIRMAN GREEN: Very good. Thank you. Any questions of the witness?

SENATOR MELLO: I just want to go over the -- you had a $17,500 deductible
representing ten percent of your policy value. And your damage is $25,000?
Approximately, so...

MR. STEVENS: No, my deductible is less than that. When I -- when I took my policy
out, I figured the replacement value of the house was around $138,000. So my
deductible was $13,800 and they -- the damage -- I'm not sure what the total damage is
and if I discover more damage while I am repairing what I am doing, I can submit that
claim also. I was told by the agent that if I...

SENATOR MELLO: So you'd be collecting anything over $13,800.

MR. STEVENS: Yes.

SENATOR MELLO: Well, you're one of the first persons that appear to be -- your
insurance achieved what you wanted and that is the total wipe out of catastrophic
coverage and you did get, you know, paid partially and you were willing -- and you were
able to, you know, absorb the first $13,800 on your own.

MR. STEVENS: Yes. That was -- that was why I took the insurance out in the first
place.

CHAIRMAN GREEN: Okay, thank you.

MR. STEVENS: Thank you.

CHAIRMAN GREEN: We now have with us Senator McCorquodale. Thank you for coming
this morning and we appreciate having you here this morning. Next we have then Ann
Coonerty from Santa Cruz.

MS. ANN COONERTY: Thank you for asking me to come. I'm probably the first person
and only persons here that I was not here during the earthquake. My birthday was
October the 16th. I had a big birthday party -- huge birthday party at my son's house, who
is Neil Coonerty, Bookshop Santa Cruz, and I left the next morning to go to New
York to my youngest daughter. On the plane...

CHAIRMAN GREEN: Did it take in New York? Did you feel the aftershocks in New
York?

MS. COONERTY: Huh? No, I got aftershock. I got it on the plane. On the plane the
pilot announced that, "I was going to give you the score of the Bay Area Series, but
San -- San Francisco has a 6.9 earthquake insurance." And everybody said, "Huh!" You
know, first thing, all the business men on the plane jumped up and got their little portable phones and I was hearing, "Oh, it's in Los Gatos." "Oh, it's in Hollister." "Oh, it's in Santa Cruz." Then my ears perked up real -- real fast.

I did not hear from my family until midnight that night that they were all well -- my family. The rest of my family is here. But I did see on TV more than my family was seeing on TV here because they didn't have any electricity to have their TVs going.

I stayed with my daughter for ten days. My oldest daughter and my son, Neil, wanted me to stay for a couple of weeks because, "Evidently, Mom," they said, "My house is trashed." Now what house trashed means...

I'm 75 years old. I lived through the first earthquake. I remember the Santa Barbara earthquake, Long Beach earthquake. I was right in the midst in the San Fernando Valley of the '71 earthquake and I've always laughingly said, "I don't worry about earthquakes. They're not going to do any harm to me." Well, they didn't harm me this time. I don't even have the memory of the big shake that you people have.

When I got -- when I got home, my house was in pretty good shape. Structurally it is, as the gentleman said, cosmetically a lot of shakes. (?) The chimney is down, but then I have lots of friends -- my whole neighborhood, the chimneys are all down. So we're all very friendly about what we're going to do about it. Quite a few of my older friends have taken the chimneys out completely and are closing in their house. I don't think I'm going to do that. I lost my husband last January and his dearest love, having been born and raised in Ireland, was to sit in front of the fireplace. Sitting in front of the fireplace carried me through this year. So I think I'm going to rebuild my fireplace.

I had -- I had earthquake insurance. Having lived through the Van Nuys earthquake, knowing the shake came right in that area, when we took -- bought our house up here in Santa Cruz, I decided to take earthquake insurance. I also knew it was ten percent of what was there -- what the insurance was. And the insurance was a $100,000. I have a small house. And it -- $10,000 -- I knew that it would be $10,000 of my money and above that would be paid. What I was taking it more for was protection if the whole house was down. Because if the house was down, my husband was 80 and I was up in the 70s and I decided that the property was ours and I could put something for a hundred thousand on there for me to live in or us to live in at that time that we took it. So I did know that I would have $10,000.

So there was a delay in anything being done in my house as far as the insurance company came because I wasn't home. But when I called -- I have State Farm -- when I called State Farm, they sent someone out. It happened to be a young man who was from their headquarters in, I think, in Indianapolis is where their headquarters is. And he was scared to death that the next earthquake that was going to come because he was
living through the shocks. I think he wanted to get out of here as quick as he could. I will say he made a very thorough inspection. I really couldn’t tell him all of the things because I had just gotten home. Even the things that were missing because all of my friends had come up and cleaned my house for me, picked up all the broken things, threw all the trash out. The trash man had already come and picked up things. So I’m to this day still -- if I can’t find something, where is it? I don’t know because everybody put things in different places than I had them. And, is it broken, is it gone or do I still have it? And I find them in strange places. A lot of them are still there.

But the insurance man came. He went up on the roof. Looked down the chimney. He went under the house. He was very, very good. He listed all the things and within, I would say, four or five days, I got a check for what was over the [$10,000]. Now what was over the [$10,000] will not pay for my chimney, much -- not, at least, from the prices I hear they’re asking. I did have a big window that was broken and immediately, I got that in, because I did not like having the window open. They had boarded it up for me, but I didn’t like it boarded up, so I got the window fixed, and they put that on the insurance. That was included on it.

So I can say that I still -- I’m going to keep my insurance. I still have the same feeling of what earthquake -- what I took the earthquake insurance for. And that is, if anything happens to my house, I will have my land and I can put something on it -- be it a trailer, be it something that will keep me with a roof over my head, which is important.

I’m born and raised in California. I know about earthquakes. It was not a surprise to me. I do think that -- I also want to say that State Farm said if, when I get -- I haven’t done anything as far as fixing. Don’t even know what it’s going to cost me. But if, when I’m getting it done, I come across anything else that’s needed, they will include that. In other words, what they paid me was not the finished pay, if I find I need more.

I felt content enough with the insurance -- the stories I hear from other people... I’m an aide out at Happy Valley School -- I taught school all of my life -- is that one insurance company will pay for something, the other insurance won’t. Somebody will pay for something that’s broken in your house -- another insurance company -- and I think they should all -- I’m like the gentleman who says everybody should get together. They should get together and pay for it. There’s no reason why I, who have one insurance, gets paid for something and somebody else doesn’t get paid for it. I feel very much that that should be so.

CHAIRMAN GREEN: In other words, on your testimony you then are happy with what you’ve gotten?
MS. COONERTY: I am content enough. And I don't have the problems other people have. I just have myself to take care of. And my little small house is mine. And the property is mine. So I feel content enough -- I haven't fixed it because it's just cracks in the house. There's nothing major that stops me from living my contented life except my little fireplace.

CHAIRMAN GREEN: Thank you. What was the total cost of your insurance, recognizing the house was...

MS. COONERTY: [§]10,000 was my deductible.

CHAIRMAN GREEN: But I mean the cost of it per year.

MS. COONERTY: Oh, the cost? A hundred and fifty-nine dollars.

CHAIRMAN GREEN: A hundred and fifty-nine dollars a year.

MS. COONERTY: Which was really not too heavy for us, considering when you're retired and on a pension and all that, you don't have as much. And, of course, it puts it -- I was in more of a spot because once you become a widow, your Social Security drops, your pension goes down, everything goes down, so...

CHAIRMAN GREEN: Right. In other words the...

MS. COONERTY: Money is not what...

CHAIRMAN GREEN: ...your policy, then, was $159 a year. You understood the deductible. You understood all the terms of the policy.

MS. COONERTY: Oh yes. Yes.

CHAIRMAN GREEN: And they have kept all the terms of the policy.

MS. COONERTY: They have kept -- and they did -- I will say that the young man that came out to my house did a thorough job of looking over everything. And I laughed when I got the thing because he said to me, "Who cleaned up your house?" And I said, "Well, I had my two grandchildren and a nephew of mine that I helped" -- I'm a math major and I help with their math all the time, so they decided what they'd do for grandma was clean her house. And...

CHAIRMAN GREEN: Did you insist that they do a little bit of mathematics on how much they should be compensated for?

MS. COONERTY: How much... Listen, he said, "Well, I think we should allow you some money to pay for the cleaners." So then when I was telling them that story they said, "How much did you get, Grandma?" (laughter) They were going to do the mathematics of dividing by three.

But, of course, the earthquake has been a terror to me along with that because I have to see my one and only son go through the Bookshop Santa Cruz and all that, but I think they've done a beautiful job and he is -- has always been since the day he was born, a very positive, forward-looking gentleman, so I think -- I think he inherited that from his mother.

-14-
CHAIRMAN GREEN: Well, thank you, Ann, is there any other questions?

SENATOR MELLO: I'd just like to ask you, did your insurance agent ask you to come here today and testify?

MS. COONERTY: No, I don’t know who asked me. Somebody from...

CHAIRMAN GREEN: We asked her.

MS. COONERTY: ...sent me the Senate thing.

SENATOR MELLO: Okay, but the last two speakers...

MS. COONERTY: No, I haven’t talked to them. I...

SENATOR MELLO: I just -- I just wondered -- one person came up and was angry about the way his claim was handled and the last two speakers...

MS. COONERTY: Well, he -- I can see -- I’d be angry if my whole house was down and nobody did anything about it, too. Because I would be living...

CHAIRMAN GREEN: Well, Henry, we have some more people to testify and we’ll probably hear some of their stories, too.

SENATOR MELLO: Yeah, okay...

MS. COONERTY: See, if my whole house was down, I really wouldn’t -- financially, I’d have a hard time existing. But as long as I have my home to live in, you can take the rest of the world and just fling it, you know. I’ve got my little corner to stay in. (laughter)

CHAIRMAN GREEN: Thank you very much. But, you see, I think it became very apparent to me a couple of years ago -- we have the good cases and we have the bad cases. And, you know, it’s -- I don’t think we can do anything like ever get everything perfect. But there are companies that do their job and there are some that, maybe because of contracts or whatever their policy is -- how they're written -- they interpret the word of that contract. And I think that’s where this Committee is coming from -- is we’re going to try and make it so that we can please everybody, but I know that’s not possible.

Next, then, we’re going to hear from Orrin Stuart and he’s from Soquel? Soquel. I pronounced it wrong.

MR. ORRIN STUART: Senator Green, I appreciate being offered to come here today. I have a little horror story -- small one about my kids. My wife and I both work and I was on the way home from work, which is 30 miles from here, so I didn’t experience the full earthquake. I was down in Moss Landing. However, all three of my kids were in the home at the time of the earthquake. I have an older home -- almost 30 years old and it sustained major damage.

My youngest son was laying on the carpet in the front room -- right in front of the fireplace with his cookies, ready to watch the World Series. He’s a baseball nut. And the quake started and thanks to the training that he’s had either through us or school,
he had enough foresight to get up and go to the nearest doorway. Right where he was laying, the whole fireplace came down in the room. And it was quite traumatic. It's been a lot of -- my kids have really -- really been stressed as a result of this whole thing and they don't even want to go near the house.

We were fortunate enough to have insurance, thank God, I had enough foresight to do that.

CHAIRMAN GREEN: What company?

MR. STUART: Transamerica Company. Policy was $600 a year which I took out. Actually it was more than the homeowners' that we had on the house -- that portion of it was. I have $180,000 on the structure and $90,000 on personal. I sustained -- right now my bids are coming in over a $100,000 on the structural and my personal is in the vicinity of $10,000.

I ran into an ambiguity with the insurance company over the deductible. That was the first thing we got into. In a policy, two -- one area it states ten percent. In another it states five percent. And I asked them, "Which one is it?" They say, "It's the ten percent." And I said, "Well, there's an ambiguity in here which we had..." and I thought in an ambiguity it always goes in the favor of the policyholder. And they said, "No, it's going to be ten percent." So I am addressing a letter to that effect to the Commissioner of Insurance which I just mailed to try and solve that.

I waited almost two weeks for an adjuster to show up from Transamerica and when one did show up, he was from Seattle. So the one that they flew in wasn't even familiar with the policies -- the policy. I will have to go out and get a structural engineer's report to prove that I didn't think it was save to live in the house.

One wall of the house was -- it was an older house -- the current codes, I think, would probably change some of the framing on the house. One wall is really weak and one structural engineer's report stated that if they didn't -- if there was another quake of serious magnitude, that the house would probably come down. I had to get a structural engineer's report to put this in writing. Finally the agent agreed that we should probably not live in the house. We had to live with in-laws for three weeks and finally we got a check for alternate housing. So we're renting in an alternate place right now. We're not even staying at the house. We go up there everyday to feed the animals and that type of thing.

Then I got into the nightmare of getting a contractor and the red tape of that. I called up a friend. He was tied up on two houses. He recommended three other contractors. I got them up there. Just trying to get one bid -- I got my first bid yesterday from one of those three contractors. That's how long it's taking. By the time they get their subs all up there. I have seven different subs involved in repairing my place. I finally got a bid.

-16-
Finally two Transamerica Insurance agents showed up last week -- appraisers and they're finally starting to get the ball rolling on it. They've been fairly cooperative once they did show up. It's the waiting -- it's just taking for ever.

The only recommendations I have is I think the deductible should be based on the loss and not on the insured value, if possible.

I'm hopefully going to get an SBA loan. We applied to SBA after we went through FEMA. Hopefully we can get an eight percent loan. But what I'm running into is I've got the deductible which is -- up front, which is going to be $30,000 and then in addition to that, they're only going to pay to put it back as it was. I think there should be some legislation to put things up to current codes. I want to bring my house up to current codes. So I'm going to have to -- I'm going to pick up the bottom end on the deductible. And I'm also going to pick up the top end to bring it up to what I -- so if this every happens again, I don't want to get this damage to my house. The fireplace -- back in the days when this house was built, it was not anchored to the house like the current codes. That's the main reason it came down.

But I'm going to reframe part of the house -- I'm going to reframe three walls in the house and it's running into an excess -- I'm putting some high beams in the house, which a structural -- I have another structural engineer involved now -- says that's the way it should be done so if it ever happens again, it doesn't -- it won't go like it did. So I'm going to pick up the top end. As a result, I'm going to end up with a very high -- if I can't get an SB loan -- a very high second deed of trust, which is going to make us very strapped.

CHAIRMAN GREEN: Dan, did you have a question?

SENATOR MC CORQUODALE: I just wanted to make sure I understood this. You receive a deductible based on replacement value, not cost.

MR. STUART: Yes, correct.

SENATOR MC CORQUODALE: What is the coverage?

MR. STUART: Sixty thousand. I have a hundred and ninety thousand -- I have nineteen thousand on the structure and then my personal is ten thousand, which -- I'm right at the limit. I'm going to lose all ten thousand of my personal. My TVs, my VCRs, my antiques, all that -- I'm not going to get anything back.

SENATOR MC CORQUODALE: What was your personal, again, and structural?

MR. STUART: On both. They're separate. $27,000.

CHAIRMAN GREEN: Do you have a question? Yes, in other words, if you insure your wealth, but that's the nature of the game. The houses, you know, there's more money involved. But I think I see your point. What -- it should be the loss of that...

MR. STUART: It should be based...

CHAIRMAN GREEN: ...particular loss, rather than the...
MR. STUART: The deductible should be based on the loss.

CHAIRMAN GREEN: Part of the house, because you have not suffered a total loss of the house.

MR. STUART: No, no.

CHAIRMAN GREEN: And so it's a little quirk of what these policies are.

MR. STUART: And there should be some provision to bring up the current upgrades on codes, I think.

CHAIRMAN GREEN: Yes. Okay, we'll be feeding that in. Anything else? Okay, we appreciate you coming in this morning and good luck to you.

MR. STUART: Thank you very much.

CHAIRMAN GREEN: We know that you've had that devastating loss and I hope you get in your house soon.

Next we have Bob Bailey from Aptos.

MR. BOB BAILEY: Good morning. I'd like to thank you gentlemen for inviting us here this morning. Our testimony is a little different than what you've been getting. We're Bob Bailey Real Estate and Property Management and we manage many homeowners' associations -- condominium project homeowners' associations, which gives us representation of many homeowners.

I brought my -- one of my employees, Laura Fox, who is the one that handles the associations, to give you the testimony about the earthquake insurance that she can.

CHAIRMAN GREEN: Well, thank you for coming this morning. Good morning to you. And your name, please?

MS. LAURA FOX: My name is Laura Fox. First I just want to give you a little bit -- I have two -- I manage many large condominium projects -- many dwellings in each one. Two of mine have suffered major damages. The one that I want to address is in Aptos -- what they call is in the red zone. People are still living in there.

I was sent a list of questions. I just kind of want to read the question and tell you our answers.

The questions were: Do they have earthquake insurance? Two out of my eleven associations do.

How much are the policies? The policies range about a dollar per $1,000 of coverage. And so the dollar -- a dollar per thousand. And this one was a 2.2 million dollar policy. The deductible is ten percent of the total cost of value of the buildings, not of the cost of damage.

CHAIRMAN GREEN: Okay, so now, if you have two of those people that own those condos had insurance.

MS. FOX: I'm sorry.

CHAIRMAN GREEN: That -- maybe I didn't hear you right. Of all the units in your
project, two had insurance and the balance of them did not?

MS. FOX: No, each condominium association has their own insurance -- blanket insurance policy.

CHAIRMAN GREEN: I see. All right. So the total building was insured.

MS. FOX: Right. And it's 2.2 million dollars is the value -- estimated value of this one building.

They right now -- I had a meeting yesterday with adjusters, geologists, engineers and there are about $1.5 million of damages. They have to come up with the first $220,000 deductible. So that will be divided amongst the homeowners to come up with that. They still -- no checks, no dollar amounts and there's been meeting after meeting and these homeowners now, two months later, they want their building fixed. They are still yellow-tagged. Some of them have chosen to live in it and some have left.

I was just reading down the questions. It says how long before...

SENATOR MELLO: Can I ask a question on that one point I made, Mr. Chairman, and that is it is interesting -- the [$]2.2 million total value, so the ten percent -- you would have [$]220,000 -- approximately. My thought was, if all the damage happened on one unit, would they spread that deductible on all the buildings or just on that one?

MS. FOX: Yes, that's the way -- yes, it works that way. And it's pretty evenly spread -- the damage is. But this...

SENATOR MELLO: Well, the damage is -- it's not concentrated, then.

MS. FOX: Not concentrated in one or two units. It's pretty much the whole association.

SENATOR MELLO: Yeah.

MS. FOX: What is -- this $1.5 million of damages so far does not cover the soil and land damages that they have sustained. Geologists are out there now marking things. Things have shifted. Things have moved. They're going to have to do some major retaining walls, underpinning of this building and none of this will be covered by the insurance company. And they're talking about another million dollars. So this is for the homeowners to absorb.

And they say, "How long before repairs are made?" They are talking a year to a year and a half before completion of this is done. And that's a long time for -- some of these homeowners will have to move out during some of these repairs -- jacking up these -- of these buildings.

It says, "How cooperative have your insurance companies been in settling your claim?" Well, there has been no settlement. With one of my other associations that did not have earthquake insurance, there was lots of confusion. They came out and said, "Yes, you do have earthquake insurance" when I knew I did not have it for that
association. They had voted not to because they felt the cost was too high at the time
purchase it and the premium -- the premium was too high and the deductible was too
high.

CHAIRMAN GREEN: And now for two and a half million dollars-worth of coverage, what
was the premium?

MS. FOX: The premium is a dollar per every thousand.

CHAIRMAN GREEN: I see. You said that.

SENATOR MELLO: Is that a dollar a year?

MS. FOX: I'm sorry.

SENATOR MELLO: A dollar per year?

MS. FOX: A dollar per thousand per year.

SENATOR MELLO: So that would be -- let's see. My math's not too good today.

CHAIRMAN GREEN: $2,100.

MS. FOX: I don't have the policy here.

CHAIRMAN GREEN: I think that's what it would be.

SENATOR MELLO: $2,000.

CHAIRMAN GREEN: Yeah. If you figure at one percent. One percent of two and a
half million dollars.

SENATOR MELLO: Yes.

MS. FOX: The other thing that they looked into because they thought the deductible
was too high with this other association. Well, they also sustained a lot of damages.
They have applied for FEMA loans and it has been, like testimony before, a lot of red
tape.

As far as coming out and saying they do have earthquake insurance when they don't,
I think there was just a lot of miscommunication and confusion in the insurance
companies.

Then they said, "Okay, all water damage would be covered." And that meant, well
hot water heaters that had gone over, had gone through people's walls, ruined floors,
carpets, whatnot, and we still don't know if that's covered.

Leaking roofs from the storm that we had afterwards has now made another mess. In
the association that does have earthquake insurance, they already said they would take
care of the roof. They will take care of the interior damages from that rain because
the roof was damaged due to the earthquake. But our policy limit is $2.2 million and
they now are starting to feel that they're going to have to like close the claim by
giving us maximum amount of coverage. After $2.2 million, all the dollars will be --
each homeowner will be assessed for that dollar amount, along with the first $200,000
and the hillside reinforcement.

Question on here: "Do you feel earthquake insurance was worthwhile?" Well, it is
going to help, but I would like to see a little bit more -- it's kind of -- it's more well, now we're learning from this, but people working with the insurance adjusters, with the agents -- my agent knew nothing. He gave me a phone number and that was it. I never talked to him again.

As far as -- one other thing I wanted to comment on. The -- the insurance adjuster that was assigned to this one project, Shore Del Mar, he was excellent. He got us one of the best geologists, one of the best engineers and now is getting all of these reports together. But still, to date, we don't have the ending. I'd like to know when. I have 32 homeowners who want to know when.

SENATOR MELLO: Have you filed with FEMA?

MS. FOX: They -- they both have FEMA loans open. But they -- none of them have been processed yet.

SENATOR MELLO: Yeah, FEMA -- FEMA will only -- well, the insurance will come off first and then -- but they will not -- they will only provide a loan for the replacement as it was before. I don't think they will -- or they will not provide any...

CHAIRMAN GREEN: Upgrading.

SENATOR MELLO: ...upgrading.

CHAIRMAN GREEN: No.

MS. FOX: Exactly.

CHAIRMAN GREEN: The only one that does any upgrading -- SBA will do some. You can upgrade. You can get an extension loan from SBA to do upgrading. But theirs also is aimed at bringing it basically up to where it started. But you can, under special circumstances, like upgrading, so that -- put a new foundation, for instance, that it didn't have before, SBA will go that little extra step. But I think that the federal agencies are the only ones that will do.

SENATOR MELLO: Let me also ask, how old is this project?

MS. FOX: This one project is about 20 years old.

SENATOR MELLO: Twenty.

MS. FOX: And it does need upgrading.

SENATOR MELLO: Well, that's fairly -- my experience in both Santa Cruz and Watsonville -- it's the older buildings that were -- some of which were built on -- without the cement foundation, they just -- nearly all of them went down. But the buildings that were built more recently, seemed to withstand the disaster pretty well. Have you -- have you taken a look at the actual building to make sure that -- I don't know whether you can go back 20 years or not, but there might be some deficiencies in the construction for that building to receive that kind of damage.

MS. FOX: The direct question was have I looked at?

SENATOR MELLO: Well, I mean, did somebody survey the -- the construction to see
whether or not it was built up to the code in effect at that particular time?

MS. FOX: It -- I believe it was. I mean I have not had that, you know. I know the building that's four years old has 17 units in it, was not built to code and now there's going to be legal proceedings on why it had substandard work. Why a lot of the reinforcements and why every chimney went down that was not brick chimneys. They're going to be looking into all those different things.

CHAIRMAN GREEN: I think 20 years ago the building standards weren't quite what they were like even ten years ago.

SENATOR MELLO: Yeah.

CHAIRMAN GREEN: But one of the things I've gleaned from some of these hearings is that the geology of the land is almost as important as the way the home or business or building was constructed. So if it's built on solid rock, it's going to stay there. But if it's built on some fill, then it has more of a chance of sustaining more, even though we do a modern concrete foundation under it. So there are a lot of different factors coming in to find out why it went out. And then substandard construction, too. But I found in our other hearings that the substandard was a very small factor. It was what -- the factor of how it was built, where it was built and the soil it was built on.

MS. FOX: Right.

CHAIRMAN GREEN: So, it goes back to construction for the total answer. Okay. Any other questions?

Our next witness... Oh, one more question. And your insurance company?

MS. FOX: Being that I have many associations, but this one happens to be Farmers. Actually, they're both Farmers. One that does not have earthquake insurance is Farmers -- that there is so much confusion there telling us we had the insurance and we didn't and they would cover water damage and they wouldn't and then mid-stream, the adjuster, I guess, got fired. A new adjuster came on the case. Also, all mine are from out of state and I'm kind of a bit concerned about the cost -- has been raised. How can they really know how much the cost of California construction is compared to Texas. We know what the economy is like in Texas. But they have assured me that these claims will not be closed until the construction is completed. But if they're going to go ahead and just give us policy limit, I guess, at that point, it doesn't really matter whether they close it or open it.

CHAIRMAN GREEN: Okay, well we thank you very much for coming out this morning.

MS. FOX: Thank you.

CHAIRMAN GREEN: Oh, yeah, here's a question by Dan.

SENATOR MC CORQUODALE: Well, I'm not sure that I have a -- I just want to make sure I understand the -- it seems like we've heard at least three types of deductibles.
If you buy a $100,000 policy and you get a ten percent with the policy. So if your loss is $110,000, I guess you'd get a $100,000...

CHAIRMAN GREEN: That's right.

SENATOR MCCORQUODALE: ...to pay up to that. So really no deductible on the policy. Then if you’ve got a $100,000 and you have a $90,000 loss, it would only pay $80,000. And if you’ve got a $100,000 loss but you’re insured for -- your property is worth a million dollars under this one, then you wouldn’t get anything.

MS. FOX: Well, $2.2 million is our full policy and, for instance, if they find one million dollars worth of damages, the insurance company is saying that they will pay $800,000.

SENATOR MCCORQUODALE: But if it was -- if it’s insured for $2.2 million and the loss were $200,000 then you wouldn’t have gotten anything.

CHAIRMAN GREEN: That’s right.

SENATOR MCCORQUODALE: That’s -- so that’s three types of -- probably other types of deductibles we haven’t heard about.

SENATOR MELLO: A question on one of your descriptions -- when you said $110,000 -- if they had a $100,000 policy, that’s the full extent of the policy, but it would still be the ten percent deductible.

CHAIRMAN GREEN: You’d get nothing -- you’d get nothing.

SENATOR MELLO: That’s right.

SENATOR MCCORQUODALE: Except that if it -- except that’s not -- except that’s a different type of a deductible. Because if you have a policy that runs to a certain level and you get paid a hundred percent of that, in effect, they got paid off a hundred percent on their policy. Now the loss over that, whether it’s $10,000 or a million, is still -- a person knows that. If you have a limit on your policy. So it turns up not being a deductible, is that -- is that right?

CHAIRMAN GREEN: Your microphone is not on.

MR. SAL BIANCO: I think what you just said to us, however, was that the $2 million policy -- the face value of the policy -- the insurer has said, if you have a million dollar loss, correct? -- that there is an eight hundred thousand dollars worth of...

MS. FOX: I have to make a correction. That is a ten percent deductible, so it would be a $900,000 coverage.

MR. BIANCO: Right. So in your case, your deductible is based on the loss as relates to the damages, not based on the face value of the policy.

(no overlap on tape)

MS. FOX: ...it’s not deductible. And anything over and above that would be the homeowners' responsibility.

SENATOR MCCORQUODALE: So it’s not -- you said when you started that it was a ten
percent deductible of the property. But it’s of the policy.

MS. FOX: Of the policy.

CHAIRMAN GREEN: The policy, right.

SENATOR MC CORQUODALE: All right. Well, that was my...

CHAIRMAN GREEN: That’s the clarification. Okay, well, thank you very much.

MS. FOX: Thank you.

CHAIRMAN GREEN: Okay, at this point, our witnesses have completed for the homeowners’ part of this testimony. Are there anyone out -- is there anyone out there that would like to testify at this point to put more into our minutes? Okay.

The next phase we will go into is from the local insurance market place and we have from that portion, Charlie Palmtag from Watsonville. He’s an insurance -- Independent Insurance Agents and Brokers of California. Good morning, Charlie.

MR. CHARLIE PALMTAG: Good morning, Senator.

SENATOR MELLO: Can we make him take an oath of office?

CHAIRMAN GREEN: Well, he -- he raised both hands.

SENATOR MELLO: Okay.

MR. PALMTAG: Okay. My name is Charles Palmtag. I’m Chairman and Chief Financial Officer of Kane-Hall-Palmtag Insurance and Real Estate in Watsonville. We’re a very old agency. We’re a merger -- a result of a merger in 1962 of agencies dating back to 1910. We -- from 1928 until October 17, 1989, our office was located in the beautiful old Odd Fellows Building across from the park in downtown Watsonville. Right now this is the site of an empty downtown lot. Our $125,000-worth of leasehold improvements are now residing at the Watsonville Solid Waste Disposal Site.

We just moved -- this week we just moved into a new permanent office with a little over half as much space as we did have at twice the rent. And we’re not complaining about the rent. We had a good deal before.

We’re a family operation. We have four shareholders -- two fathers and two sons. We have another son and a daughter working for us. We have 13 people in our insurance department and four people in our real estate department. From the standpoint of size, you could categorize us as a small to medium-sized insurance agency.

The first thing I’d like to say about the quake, as one of the prior people testified, it didn’t bother me a bit because I wasn’t here. John Kane, one of the other shareholders and myself were in Seoul, Korea and watched it on television while trying to see the World Series. We were able to get very, very little information except that our -- out of the Far East because the phones were jammed over there. And all we knew was there was some damage to our office and our homes.

We drove into town a little less than 48 hours later and saw our office was obviously a total loss. All the employees and several relatives and friends were
filling the parking lot with our furniture and our records and that included three employees whose houses were very seriously damaged themselves.

We discovered our junior shareholders had rented a 930 square feet office -- foot office, about a fifth our normal size, and a warehouse to store our furniture in. Fortunately, most of the homeowners and auto insurance records we had were on -- were computerized and we had the computer up and fully operating by Monday, October 23rd. We had our phones operating on Friday the 20th. In the office we had desks for our bookkeeper and six customer service representatives and then we had three more desks left to seat -- to accommodate nine people, which meant a lot of us were -- worked out of our home and still are.

The great local radio station, KOMY, was of great service to us and kept giving our new temporary location so our insureds could find us. We ran an ad in the newspaper, also, telling them where we were located and the fact that we desired them to bring in claims for any damage that they had whether they had earthquake insurance or not and we would try to process from there.

By the time we got back in 48 hours, there were over 70 claims going. Between October 19th and the 20 -- and November 25th, we took in more than 600 claims. In a normal year, we take in 600 claims. And this was done in our little fishbowl office with desks and computers shoved in against each other and the sounds of 12 to 15 people echoing off the bare walls. It was not an ideal situation. We were not able to provide the service we would have liked to have provided and in future planning, it's obvious we've got to look at the situation where the insurance agent is wiped out as well as the client and take that into consideration in planning. Our everyday work has suffered tremendously.

We started moving into our new permanent office Monday because we had to move out of our temporary office. It was rented. We didn't have time, obviously, to carefully sort boxes or records or furniture or anything from our earthquake-devastated office. Leasehold improvements are still not completed in our new site and a lot of our new equipment is not in. It's no darn fun moving twice in six weeks and trying to take care of 600 claims. So much for our problems.

Now, how did we and our companies operate and serve the public? First, I'm proud of the way we were set up and ready to go by the time we got back in about 45 hours. The major companies affected in our office -- this is our office only -- and what I'm going to tell you about these companies is strictly as it applied to our office. I haven't had time yet to talk to too many other agents to find out how they served them. But the major players we had in our office were Aetna Casualty Insurety, Fireman's Fund, both the Personal and Commercial Division, California Insurance Group, Mid-State Mutual, Hartford, and Northland, which is principally a specialty mobile home company.
Aetna Casualty had catastrophe adjusting teams in the field in 48 hours. They were well-trained as a result of Hurricane Hugo, but it was a lot different ball game in an earthquake when less than 20 percent of the people had earthquake protection. They provided quite a complete documentation of losses and told people--people how FEMA worked and what kind of documentation they’d probably need for their accountant for their income tax deductions.

By December first, most of the people without earthquake insurance had the necessary rejection letters for FEMA. That’s obviously too slow a period. Aetna was also one of our star players in that prior to November first, they extended the policy to cover--the homeowner’s policy to cover interior broken glass. It may not seem much, but they are paying thousands and thousands of dollars out on this item. And these are items that are not covered by the policy. I was amazed at how much--how much I’ve seen go through the office in checks.

It was only last Friday when Aetna allowed agents to bind any property insurance, let alone earthquake insurance in Santa Cruz County. They opened up the rest of the area quite rapidly, but Santa Cruz County--we were not able to write any new--new property insurance in until last, I guess, it was last Friday. We can now write earthquake if the agent makes a personal inspection to insure there’s no existing damage.

Aetna also sent us, as an aside, a couple of super keypunch operators to help us get--for a couple of days to try to get some our backlog out and we appreciated that.

Fireman’s Fund: The Personal Lines Division had a catastrophe team in the field inside of 24 hours, along with Cal Farm, Farmers and State Farm. As our second largest homeowners carrier, I doubt if they’re going to pay out an awful lot in claims through our office. The Personal Lines Division of Fireman’s Fund was probably the worst operation we had in the field. In the first place, they had an obscene 15 percent deductible on the earthquake. And as you had been talking about earlier, on a homeowner’s policy, there are three separate deductibles. There is the deductible on the building, the deductible on any appurtenant structures and the deductible on contents. It can add up to be a very substantial amount of money.

Fireman’s Fund did not extend their policy in any way to help the victims and they did have one young woman on their catastrophe team who was calling insureds and telling them that because they didn’t buy earthquake insurance, they had no coverage. Several of our insureds called us to say they knew they had no coverage, but that this lady sounded like she was taking great pleasure in telling them so. (laughter) And I will say this, we got a hold of Fireman’s Fund and within 24 hours we didn’t get anymore of those complaints. We had somebody new on the telephone.

All and all for a company that made their reputation on the 1906 quake, we were
pretty disappointed in Fireman's Fund Personal Division. The Commercial Division of Fireman's Fund still had the large deductible, but their adjusters were far better trained, much better PR and they -- I think they got out there faster and took care of the people who did have damage. Denied the claims that did not have coverage. They also helped us financially in hiring some extra help so we could handle our own claims.

California Insurance Group: This is a small regional company. It's the one that's located in Monterey. They were very slow to get people out in the field. Because they're small, they did not have catastrophe teams. They did not have that many adjusters to handle -- basically, they had the same problem that we did. They had a year's worth of claims overnight. They had to hire independent adjusters from the General Adjustment Bureau and I don't know -- some other places, too, maybe.

But in the long run, I think they're going to turn into our biggest star. California Insurance Group was our second largest writer of mobile homes, which have only a two percent deductible on the policy. They are still paying out claims. They were slow -- most of the companies have been slow getting checks out. It's just a -- I think it's a overwhelming paperwork burden that was never thought out properly prior to the quake and a lot -- a lot of rethinking has to be done by many companies.

California Insurance Group also had a special endorsement which provided earthquake, flood and landslide coverage on contents away from home for a minimum of about $2500 and a maximum of ten percent of your contents. While the endorsement was clear that it only covered away from home, there was a great deal of misunderstanding among our insureds due to a letter that was sent out when the endorsement was introduced in 1987. California Insurance Groups agreed the letter was ambiguous and told their adjusters to make this extension of coverage apply at home as well as away. I think this -- this was a prompt decision. It was a victim-oriented decision and it's going to cost them several million dollars, but they did the right thing.

California Insurance Groups started writing earthquake coverage a little over two weeks ago -- again.

Mid-State Mutual: This is a very small company located in Hollister. They paid only if you had earthquake insurance. They did not extend the policy. However, on the other side, they went through our entire book of business and called up -- knowing that we were totaled out -- they called up all our insureds who had earthquake coverage and made appointments to see them if they had any damage and did a good job in that respect. They were also very prompt in getting the letters of rejection out which are required by FEMA. Which was -- this was a major -- a major concern of a lot of people who came into our office filing for claims. They knew they had no coverage. They didn't expect to get any money, but they needed that letter of rejection and they were -- they also got from several of our companies, the estimates for their loss and the
amount of damage that they suffered.

Hartford: Hartford was very slow getting started on claims in our -- our area and were not very PR-oriented. I understand they were quite better -- quite a bit better in San Francisco and San Jose, I don't know. They paid only if you had quake insurance or if you bought a special catastrophe endorsement which they sell. We did not have too many policies here because of their pricing structure, so we really can't take a big look at them and see what they did overall.

Finally, Northland Insurance Company: This is a specialty mobile home company with a low two percent earthquake deductible. They had one full-time adjuster in our area within 40 hours. He handled and paid out 40 claims within three weeks. He did a simply outstanding job and we received a lot of calls of thanks from our insureds for his services.

Although they weren't one of our companies, I'd like to say something nice about one of our competitors -- California State Automobile Association. They have a catastrophe clause built into their policy that allows them to pay up to five percent of the contents limit if you're forced out of your house by earthquake. They wrote checks on the spot and made a lot of people happy. I think by the end of 1990 you'll either see many companies with this endorsement or no companies, including AAA. It's going to depend on how much it cost them, I think. Granted, it does not take care of your serious damage, but it certainly helps people to get up and going again.

In summing up the claims operation as we saw it, most of the large nationwide companies had good, fast-moving catastrophe teams. They were really kind of slow in paying out checks. The regional companies or their smaller ones did not have the personnel nor the training to handle a major catastrophe. They need to look into it, improve this situation and maybe contract with other people to handle it.

Aside from mobile homes, I think the entire earthquake system in California is totally inadequate. With a separate ten percent deductible on building, contents and appurtenant structures, very few people will really collect on their earthquake coverage. It is strictly a major catastrophe coverage.

My mother had $15,200-worth of earthquake damage and lives on a limited income. She'll collect $200 on the earthquake insurance she paid about $300 per year for the last 30 years. There is a lot of this. Too much of it. I don't think it is doing the job. In my opinion, quake insurance in California is only good for the great earthquake because of the deductibles. And then it's only a partial solution. The deductibles are alone -- amount to a very large loss for the average person, one most of them can't afford.

Do I have a solution? Sure. Wouldn't be here if I didn't. The solution can only be a federal solution, I believe. Earthquake insurance should be added to the basic
homeowner’s and fire policies which cover such things as wind, hail, tornadoes and hurricanes. It should be included on all policies nationwide. Why should you -- any of you -- have to help subsidize Colorado’s hail storms, Texas’ hurricanes, and Iowa’s tornadoes, when they’re not helping you subsidize your earthquake damage? You need federal reinsurance. The potential for catastrophe damage is way too large for any insurance company or all the insurance companies or it’s even too big for the federal government themselves. The potential is overwhelming.

You need to have reserves -- earthquake reserves built up over a period of 15 to 25 years or possibly even more. Floods happen in decades and can be controlled. I mean, determined -- damage can be determined. Hurricanes happen every year. You can determine the spread of the risk. But earthquakes happen maybe once, twice, three times a century in a -- in the fiercest forms. You need to spread out the reserves to handle these. Nobody could pay the claims of a 8.3 earthquake that happened in California in the same location if it happened this year and you had to pay for it this year. It just couldn’t be done. You have to have control over those reserves or funds to make sure that they’re used for no other purpose than earthquake.

My state association, the Independent Insurance Agents and Brokers of California, has a federal solution that’s very similar to what I have just proposed. Maybe a little more politically feasible. I’m leaving a copy of this one and a half-page solution here so that you can enter it in your records and you have a chance to read it. I think it’s worth your consideration. Thank you. Are there any questions?

CHAIRMAN GREEN: Yes. I may -- this may not be a question as much as what you say is true. The need is on the federal insurance so it’s spread through the whole United States. But California is a separate entity and we can help ourselves faster because I heard this two and a half years ago or two years ago in Whittier, on this federal thing. How long is it going to take for the federal government to act? I don’t know. But we, the State, can act a lot faster and do a job here for the people in this state and then when that comes along, that could be in addition to what we’re doing for ourselves. And that’s what this Committee is trying to do.

MR. PALMTAG: Correct. But the major -- I really -- I really feel strongly that the major impetus to make earthquake insurance a viable, real thing -- to lower their deductibles, provide coverage -- you’ve got to spread it nationwide. There are things that the State can do, yes.

CHAIRMAN GREEN: Yes. And that’s what we’re trying to do. I hope and I’ve been talking with the Congressmen and Senators in Washington on this issue -- hoping that we can get something done federally, but two years have passed now and it hasn’t. And I don’t want to wait forever.

MR. PALMTAG: Our state associa... -- or federal or national association is in the
process of trying to get, along with other people -- trying to get legislation introduced in Washington next year. How long it takes, you know better than I do.

CHAIRMAN GREEN: Well,...

MR. PALMTAG: Hey...

CHAIRMAN GREEN: God only knows how long it takes in Washington.

MR. PALMTAG: It may take several years.

CHAIRMAN GREEN: Dan or Henry, do you have a question?

SENATOR MELLO: Yeah, Mr. Palmtag, of course, is a good friend of mine and a person I respect a lot for knowing a lot about the -- about this business. And our first speaker, Mr. Hillard Rose, went through a series of incidents that happened in his loss. He had the mortgage holder’s name on the check as well as his and that, I think, is normal. I mean this happens all the time. But what -- what do you -- how do you handle this? You open up an escrow account or you do something so the money is not -- so he doesn’t go through the kind of incidents that he did. There must be a way of doing this expeditiously.

MR. PALMTAG: Senator, I haven’t run into the problem yet on this earthquake. Like I say, a lot of our checks are just getting here now.

SENATOR MELLO: But what they are -- when the check does come to the policy holder as well as the mortgage holder and they both require signatures, isn’t there a way of doing that to expedite it? I mean to protect the mortgage holder as well as the...

MR. PALMTAG: Okay, the few we’ve had made out like that and don’t get me wrong, there’s going to be a lot of them like that that are made out to the mortgage holder as well as the insured. The few that we’ve had have been with local banks and savings and loans and we’ve just taken them over and had them endorse them after we showed -- they wanted to know, was the work going to be done, who’s going to do it, and when are they going to do it? Which they’re perfectly entitled to. After all they don’t want to get left holding the bag on that loan. But we had very good cooperation. I have not run into a problem yet.

SENATOR MELLO: So the banks...

MR. PALMTAG: There’s -- I was thinking of that when he was talking about it. There’s got to be a way to solve that problem and right now I can’t think...

CHAIRMAN GREEN: Well, Henry had the solution. They can open an escrow account and have the bank pay it out if they don’t want to sign off until the work is done.

SENATOR MELLO: Yeah, with escrow -- escrow instructions and then the contractor puts the claims in and they pay it out once the job is inspected...

CHAIRMAN GREEN: Yeah, as it goes.

SENATOR MELLO: I think Mr. Rose left here. He’s probably down trying to find that check that’s in the mail, but... (laughter)
MR. PALMTAG: Well, no, that's a -- that's a very viable solution if the bank is willing to accept the responsibility.

SENATOR MC CORQUODALE: Mr. Chairman, maybe somebody could enlighten me. I ran into this recently where the lending institution doesn't require catastrophic insurance or any other type of -- where they don't require some type of insurance. I haven't found one yet that doesn't require homeowner's insurance as the condition of the loan. Probably there may be some, but I don't -- I'm not aware of that. But the -- where does the -- where does the mortgage company or the insurance company obtain the right to pay or to issue a joint check if it's not required as a condition of the -- of a mortgage?

MR. PALMTAG: I don't know whether they have the right to do that or not, but I do know the -- the reason for it. An insurance policy or an insured, is usually, at the time of taking out a loan, required to put an endorsement on the policy called a "lender's loss payable endorsement" which was devised by the banks back in 1942 to protect their interests. If this endorsement is on the policy, it applies to any loss under the policy that's a first party loss, such as property insurance of any kind.

You have -- you raise -- you raise an excellent point as to why should they get named on it when they don't require the coverage. I don't know. Except that the way the policy is put together they have to make the check out to them as well as the insured.

SENATOR MC CORQUODALE: The case -- this case arose where a person put a fence around their house after they bought the property -- after they had the loan. A car hit the fence. And then the insurance company was going to require the lending institution to pay -- to sign off on it. So it didn't seem to me that that was -- he had insured that with his livestock and a different policy -- not his homeowner's policy.

MR. PALMTAG: That sounds like overkill to me.

SENATOR MC CORQUODALE: He couldn't understand how somebody had a right to say to him he had to get somebody else to... Upon my advice, he got stubborn about it and made the insurance company reissue the check. But, -- and which they did. But it seemed to me that that's like telling somebody that they're going to send my paycheck through the -- through my mortgage company just on the case that I haven't paid my...

CHAIRMAN GREEN: Sometimes, Henry, or Dan, we have -- we all hear of it as companies or banks or institutions make a broad policy and they live by that policy and maybe our job is to put the policy down in law and that then there's no confusion. And that's probably what we're running across here is there's really no law in it. Even though the lending company doesn't require it, if we on our own do it, then that's some of the things that we need to do, is verify. Sal, do you have a question?
MR. BIANCO: Yes, I do, if I might. I just would like your opinion from a local perspective as it relates to after the earthquake and the interrelationship with disaster preparedness. Because of Watsonville being a small community and because of your physical location there, one, do you think it would be a potentially good idea to involve the insurance agencies, along with city and county officials, especially city officials, in disaster preparedness programs, specifically as it relates to recovery? Would you -- would you be -- do you think that would be an idea somebody might..?

MR. PALMTAG: A couple of months ago I would say, "Ah geeze, I've got enough to do, I don't..." But right now I agree with you. Particularly, we're going to have to learn to cover for each other when we're down. And the increasing reliance on computers becomes an -- I don't know, maybe it's an albatross around your neck when you have a catastrophe like this. Then again, it was a blessing because our personal files -- we have about three or four thousand of them -- were sitting in a warehouse a block away and we had absolutely no room in the office we were in to put them there. If we weren't computerized, we'd have been dead.

But dealing with the city, the county, yes. Also, I think it would be a very good idea, too, to have had the insurance agents much more aware of what FEMA does, what the SBA does, and they could have probably done a better job of helping the people -- telling them when to submit a claim, when not to if they weren't clear.

MR. BIANCO: That was part of my second question as it relates to FEMA. Because of FEMA's presence in your community, finally, if I read the paper correctly, do you think that there should be some of a -- some kind of a liaison that ought to take place in that particular way between -- from your perspective to local insurance agencies out there and the FEMA people in the actual application process?

MR. PALMTAG: The main thing would have been to brief us on what they can do and what we can tell our insureds what they can get from FEMA. Because they are going to come to us first, usually.

MR. BIANCO: Thank you.

MR. PALMTAG: They know us, they want to ask us. Okay.

CHAIRMAN GREEN: Okay, well thank you very much.

MR. PALMTAG: Thank you.

CHAIRMAN GREEN: Okay, our next witness will be from local government and it would be Ron Whip, who is the Risk Manager here in the County of Santa Cruz.

MR. RON WHIP: Good morning.

CHAIRMAN GREEN: Good morning to you.

MR. RON WHIP: Thank you very much for this opportunity to testify, Senators. The County -- no, I don't. The County had earthquake insurance. We were fortunate. I'm the Risk Manager for the County and I'm also the President-Elect for the County
Supervisor's Association Excess Insurance Authority and we obtained our earthquake insurance through a pooled arrangement through that joint powers authority. It was considerably less expensive that way than it was getting an individual quote. As a matter of fact, our quote was about \$50,000 less through that JPA than it would have been had we gone on our own. That's not strictly relating to earthquake insurance, but the property program overall.

Nevertheless, I was only able to insure -- we have a capacity problem. In fact, that's one of the things that undoubtedly you've heard in this testimony statewide is the insurance industry has a capacity problem to be able to write sufficient quantities of insurance. That affects us as a county because we had to limit each county that was a participant in the pooled program to the values that they could cover.

I was able to cover approximately \$50 million of about \$150 million-worth of total county values. Only those structures that I felt were most needed for the continuation of county government. Ironically, it may have made no difference in our net recovery whether I have earthquake insurance or don't have earthquake insurance depending on what FEMA will ultimately pay because whatever FEMA would have paid, had that been full value for our damages, will be reduced by the amount of earthquake insurance that I spent taxpayers' money obtaining.

In the pooled program as a whole, we have approximately \$118 million-worth of values covered and we have a hundred million dollars-worth of insurance on that. So if we had the maximum event, which we anticipate, which was an 8.0 earthquake epicentered in San Jose -- was one of the scenarios we worked off of probable maximum loss scenarios, both in northern and southern California -- then we would only be getting back a fraction, provided that the industry was capable of paying that with all of the other limits that they've written.

We were unable to have Alameda County participate, which had major damages, I believe. I don't know whether they had earthquake insurance on their own or not. We were unable to have Alameda County participate in the program because it would have diluted our values so much that it would have made recovery 50 or 60 cents on the dollar if we had a maximum event.

So we have -- I'll echo Mr. Palmtag's remarks -- that we have a very definite problem and in a maximum event, I don't disagree with your comments, Senator, about the State should do something while waiting for the feds to do something. I think something's better than nothing. But we certainly have a problem that, in its fullest catastrophic extent, the federal government will be lucky to deal with.

We suffered about at least \$700,000-worth of damage. It could go well over a million. Don't know yet. We're still assessing the damage. I've been unable to obtain the final damage survey reports from FEMA because they're still working on them.
and they're still reviewing them and revising them.

The -- as far as insurance industry response, we had two types of earthquake coverage. One the basic structural coverage and also I had my ADP equipment through there. That broker and the company representatives have been extremely cooperative and forthcoming, accessible and available. But that insurance is obtained through a consortium that includes the London market. We had to do that to get the pooled limits that we needed.

The other type of earthquake coverage that I had was through the Boiler and Machinery policy which covers operating equipment and the boilers, and that had a $5,000 deductible. And they've been extremely -- they were out within two days assessing, but of course, a lot of the damage is hidden and until we fire everything up and get it -- get it working, then we won't know what our true damage is. But we have had a good response as a county from the insurance industry.

The deductible, I forgot to mention, on our coverage is a minimum half a million dollars. Now this is for all the counties that participate. And a maximum of two million, five hundred thousand dollars. The basic deductible is five percent on the structures or the contents that are covered. But I want to stress that I think we're able to obtain that deductible and the maximum and the minimum because of the spread of risk and the group purchasing power that we had. Although it was possible for me, as an individual county risk manager, to obtain a five percent deductible, the best quote I had outside of the pooled arrangement was a five percent deductible on $30 million-worth of values versus a hundred million shared. And that was more expensive.

The summary points that I would have and observe is it's questionable whether the earthquake insurance that we carry will net us any result because of the deduction from FEMA. The capacity problem. If there is a statewide pool...

As a homeowner -- I'm sorry, I should have come up on that, but it's definitely needed. I want to echo, also, Mr. Palmtag's remarks on -- I resent, as a governmental representative and as a homeowner and citizen out here, east coast, home office insurance companies which do not recognize earthquake as an equal risk to hailstorms, tornadoes, hurricanes, which, indeed, we subsidize in the premiums that we pay, either directly or indirectly. And deductibles, which are ten percent for a typical homeowner, versus [$]250 or $500 for the average homeowner for a hurricane. That's just unconscionable. I realize the great risk and the widespread risk that a 8.0 earthquake can take to the insurance market. Something's got to be done. I realize the insurance companies have that dilemma and don't want to take on capacity that they couldn't pay anyway. Someone would criticize them for it. But there has to be some national or state program that remedies that inequity.

And I would also -- in fact I would just -- and I know this is a digression from
local government, but I've heard a number of my fellow citizens who have had problems with voluntarily covering their houses with earthquake insurance where the mortgage company is now putting restrictions on them and they can't repair their houses because they have impound accounts and have to go through all the approval and the repair of their houses is being held up, even though they were not required as a condition of their mortgage. It'd be bad enough if they were. So I do appreciate your interest in that.

CHAIRMAN GREEN: Yes. Then it's your contention that because of FEMA and the way they help the municipalities -- the counties and the cities -- that really earthquake insurance is not that important to municipalities.

MR. WHIP: Well, it wouldn't be except for one factor and I -- thank you for -- I don't know how I overlooked this, because once you receive FEMA money, you must sign a commitment to maintain earthquake insurance. And this would go, my understanding is, for a private homeowner, too. And it's one of the remarks -- understandings that I don't think has been made to your Committee -- to your Subcommittee today.

CHAIRMAN GREEN: Well, it has been in the past.

MR. WHIP: And that is over $10,000 -- you have to sign -- money from FEMA -- you have to sign a commitment. So how do you sign a commitment to get some... Of course, the State Insurance Commissioner can waive that if the price and availability is not there. But nevertheless, if it is there, we'll have to -- we will have to maintain that if that market's reasonably available. But for this immediate event...

CHAIRMAN GREEN: It's more red tape and bureaucracy that you have to do as a homeowner and that builds up what you're already doing when you've -- when you've had your calamity.

MR. WHIP: I would say fairly, for this event, it's questionable what the benefit of earthquake insurance will be to the County.

CHAIRMAN GREEN: I see. All right. Dan, question? Appreciate your coming out.

MR. WHIP: Thank you very much.

CHAIRMAN GREEN: I understand -- I want to complement your county. You did react and you took care of your citizens real well. Having gone through -- I was born in California, so I went through the earthquake of the 30s and have been in government for a long time and back in the 70s back down south, and so I've been in the municipalities going through all of these earthquakes. And I was in the Whittier earthquake and in my home within two miles of the epicenter there at that one. I was here for this one in the Sacramento area. So we had the feel of it. But when we see those cities and those counties responding to their citizens as well as they did, it means that bit of congratulations to you.

But I think what it does point out to us that are overlooking or have the duty to
look here at the whole state, there are some cities and counties that are not as well-prepared on this disaster thing and what was brought out earlier was we have to work together more with the insurance companies. And it’s an informational thing and to make sure that the people are prepared. And I don’t see it quite as much yet from this quake as we did from Whittier, but after about a month or two after that quake, everybody forgot it. And that’s when we should prepare for the next one -- as it’s going to come.

MR. WHIP: Thank you very much, Senator.

CHAIRMAN GREEN: Thank you. Okay.

Is David Stolls here? Okay. Our next -- well, wait minute. Maybe we’re not ready for you yet. How about Luther Perry? Is there a representative for Luther? Luther Perry is our representative of Santa Cruz County Housing Task Force. Neither are here.

Well, all right. Then let’s go into our next phase of the hearing. And that’s the regulatory role and we have with us today David Stolls, who is the Chief of Claims Services Bureau of the California Department of Insurance.

MS. CHARLENE MATHIAS: Mr. Chairman and Members, I am Charlene Mathias, representing the Department of Insurance here today. The Department’s Consumer Services Division acted promptly after the October 17th earthquake to assist consumers with their insurance inquiries by sending representatives to all of the Federal Disaster Centers and by extending our hot line hours. You have asked us some specific questions about our experiences with the victims after the October 17th quake and we are very pleased to be here this morning to respond to those questions.

I do have with me Mr. Stolls, who is the Chief of the Claims Services Bureau, and Linda Yarber, who is a policy officer who supervises our hot line service. They have both interacted directly with the earthquake victims and can give you a firsthand account of our experiences in our assistance with those victims.

CHAIRMAN GREEN: Thank you.

MR. DAVID STOLLS: Good morning, Senator Green.

CHAIRMAN GREEN: Good morning.

MR. STOLLS: And Committee. Again, my name is David Stolls. I’m Chief of the Claims Services Bureau for the Department of Insurance and I thank you for inviting us to speak today.

I -- the Claims Services Bureau is one of three bureaus within the Consumer Services Division for the Department. The Consumer Services Division is basically the consumer advocacy -- plays a consumer advocacy role within the Department of Insurance, in addition to its regulatory role.

In response to the October 17th earthquake, the next day we mobilized our staff to have staff ready to assist the Office of Emergency Services at the FEMA Centers to have
representatives at the 13 centers that were established. As a matter of fact, we did have representatives -- one or two representatives at each of the 13 centers the day or the day after the centers opened. We had some 18 personnel at these various offices -- centers -- relocating them as the needs dictated. Some centers, as you know, were closed after four or five days and we shuffled the people around in accordance with the needs. Most active were down here in the Santa Cruz area -- Watsonville and Los Gatos -- where most activity did take place. But we had officers here from anywhere from four days to three weeks right through the weekends. And as a matter of fact, I had the opportunity to visit all but one center myself supervising a staff, seeing what kinds of questions were involved, assisting with consumers myself, so I did have the personal experience and exposure to the problems out there in the community.

During the time that we were at the centers, we spoke to -- we assisted -- counseled some 3100 people at the centers. These were obviously not all the people that passed through the centers. In addition to that, the hot line was opened for the first two weekends. We issued two press releases to advise the public of our availability. For the record, the hot line number -- we have a 1-800 number. It is 233-9045. I understand through our internal control message, that our busy signals are less than one percent right now. Very easy to get through to our hot line and we’re open from eight till five o’clock Monday through Friday. We were open the first two weekends of the -- after the disaster.

I passed out some exhibits with respect to the number of statistics -- the number of phone calls we received over the hot line. We actually anticipated a lot more than that.

The kinds of assistance we were able to render the victims at the disaster centers, in addition to the obvious hand-holding and good -- lots of listening, we were able to assist those with earthquake insurance in filling out various claims forms. I would estimate -- we estimate roughly 15 to 20 percent did carry earthquake insurance. But we were also able to advise properly that everyone should file a claim if they had any kind of homeowner’s or commercial insurance because, depending on the nature of the contract, it could be auxiliary coverages that could be picked up, such as glass breakage. Several companies did extend or did have endorsements that -- one in particular I can think of -- that -- that extended limited all perils coverage, which picked up limited contents and additional living expenses.

We assisted the victims in filling out their claims forms. We advised them on how to file a claim with their agent and/or company and what to expect -- what would be reasonable in the time elements and what kinds of questions and proof they would have to furnish. In addition we answered very general kinds of questions with respect to coverages. Those that had the policies we did review the contracts with them and
advised them what they should expect and what they -- what rights they did have. Many of them did not have the policies. Actually returned home and came back to the centers with policies, so we were able to do that -- we were able to assist them in that regard.

We had some -- we heard more -- we heard quite a few horror stories out there ourselves -- offices reported to me. As a matter of fact, I could think of two very specific examples where the officers left their posts and made some specific comp... -- phone calls to companies. We had an elderly couple in a mobile home that was off its pillars and these people were actually living in it. It was on an angle. They were still living in it. They couldn't -- couldn't get through to their local agent. This was in Los Gatos. They couldn’t get through to local agent. When they did get through, unreturned phone calls. Well, our office -- we did get on the horn. Got through to the agent. Got through to the company after identifying the company and we were able to assist the -- to get the wheels rolling right away.

We had another example of one local company -- one local office of a company, whose claims manager was giving out erroneous instructions to their adjusters and not furnishing the proper ALE -- Additional Living Expense coverage -- to those that did have that coverage and that was quickly rectified -- communicated to the office. So we were able to assist consumers in that way.

In addition to that we had a supply of consumer complaint forms and I passed out one to each of you there. I'd be -- we'd be more than happy to furnish each of the senator's offices with additional copies if you so desire.

CHAIRMAN GREEN: We'd appreciate that.

MR. STOLLS: We did pass out these complaint forms and contact information with respect to companies. We had the large -- the major companies -- the 800 lines -- specific personnel to contact with problems. Complaint forms were passed out with those who currently had problems or those that anticipated they would be having problems. We're very surprised to -- I say surprised -- for the number -- for the extent of the catastrophe that has been sustained here, the number of written complaints that we've actually received to date. We do understand that there is a very long tale in receiving these kinds of complaints. Most consumers will attempt to resolve the complaints through their agents and insurance companies directly. It's when they've finally reached an impasse -- that they've reached an impasse and they're totally frustrated, that they come to us. We've received less than 15 complaints with the Department of Insurance -- written complaints.

I want to say that in this -- during this catastrophe, most of the larger companies were quite responsive in bringing out their mobile units to the centers and bringing in catastrophe teams and some companies, more than others, extended their public relations
-- advertisements -- file your claim even if you don't have earthquake insurance. I'm sure you've seen some of that. So most did respond positively. There were exceptions and we did hear horror stories. We stand ready to help the consumer. Any complaints we would -- we need to know about them, we need to investigate individually, and we will act as mediators and follow through with proper regulatory measures if necessary.

The kinds of complaints that we did receive -- the kinds of inquiries -- basically I'm talking about the hot line calls and the -- at the disaster centers we only received, as I indicated, a few written complaints. We've received inquiries as people did not know if they had earthquake insurance. They just did not know. Some thought they did and found out they did not, so we had some alleged misrepresentation problems from the agents and/or companies. We had much of that.

Along with that, we had quite a bit of confusion over the deductible. We had people unhappy with the deductible. Led to believe that they had ten percent of the damage when it was in fact ten percent of the limits. So a lot of confusion with respect to the deductible.

Inability to find a contractor was a problem. We couldn't assist them very much in that area. And a few delays. Not very much in the way of delays. As a matter of fact, much of the response at the disaster centers was very affirmative -- very positive, and the consumer was basically happy with the initial response. But it was very too early in the game to know how the outcomes of these claims situations came.

Like I said, the Department of Insurance stands ready to investigate individual complaints. We encourage people to file the complaint with us. To call us if they have just mere inquiries -- uncertainties with respect to the policy in claims situation.

Thank you very much. I'd be happy to... 

CHAIRMAN GREEN: I wanted to say one thing to you. It's -- I received a lot of compliments on what you all did here in this area from your department. You came in and did the job and helped in a very big disaster.

The question I would have is, having now gone through this as well as you did, how would you change your policy procedures to do a better job? (pause) I know that's asking a big question -- it wasn't in writing and it's just one that formulated as -- as I'm going along. I always live by experience. Correct and through the experience now, what have you gained that would make you do better later?

MR. STOLLS: I think as far as availability to the public, I am not really sure how -- what else we could have done to make ourselves more available to the public. We were there. We continued throughout the year and throughout the past to make ourselves visible to the consumer. (pause)

Thank you, we are putting together, Linda informs me, and she is -- she heads up
our toll free hot line -- emergency preparedness teams that will stand ready to go out. We've done this as the emergencies come up in the past, but we didn't have them ready. We didn't really suffer. The consumer, I don't think, has suffered because of any delays on our part. In fact, we were already to go by the time Office of Emergency Services contacted us. We also will be putting together a publication with respect to, you know, what to expect in a catastrophe. What your expectations should be from your insurance companies.

CHAIRMAN GREEN: So you are doing -- looking at that changes in the future. Thank you very much. Henry?

SENATOR MELLO: One of the complaints I had during this crisis was people were calling your hot line -- was the lack of bilingual persons on the -- that you had on duty there.

MR. STOLLS: That has, I think, -- has been a problem in the past, but just very coincidentally we've taken on additional staff -- quite a bit of additional staff -- due to the changes out there in general. And we've -- have hired a number of staff -- bilingual staff. Linda, do you know off-hand how many? Six on the hot line bilingual, in addition to several that are -- that are already there.

SENATOR MELLO: Taking in that many calls, though, like an area like Watsonville, 60 percent of the people there are Hispanic and are non-English speaking and people just didn't know where to turn.

Well, we had the same problem with FEMA. They opened up their local centers down there and they, at first, had no one in there that could speak other -- speak a language other than English and even those who spoke English had a hard time interpreting the rules.

MR. STOLLS: During our recruitment process for new personnel, we went to extremes from an affirmative action standpoint to recruit, not only for affirmative action, but for the needs of -- that we do need to have bilingual people and we went to every available means out there to recruit and notify our recruitment...

SENATOR MELLO: It's not only Hispanic. There's a lot of Asians in this area -- Filipino, Vietnamese, people from Korea and all over that really have to have the availability of bilingual persons that are available. Otherwise...

CHAIRMAN GREEN: There's even Portuguese out there.

SENATOR MELLO: You bet there is. But they call me. I can speak... (laughter)

MR. STOLLS: All right. I just hired a man that speaks Hungarian as well. But, no, I appreciate your comments and they're well-received.

SENATOR MELLO: I think it's something to remember in procedure. Just have -- have enough bilingual people there. You know, if you're going to do a hot line, you better -- you have to answer those questions when they come in.
MR. STOLLS: Your comments are well-received. Thank you.

CHAIRMAN GREEN: Okay, thank you very much for your attendance.

Next, Linda, did you have anything to say? He said it all for you. All right. Thank you very much.

Next we then -- before we go into this, do you want to continue? Maybe -- does anybody need a break? Okay, let's keep going.

We -- our next phase is insurance companies and trade associations. And from Association of Insurance Companies, we have Sonja Larkin-Thorne, Vice President of Personal Lines, here.

MS. SONJA LARKIN-THORNE: Good morning, Mr. Chairman and Committee Members. I am Sonja Larkin-Thorne, Vice President of Personal Lines for the Association of California Insurance Companies. We represent some 30-plus insurance companies doing business in California and we want to thank you for giving us the opportunity to appear here today.

I have with me as a representative sample of our companies and a company doing business in California, the Allstate Insurance Companies. First we have Mr. Kevin Sullivan, Assistant Vice President and Assistant General Counsel of Allstate Insurance Company. With him, John Blakely, the Assistant Vice President of the San Francisco Metro Office, which obviously included the Bay Area, Santa Cruz and most of the areas impacted by the quake. And also, Judy Patrey, the Territorial Claims Manager of the San Francisco regional office who was in charge of mobilizing the catastrophe teams and responding to the quake.

The association has sent out to all of our member companies your questionnaire and we will be providing the Committee with a complete package within the next week.

Our member companies within the Association have experienced losses from the earthquake ranging from $400,000 to $60 million as of or through December 7th of this year. We have, like I said, asked Allstate to provide the Committee with an overview of how they responded to the quake, how they brought in their catastrophe teams and the types of losses they have experienced with this quake. And I'm going to ask Mr. Kevin Sullivan now to come up.

MR. KEVIN SULLIVAN: Thank you. Mr. Chairman and Members of the Committee, again, for the record, my name is Kevin Sullivan. I am an Assistant Vice President-Assistant General Counsel with the Allstate Insurance Company in Northbrook, Illinois. I'd like to thank you for this opportunity to be here today to talk with you about the important issues surrounding earthquake coverage in the state of California and Allstate's response to it. We have with us today John Blakely and Judy Patrey. They head up the management team in the San Francisco metro region that was responsible for managing Allstate's response to the earthquake.

You have before you in a December 7th, 1989 letter to the Subcommittee, Allstate's
response to the Subcommittee's questions. It is not our intent here today to go through those in great detail, but to have John Blakely give you an overview of Allstate's response to the -- to the earthquake.

Before I have John come up, I'd like to clear up one misconception that has been presented by a couple of witnesses today and that's the pricing of catastrophe-type coverages. They are basically state-specific -- as state-specific as they can be. You are not subsidizing Iowa and Oklahoma tornadoes and hailstorms. Those coverages are done on a state by state basis. The prices are set on those state rates. I don't think the Insurance Department would let us get away with having you subsidize anybody else's losses. And likewise, your California earthquake coverage is not being subsidized. There is a need for that probably and that place is the federal government -- you've heard a few witnesses refer to that.

CHAIRMAN GREEN: Do you see, as I do, and it's my position and I hope you agree -- and if you don't, I would certainly appreciate why you don't or some debate on it -- is that we, the State, each time we have an emergency and one of these -- in other words the last two years -- the State has come forth with maybe a million and a half dollars because of earthquake. I see it as a partnership between the individual. I see it as a partnership between the city/state and insurance companies. And I think with working a good package together of a risk pool, we can lower the deductible. I think we can lower the cost because there will be no more numbers and why shouldn't the State put the money in up front in a pool so that all that can happen?

MR. SULLIVAN: Senator, I think you -- you basically explained the problem very well. We're talking about a very significant risk that all citizens in the state of California bear and we're talking about how we share that risk and how we transfer that risk. And which parties assume portions of that risk and finding the appropriate balance, I think, is one of the major challenges for the Committee. You have heard comments about capacity to handle the risk that's being transferred from the homeowners and that's a critical piece. And at some point when you talk about the 8.3-type magnitude earthquakes, you're talking about outstripping the capacity, not only of the citizens of California, but the insurance industry, and we need to spread that risk as far as we can and that's why Allstate has historically supported the federal earthquake projects and has been working in Washington to see if we can move that process forward.

CHAIRMAN GREEN: Well, and my position is there's a very clear and easy one -- is we should have done this 50 years ago. The pool would be there by now. And the reserves would be there and they would be cutting costs lesser because of the length of time of when that big quake comes. And we still don't know today if it's going to come this year, next year, ten years or 30 years from now. So the time is now.

MR. SULLIVAN: That's the difficulty in dealing with earthquakes. Yes.
I'd like to introduce to you John Blakely, if I could. John's going to give you an overview of Allstate's response to the October 17th quake. Thank you.

CHAIRMAN GREEN: Thank you.

MR. SULLIVAN: After John's finished, we'll be glad to handle any other questions that you may have.

CHAIRMAN GREEN: Very good.

MR. JOHN BLAKELY: Thank you so much for having us here this morning and good morning. I'm John Blakely. Again, I am the Regional Vice President of the Allstate Insurance Company that did cover the majority area of the quake. In fact all of that area. Allstate has four regional offices in the state and ours goes from the end of Monterey County up to Sonoma County. So the area of the quake was covered by our regional territory.

I, like another witness, was in southern California at a conference during the quake. And when I -- when I got in, one of the gentlemen said, "Did you know the Bay Bridge was down?" And I thought he was joking, obviously, and it was no joke. Could not get to my family, so I immediately got in a car and drove the distance that evening. Fortunately, one of the gentlemen from our home office who is in charge of our catastrophes was with me. So we drove that evening. Got in about three a.m.

We immediately had gotten, though, in contact with others. Earthquake -- oh, earthquake -- Allstate being the large insurer that it is does have a catastrophe plan and we have several thousand adjusters throughout the -- these United States. At that time, many of them were down in the Charleston-Hurricane Hugo area. So we were able to dispatch them in. We immediately set up 800 numbers. We marshaled all of our forces throughout the state.

CHAIRMAN GREEN: Before you get any further, may I throw something in here...

MR. BLAKELY: Yes.

CHAIRMAN GREEN: ...because it was a point brought up earlier with the witnesses. When you get into your adjusters and there was some testimony on the adjuster from the east coast knowing what they do out here. And I know the answer, but I'd like you to put it in the record.

MR. BLAKELY: Yeah. Our adjusters are generally trained to handle catastrophe of any type. To adjust a home that is damaged does not make a difference where it is.

CHAIRMAN GREEN: Well, but you have -- you have scales of market place and purchasing power and so forth.

MR. BLAKELY: Exactly.

CHAIRMAN GREEN: So even though that adjuster works on the east coast, you work with that scale of cost and...

MR. BLAKELY: Exactly.
CHAIRMAN GREEN: ...on the west coast with this scale of cost.

MR. BLAKELY: Exactly and -- and we also had our own adjusters in on this, too, as well. Most of the very severe losses that we have sustained will be handled by our own adjusters using, certainly, their expertise in the area of expense, what have you.

But back to how we responded, we, within two days, again, had several hundred people in on the scene. Visibility was quite appropriate at this time because, as you know, so many people could not get to telephones. Didn't -- couldn't find their insurance policy. In some cases, didn't even know who they were insured by. It was our experience -- because of the trauma.

We had several vans running around with big Allstate signs on them. All of our employees with catastrophe jackets outlining. I had a personal experience where a gentleman was surveying some damage down here. Walked up to me and said, "You're with Allstate." I said, "Yes, I am, Sir." He says, "I think I'm insured with you." We had a portable phone. We called, found out he was, started procedure on the spot.

I believe Senator Mello asked about bilingual. Yes, we had bilingual staff, particularly in the Watsonville area. We had set up seven catastrophe centers. One was in Watsonville where we have an agent who is bilingual and then we have staff in that office, as well. We have adjusters also.

In the San Francisco area, we do have Chinese-speaking agents and claim adjusters, so we could cover a pretty broad spectrum of language and are proud to do so. I might add one other point. We have also recently funded a project by the Latino Issues Forum who will be looking at this for us and getting an earthquake preparedness kit in about six languages. And we think this will be something that can help in the future for us to keep the good citizens and our insureds protected.

We surveyed the areas by helicopter so we would know where to put our -- our people. And as a result, we had pretty rapid response in most cases. I can't say enough for the media to the degree that they made themselves available to us, although at-cost, obviously, but they were available to run the ads. We had the ads also in Spanish, where possible -- where we thought it would make a difference. We ran ads on radio and television and, again, the system has worked pretty well for us at this time.

I don't know if Judy had anything to add to this because she is our Claim Manager.

MS. JUDY PATREY: No, but I did want to answer your question as far as the cost between the east coast and the west coast. Our system is computerized. Each of our adjusters were equipped -- not each -- most of the adjusters were equipped with what we call a personal estimating system. It has on it the costs according to geographic location.

CHAIRMAN GREEN: Geographic...

MS. PATREY: Yes. And what wasn't computerized was handed out to the adjuster, you
know, for costs, local labor rates, as well as materials.

MR. BLAKELY: I thought I would make. Oh, I'm sorry, forgive me for that.

MS. PATREY: My name is Judith Patrey.

CHAIRMAN GREEN: Thank you.

MR. BLAKELY: One other thought occurred -- there was some -- it seemed to be a lot of confusion or discussion this morning about the types of deductibles. I'd like to just state Allstate's. Allstate sells a policy that covers the dwelling for the replacement value of the dwelling. We apply a ten percent deductible. And you can add in your contents, whatever -- you have a ten percent deductible of the dwelling amount. So it is -- and we don't apply but the one deductible and...

CHAIRMAN GREEN: For instance, I say my house is worth a $150,000.

MR. BLAKELY: Okay.

CHAIRMAN GREEN: But yet, it's worth $250,000.

MR. BLAKELY: Okay.

CHAIRMAN GREEN: Do you take my valuation and -- or do you do an evaluation of the house and say you have to raise your limit?

MR. BLAKELY: We do an evaluation of the home when we first insure you as to...

CHAIRMAN GREEN: That's what I meant.

MR. BLAKELY: ...what the rebuilding costs... We have various estimators that are -- that we can use, or we send an inspector if we have a doubt according to the magnitude of the home, of course, to ascertain...

CHAIRMAN GREEN: But somebody -- some people will underestimate the house...

MR. BLAKELY: Oh, certainly.

CHAIRMAN GREEN: ... in order to save premium.

MR. BLAKELY: Certainly.

CHAIRMAN GREEN: And you actually don't go that route or you will use your own?

MR. BLAKELY: I guess, I'd have to ask again the question because...

CHAIRMAN GREEN: The question would be if the people want to under-insure their houses, then do you still write that under-insurance?

MR. BLAKELY: Oh, no; no, no, no, no. We don't.

CHAIRMAN GREEN: You do not.

MR. BLAKELY: No, we do not. All our homes are required, to the best of our knowledge, to be insured to 100 percent of the estimated replacement cost of that dwelling because in most of our policies, we sell a replacement cost feature that says no matter what the cost is, we're going to rebuild that house to that. And I think that's something else that has not been brought out here. There are going to be homes that, for whatever reason, are going to have far greater repairs done to them and certainly than they were carrying on insurance in some of these. And certainly the
deductible that they were carrying would apply. But the fact remains, that has not been brought out today, which is pretty substantial in some areas.

CHAIRMAN GREEN: Yes. A lot of houses are not reappraised every few years and they sit there and all of a sudden they go up by hundreds of thousands of dollars. We saw that in Orange County. That was overnight. And we're seeing it now in the northern country -- of these houses coming up here. In San Francisco, it's been that way for years.

MR. BLAKELY: Now generally, if I might add, that is generally the market value, of course. But, as you know, rebuilding costs generally go with that. We have in our policies an escalator that, based on the CPI and the building industry's figures, it would raise your premium.

CHAIRMAN GREEN: Now your premium is basically what, one percent of per thousand dollars of house or one percent per thousand of value?

MR. BLAKELY: Our -- our premiums run anywhere from 70 cents up to six dollars a thousand. Now let me break that down a little for you. Seventy cents would be generally your contents coverages. The basic home in California that we insure would be about a dollar and a half per thousand. The six dollars would come in on your masonry structures and there are not many of those in single family dwellings around. But that's the range.

CHAIRMAN GREEN: Dan?

SENATOR MC CORQUODALE: Are you able to calculate or maybe you could explain to us how you arrive at the -- at the price for an insurance policy with the deductible and suppose it didn't have a deductible. What would you -- how would you have to -- would it be a factor of twice the cost or ten times or do you have any way of knowing what it would be?

MR. BLAKELY: I'm not an actuary, but one of the things is, you know, we do have a real problem with earthquake because of the unpredictable nature of that final cost. To the best of our ability, we take a story. Just like anything else, we build models of it with our research center and at this point, due to the lack of spreading of the risk, as we've spoken earlier, we have based our premiums on what we think is -- is an expected, again, with that deductible amount. Again, that changes. Certainly we could probably come up with a price without a deductible, but it would be, I can tell you, horrendous, probably, and probably not in the interest of the public because no one would be able to afford it at this time due to the lack of available data on all of earthquake, as we do other coverages, like fire, for instance.

SENATOR MC CORQUODALE: What about on the issue of -- pretty slim possibility that government's going to come along and say you've got to include it. But suppose the lending institution said that the only way you could finance a house in California is
if you had to not only have fire and casualty, you had to have...

MR. BLAKELY: Earthquake.

SENATOR MC CORQUODALE: ...earthquake. What do you think the cost per policy would be? Same deductible as you have now. But suppose everybody in California -- every home would have to have that?

MR. BLAKELY: Again, I'm not an actuary, but I guess just as an insurance person, I would have to say, for first of all, we'd have to look at, on an individual basis, our company's assets and ability to even pay that. So that would certainly play into that. Could we even afford to -- to issue a policy? So it could be, because you're having more people participate, it would -- it could go down, but on the other hand, there is greater concern with the capacity for you to insure this all without some type of reinsurance. You would probably have to reinsure that somewhere. But there is a possibility, certainly, when more people participate in the insurance mechanism, to lower the cost, generally speaking. Again, capacity, though, comes into play. So there -- there is a possibility, but it is disconcerting as to what that final outcome could be. Yes?

MR. SULLIVAN: Yeah, I think the one answer to the question is for an individual, it wouldn't -- it wouldn't change because the rates for earthquake coverage do vary by geography and assessment of the risk potential in that location, based on the computer modeling that John talked about earlier. So, as he pointed out, what you do, by increasing the amount of coverage you're providing, you're likely to face higher reinsurance costs -- the greater likelihood that you'd get into reinsurance. So you may end up driving up the costs by forcing everybody into the system.

CHAIRMAN GREEN: Dan, anymore? Thank you very much and is there any other questions? Sal? Thank you very much.

MR. BLAKELY: Thanks for having us.

CHAIRMAN GREEN: Linda? Or Sonja?

MS. PATREY: Mr. Chairman? Sir: If I could take one moment, please. I think this is a good opportunity for -- for us to say a little bit more than John did. He talked about our adjustment force coming in from around the country. But I'm proud to work for Allstate. I think that we did an excellent job out on the streets. We've received masses of complimentary letters, accolades from our public and the service wasn't just according to the policy. We had adjusters who went on their own out to help people. To buy groceries, to climb up and remove debris and things like that to overall help people. They were walking the streets. They were -- just made an all-out effort. Thank you.

CHAIRMAN GREEN: The -- one more question by any one of you, and I think I want to pose the same question I did to the Department of Insurance. Having gone through this
experience, now, what would be the change of your policies and procedures to do a better job next time? Where did you find your failures so that you can fix it for tomorrow?

MS. PATREY: Failures, Sir. Right now I would say that they are limited. But what we've decided to do as soon as this slows down a little bit, is to sit down and talk about what can we do in the future? One thing that I noticed that went off really well and we didn't have in place right away was someone sitting -- from the Claim Department sitting in each agent's office to help field some of the phone calls. Some of our insurers were traumatized -- quite traumatized by this, so it wasn't so much a matter of handling the claim as it was using the empathy, the compassion that was needed at that moment in answering their questions.

CHAIRMAN GREEN: Okay, the...

MS. PATREY: We can get back with you and tell you what we feel like we could have done...

CHAIRMAN GREEN: Well, that's -- I think maybe I want you to think about that for a while...

MS. PATREY: Yes.

CHAIRMAN GREEN: ...and maybe feed that in before February if you can, because that is a concern of what do we do tomorrow? And we have to look for tomorrow because it's going to come.

MR. BLAKELY: Well, I think that one of the things that we have done and will continue to foster is preparedness. I think that a greater sense of preparedness by all people. And if we can play a role in that, so be it. We'd like to. We have a lot at stake here, too, because we're partners with our homeowners and our customers out there. So I think that's a big piece of this in the future.

CHAIRMAN GREEN: So you're an integral part of that disaster area and the first thing you lose is communication. I haven't heard that today. I'm sure somebody's going to think of it pretty soon. But you lose your telephone. You lose your power. You haven't got your computer. And it puts you back to the old days where we used to use hand stuff. And it's usually a matter of a lot of hours before that power comes back on so that you can be operational. What do you do in that slack time? What do the people out there that are hurting -- what do they do in the meantime? So, you see, that's what -- what I'm asking.

MR. BLAKELY: Certainly and I think that's why I'm -- I mentioned earlier, we had the visibility because we knew some people didn't have telephone. So we just really got in trucks and vans and rode around with signs on and we found a lot of folks that way. Now, the other thing. We use the cellular phones and made extensive use of them during this period, which really came in handy for us.

-48-
CHAIRMAN GREEN: Well, I think we'll all be developing a better communication system.

SENATOR MELLO: Is that extra large? (laughter)

CHAIRMAN GREEN: I use -- are you extra large, Henry? I think I'm just large.

MR. SULLIVAN: As Sonja is demonstrating here, I guess, our adjusting force made every effort to be visible. But you pointed out the critical thing -- communication.

SENATOR MELLO: Did you bring those for the Committee?

MR. SULLIVAN: Is what is necessary in a project that was alluded to a little bit earlier that the Latino Issues Forum is involved in is trying to establish...

SENATOR MELLO: Oh, I've got mine. Oh, this is too small for me. (laughter)

MR. SULLIVAN: But the critical thing is...

CHAIRMAN GREEN: We're having fun. You know, when we get disasters and stuff, you have to take a little breather, you know, and stay on edge and you can go through it and do a better job if you laugh every once in a while. Thank you.

MR. SULLIVAN: Thank you.

MS. LARKIN-THORNE: Just in closing, Mr. Chairman and Committee, I'd like to point out one other thing that Allstate did in conjunction with its parent company, Sears.

As you know, the Sears store here in Santa Cruz was severely damaged as a result of the earthquake. Yet, because Allstate knew and Sears knew that there would people who would be getting on the spot checks from their insurance adjusters, that Santa Cruz store opened up the teller, went down to the bank, got as much cash as possible and cashed every draft that was issued and brought to that store. They just didn't do it in Santa Cruz. They did it in the Sears stores in northern California where there was a need for dollars when banks weren't open because their computers were down. And there wasn't -- or of questions from the insureds coming in. If you have an Allstate draft, we will honor that draft and we will cash it for you on the spot.

CHAIRMAN GREEN: Congratulations. I think that truck moving thing -- going in and the communication you did out there is outstanding and I -- that's the first I've heard of it today and I think that's one of the things that needs to be fed into disaster plans is how do you get there and communicate. Thank you for appearing here today.

MS. LARKIN-THORNE: Thank you.

CHAIRMAN GREEN: Okay, the next we have is Personal Insurance Federation of California. Dan Dunmoyer. He is Vice President of the Legislative Policy.

MR. DAN DUNMOYER: Thank you, Mr. Chairman, Members. Thank you very much for just inviting us to be here. We're basically a new federation -- Personal Insurance Federation, but we represent some of the longest standing companies, both State Farm and Farmers and Safeco. And today I am pleased to have two gentlemen here. One, Mr. Phil Heides, Assistant Counsel out of the Rohnert Park office, and Mr. Newlin, who will
begin our testimony. He was in charge of the entire catastrophe claims unit for State Farm, as well as overseeing the entire catastrophe unit. So we're pleased to introduce him and to answer any questions you may have. Thank you.

MR. BILL NEWLIN: I'm Bill Newlin with State Farm Insurance Companies and I've been with them for 24 years and I am a claim manager and I am operating as our coordinator for this disaster.

Our operation started out, as everybody else's, with a sudden jolt that lasted for 15 seconds and made a lot of us wonder whether we were going to die or live. And in that first few hours we started contacting -- we have a program that is in place all the time. It's decentralized throughout our region. We have kits -- disaster kits throughout our region. Our region runs from King City, Stockton, north to the Oregon border and we have forest fires and wind storms and the freeze storms and things like that, all of which have happened in the last 15 months -- 18 months. So we have these disaster kits out there already and we have people out there already -- ready to move on the disaster. And so in this particular case, when it happened, those people immediately went into position and we had six disaster offices strategically located within 24 hours. And that did expand to nine locations eventually. We also had a support -- technical support crew come in within 24 hours from our corporate headquarters and they also assisted us with our technical concerns.

We started out with roughly a hundred people in that first 24 hours and we moved to a maximum of a 450 persons at the top of our disaster process. And here in Santa Cruz County we had over a 160 employees involved in the disaster operation. So it was a very large effort.

In the hours that followed, we put in place eight mobile units. These mobile units had generators, cellular phones, typewriters and then some of them were also computer-equipped with our computerized estimating abilities. And those were put in strategic locations based on need.

We had 800 numbers. We did the TV and newspaper and radio, but we had the 800 numbers. And one thing that we found extremely advantageous was these contact units that we put in place in the same location as our 800 numbers. We would put in a team that would answer 800 numbers and we would put in a team to contact our insureds so that they knew what their claim number was, who their adjuster was and they knew that in a very short period of time. And we could also reaffirm the priority level of their claim because the agent, when he reports the claim, gives us a priority level.

Also, our adjusters, as Allstate's are -- they are trained to handle disasters across the nation. In fact, when the earthquake hit, we had 42 adjusters in North Carolina on Hugo. We flew them back immediately and they started working on this disaster. And we had seminars and, as you indicate, schedules of costs and so on that
were part of their kit when they come on the disaster, so that they know what the local costs are and they can move on that immediately.

From the claim handling practices approach, we, as many others, use our agents. We also had 800 numbers. We had a person show up, which I was rather pleased to see that -- I didn't expect that, but that was nice. But the people do report them, the agent puts a priority on them, they come to us, we go out based on priority order, and we inspect them. And we solicited claims, whether the person had earthquake coverage or not. We wanted them to submit a claim if they had damage. And we would decide whether we were going to make payments or not and we made payments on a lot of homeowners who had no earthquake because we could cover structural glass and we could cover refrigerated products that had spoiled and we did that. And so we spent large sums of money on homeowners where there was no earthquake.

The priority system worked very well because we were able to put the adjusters on those total losses right away and we were able to put our contact units on the lower priority items. We had emergency advance payments. I think an example was in the local newspaper where a person had a house that was a total loss. We were out there in a matter of hours. We paid them $6,000 for living expenses and $8,000 for demolition and those immediate payments are made and then we follow-up with personal property payments and so on. So it's an on-going process and as someone said earlier, some of the claims do go on for a period of time. Maybe even months when you're dealing with a large number of personal items.

In the situation that we're involved in, we did cover a large area. We had over 23,000 claims reported so far, roughly 23,400 as of yesterday. We continue to get around 70 a day. And we continue to adjust those. We've adjusted over 80 percent of them and concluded them. So the pending claims continue. We roughly have 5200 claims still pending and we continue to work on those. As we get the new ones, we adjust them also.

So the process for us has been one of applying our known skills, but having to do it on a much larger scale than we've ever had to do in California before. And so it's been a large effort, a lot of expense and it's gone very well for us. Very few complaints and most people, as a couple of people testified today -- most people are aware of what they bought. And they seem to know that my deductible is X and I either bought it or I didn’t buy it. So it's worked out well for us.

CHAIRMAN GREEN: So you don't see any need for more education to the insured in that part by the agents?

MR. NEWLIN: Oh, I think there's always room for education. There's always room for that. But we were pleasantly surprised by the fact that so many people knew what they had and when we'd go out and see them, they'd go, "Yeah, I know I don't have
earthquake" or "Yeah, I know I have a ten percent deductible. I bought it in case my house went to the ground." And so they had that feel going into it. And I think they're a lot more astute than we give them credit for. But yet, I'd never think that we could not -- over educate these folks. They need to know.

CHAIRMAN GREEN: Then the same question to you, what have you learned that you're going to put in place in the future or are you ready to make those answers yet?

MR. NEWLIN: Well, one thing, we're -- we're obviously studying this and we hope to learn a lot from it. But I think, up front, I'd have to say that not only be prepared on paper for an earthquake, but we are going to go into a process where we'll do an annual dry-run, much like the police do, much like the fire departments do, where you can bring everything up, get it up and running, and then shut it down and you make sure it's working. And so that would be the greatest thing that we would approach and impress on.

CHAIRMAN GREEN: A number of years ago -- and this is an experience with the Whittier quake -- in the city of Norwalk, we put in a great big generator -- emergency -- when we lose power because of an earthquake or an air-raid or whatever and when the Whittier quake came along, the damn thing wouldn't start because nobody had thought about -- in fact, some of the parts weren't even on the thing and they had to go get a new generator and place it and now they have a policy of how to check it weekly to make sure it starts. But their whole communication network was on that generator that was worthless. So it taught them a lot of lessons.

MR. NEWLIN: Okay, anything else I can help you with?

CHAIRMAN GREEN: Okay, thank you. Any questions? Thank you very much for coming today.

MR. DUNMOYER: We look forward to any legislation or any ideas that you come up -- to work with you and to provide you information as you have more questions.

CHAIRMAN GREEN: Great, and as you get information and documentation, be sure and stay in touch with Sal because we are building a good file on this and in February, maybe we'll be ready with some kind of legislation.

MR. DUNMOYER: Thank you much.

CHAIRMAN GREEN: Thank you.

Okay, next we have California State Automobile Association. Barry Shiller.

MR. BARRY SHILLER: Yeah, well, you know, Mr. Chairman, Senator Mello, Senator McCorquodale, I've been taught that visual performances are always the ones that are most interesting and that catch the eye, so we get into visuals. The first thing I thought I'd show you...

CHAIRMAN GREEN: Well, most of us can't read and we have to look at pictures.

MR. SHILLER: Well, that certainly wasn't my thought, but I thought that it would
be helpful if you could see firsthand a sample of the damage that was done in this community, and which we, coincidentally happen to insure. This is a photograph of—of a home up on Summit Road and I believe this is one of the well-chronicled photographs that appeared in newspapers and on television. We happen to insure it as well. And this crevice that you see here ran about two and a half miles in length and at its deepest point, about 15 feet down. And you can’t see it that well from where I’m holding it, but the porch on this gentleman’s home— it’s a step down of no more than three feet and if he had run out of his home as he explained to us he wanted to after the earthquake, he would have dropped right down into that crevice. But he had the presence of mind to stay underneath the doorway and then came out on his porch when the door was unstuck and saw the crevice and realized that he had made a good decision—he and his wife—to not do so. This home, though, you’re interested to know, will be totally repaired and reoccupied today. This was filled in with the help of the Army Corps of Engineers and we paid to have the paving done to bring it back up to its previous state, at least to the extent that we could. And all the repairs to his home are done and this is six and a half weeks, I guess, since the earthquake.

CHAIRMAN GREEN: Okay, that gets rid of the old adage that the building might go, but your ground is still there.

MR. SHILLER: That’s right.

CHAIRMAN GREEN: They didn’t even have their ground.

MR. SHILLER: That’s right. That’s right.

I also will take up from now on the way we were involved. I think State Farm gave you an excellent description of the kinds of things they did to try and be visible. We did the same thing. We had signs and vans and we— we attempted to get into as many emergency areas as we could, and as you all know, the Red Cross set up emergency shelters in all of the affected communities and specifying in this community, we had people out the next day, attempting to get into as many of the shelters as would allow us in. Again, at least some communities were reluctant to let insurance people in too quickly. It took 48 hours in a couple of communities before we got in. But once we did, we were able to get in and start processing claims as did.

I had distributed to you a basic statistical summary of what we have done to date and I believe you have that packet. I think just to summarize, basically, we had a significant concentration of our policy holders in these communities. Senator McCorquodale’s, Senator Mello’s districts. We ultimately believe we will pay about fifty-one and a half million dollars to settle all of the claims. About a third of that will be that limited all-peril coverage which I should thank Mr. Stolls and Mr. Palmtag, the independent agent who was kind enough to compliment us as a competitor of his. But about $15 million of our pay-outs will be that limited all-peril insurance.
which we offer and which covers some of the living costs and some of the personal property loss that result from a disaster that isn't covered by a basic homeowner -- by an earthquake policy, excuse me, and that results from you not being able to live in your home. The rest of the claims will be earthquake endorsements. About 20 percent of our policy holders have the earthquake coverage and we ultimately will pay, as I said, about $35 million under the earthquake and then $15 million or so under the limited all-perils.

We have probably slightly less than half of all our claims still to be settled. A little over half are done now. The biggest delay is in contractors really because the contractors are being spread about as thinly as you can imagine. We are requesting one, not three, and we are helping the policy holders, where we can, to locate licensed, local community contractors. But there are still people who have not yet had contractor bids written on the damage to their homes. And we are still somewhat concerned about that.

There is also some concern about whether the soils in some of these communities will be adequate to rebuild until a full rain cycle has occurred. And obviously, the rain has been so sparse that some geologists believe that until a full rain season has occurred and the soils have been affected by that, they won't be able to accurately estimate whether or not building can go forward for some of the people who have lost their homes.

We have done what I think you've heard many others describe. We've been out in communities. We're lucky to have offices in most every local community where earthquake damage occurred. Hollister, Gilroy, Los Gatos, Capitola, Watsonville. So we were able to get a visible presence into those communities pretty quickly.

Most of our policy holders, because they have been members of the Club and with us for a long time, know where the offices are. We had our sales agents, who know the communities very well, take out-of-area claim reps around -- you asked that question of another company -- and our sales agents know the areas very, very well. So they took them around and escorted them into the homes and showed them the streets that were closed and the streets that were open to help facilitate getting claims processed.

We stayed open the first weekend after the earthquake. We stayed open late many evenings. We did get phone power back the next day because we have a temporary emergency phone system. And, again, we had some advantages because we have the road service -- yellow truck service. We have phones that are open 24 hours a day for that service anyway, so our policy holders could reach us 24 hours a day, report claims, and we had emergency personnel out in the field the next day for the most part.

We have offices with cashiers, so we, again, had the good fortune to be able to have our cashiers cashing our insurance drafts. We had as many travelers checks as we
could find. And we were getting money to our policy holders so they could begin making emergency repairs.

One thing that the homeowner's policy provides is for emergency repairs that are needed to get a building safe from either subsequent damage or from vandalism -- broken windows and so forth -- those repairs can be made without deductibles. So we attempted, where we could, to offer emergency repairs immediately so the deductibles weren't even needing to be assessed until the longer and more enduring repairs could be -- could be made.

CHAIRMAN GREEN: You skipped over the rain cycle like one of the earlier testimony -- the condo people -- they've got a hillside problem. Is that what you're alluding to and is their coverage with your company, for instance, on that?

MR. SHILLER: We don't insure condo associations or condo developments.

CHAIRMAN GREEN: If that were a home rather than a condo?

MR. SHILLER: I think we would. Yeah, we would.

CHAIRMAN GREEN: Yeah, so in other words, that's what's happening basically with the condo group there that is waiting for this rain cycle -- slipping to the hillsides...

MR. SHILLER: Exactly.

CHAIRMAN GREEN: Seeing what they have to do to upgrade.

MR. SHILLER: Exactly. And we have told our policy holders that claims that we are now making payments on will be allowed to remain open so that if they do find subsequent damage, we're going to take care of them if that's the case.

I think I've talked already about staffing. We did not use our sales agents, actually, although some companies, as you know, do have agents that start the claim process. We don't do that. We have claims personnel in every office so they were the ones initiating all the claims and following up with the claims. The sales reps have been pretty busy taking applications for new coverage from a whole lot of folks. There have been...

CHAIRMAN GREEN: Do you think you're covering a lot more insurance -- earthquake now?

MR. SHILLER: Oh, yeah. We begin -- we continued writing it from the day after the earthquake. We didn't have any period or moratorium where we were not writing it. So our agents have been pretty busy taking applications, going out and inspecting homes, and so they have been -- they have been occupied since the earthquake anyway.

You asked about premium and collected and claims paid out. We -- we estimate that we will pay more from this one event than we have collected in earthquake premium for ten years. I can't say whether that's been the experience of other insurers. We noted in looking back at our premium collected that from 1985 through the end of this year,
we estimate we will collect more than ten times what we collected in the five years before that. Now obviously Coalinga heightened the sensitivity of some people. The earthquake in your district heightened the sensitivity more of some people to the need for earthquake insurance. But even with all of that, the amount of damage that we will pay out of this event will still exceed all the premium we took in for that ten year period.

CHAIRMAN GREEN: But don't you see more people now going into earthquake insurance because of this -- because the big one is coming?

MR. SHILLER: Well, you know, I think -- I think in the short term, people are certainly heightened to that. Whether that continues, Senator, is a little hard to say.

CHAIRMAN GREEN: Who knows?

MR. SHILLER: There's no way of saying.

CHAIRMAN GREEN: Sal?

MR. BIANCO: I wanted to follow up on that in just a second. I understand what you've said in terms of potential pay-out on claims -- they will equal more than X dollars in earthquake premium collected. However, the question I have on that is, of the claims, some of those claims are non-earthquake related. So, would that still be the case? That is to say, on people with earthquake coverage, on claims paid out per the coverage, versus the premium collected, do you still have the same situation?

MR. SHILLER: It's still -- it's still about the same situation. We -- as I said, the LEP coverage I spoke about, is the only really non-earthquake coverage we're paying. For example, auto claims -- we'll pay less than a million dollars on auto claims. So it's still predominantly earthquake coverage that represents that total payoff.

MR. BIANCO: Can I follow up on one more? On the soils question, let's put aside the question of the rain cycle for a moment and let's ask the question about the geology of the soils. Has -- since you've continued writing uninterrupted, therefore, I guess, what you're saying to us is that from CSA's position, from underwriting risk perspective, there is no change in underwriting standards after the quake, even though the soil's geology may have changed that particular piece of property.

MR. SHILLER: Our underwriting guidelines haven't changed to the extent that we aren't refusing to write people for reasons any differently than we did before the earthquake.

MR. BIANCO: So the graphic picture with the fissure, as far as you're concerned, the policy holder is covered, who had earthquake coverage or didn't -- I apologize for the confusing question.

MR. SHILLER: No, he had it.
MR. BIANCO: Okay, he had it. So he -- he will continue to buy coverage and there would not be any specific exclusion for his policy due to the change in the soil.

MR. SHILLER: Not -- not that I'm aware of and I'll follow up and make sure that's the case. But I've been told that that's not going to be the case. Yeah.

Deductibles have been mentioned today. And that is indeed an issue where some policy holders have asked us -- does the deductible apply to the amount of insurance I have, to the value of my home, or to the amount of my loss? And I will say this. That the deductible being taken for each coverage -- someone else commented on that -- we believe that's to the policy holder's benefit. Now I'll give you an example. If the policy holder has a $100,000 policy on their -- on the building, and the only claim they suffer is to their personal belongings. Then we only assess a deductible on the amount of insurance they have for their personal effects, which is less than the total building insurance they have. So we -- we interpret the deductible for the smallest possible amount of insurance because it's a lower deductible in that case. So there are circumstances where charging separate deductibles ends up being to the policy holder's benefit economically and that's the way we interpret it.

I've talked already about the lack of contractors. Some policy holders are nervous about when their repairs will finally take place and I know Mr. -- the first gentleman that spoke -- I can't remember his last name -- Hillard Rose -- commented on the delays in his case and with the weather, obviously in the winter time, those are legitimate concerns, and as long as contractors are there, they'll continue writing bids and the work will continue to take place.

Our rates have not changed since the earthquake. You asked that question among your 17 questions. You also asked about risk protection and other seismological sorts of guidelines. We're going to focus on getting claims settled first. And then we are going to work on some things to advise our policy holders about in terms of the ways they can try and protect against suffering the most damage they might otherwise suffer from a future earthquake.

We have advised our policy holders to use licensed local contractors. They have pocket licenses. They are given a wallet-sized license they can show somebody in the field and we've advised our policy holders to make sure they ask for and are shown the license by the contractor.

We still have personnel from all over the state in these areas and they'll continue to be here until the claims are actually settled.

Now you asked about what kinds of deductibles. We have two. Five percent of the coverage and ten percent of the coverage and the LEP coverage -- that special coverage I spoke about -- there is no deductible for that. That kicks in as soon as they meet the conditions of not being allowed to live in the house or not being able to because
of the loss of power or water or whatever and they suffer some loss of property and it was due to a cause that otherwise wouldn’t be covered.

We’ve helped our policy holders fill out FEMA and Small Business Association applications where we could. And as I said, we’ve tried to advance the money under the LEP (?) as quickly as possible. Get the drafts -- the drafts cashed. We also went to local banks and authorized banks -- with a stamp of ours -- it said “Disaster” -- to cash the draft right away, instead of holding them for what they normally hold because drafts, I guess, are not treated the same as personal checks.

We have files that will continue to be left open and as I think you’ve heard already, we’ve just tried to find ways to cover things instead of not to cover them and will continue to do that. And if you have any questions, I’d be happy to...

CHAIRMAN GREEN: Well, the same question of you, do you have anything to give us today as to what you’ve learned and how you’ll change in the future?

MR. SHILLER: Well, you know, home policies -- home insurance policies are among the least easily understood documents and contracts in insurance and I think that the biggest focus for us is to keep educating our employees on how to go out in the field after a disaster like this to understand what they can do and to do it as quickly as they can. And I -- in other respects, we have some advantages. We have people in the area all the time. I’d say that’s the biggest thing for us.

CHAIRMAN GREEN: Dan, do you have a question?

SENATOR MC CORQUODALE: Well, I suppose this question would have to be viewed as very subjective, and hopefully that’s the best view and not the worst and not -- not cynicism, perhaps. But California is a pretty competitive state for insurance and one of the concerns under Prop 103 was that if it causes X number of insurers to stop selling in California if it were carried out in some manner that would force that, that maybe they wouldn’t be as competitive. But is there any way that you could make some general statements about the -- the willingness of insurance companies to sort of go the extra mile based on the fact that it is a competitive world here and that, I think even in one of the trade journals that were given to us, one agent was saying that he lost four of his customers to an auto association because of the $1500 thing. Is there -- suppose you were the only insurer in northern California, would you have done all of the things that you did for the policy holder, do you think, or do you think that you were motivated some by the fact that you had to show that you were better able to deal with this emergency than some other insurance company?

MR. SHILLER: Well, you’ve just identified our business plan for the next 50 years, (laughter) which is to be so competitive that we -- that we dominate the market. Oh, absolutely, Senator. We -- this may sound somewhat sanctimonious, but, you know, we’ve been around since -- since the first decade of the century and I -- I can say with all
honesty that our philosophy always has been to find a way to cover something rather than a way not to cover something. And I think we've provided evidence of that in each of the last number of natural disasters that have hit California.

Mr. Palmtag, by the way, made the comment that by the end of next year, either all of the insurers would offer our sort of coverage or none will and I can -- I can say to all of you unequivocally and I wish the press were still here, we have no plans to discontinue that -- that coverage. You know, yeah, I don’t think that you see us being any less interested in serving...

CHAIRMAN GREEN: One of the key points to your testimony that -- that I heard was, when you were working with a contractor, you’re only requiring one bid. That’s a change in a policy and something to get rid of the bureaucracy and the paperwork to make an immediate act.

MR. SHILLER: We’ve got -- one last thing I will add on that -- on that same subject. If policy holders don’t feel comfortable settling their claims based upon the one bid that comes in, we’re telling them that they can go out and get as many as they want to get, but we’re interested in trying to get those claims resolved.

MR. BIANCO: I just have one question I would like to follow-up on Senator McCorkodale’s question and take it a different step. One of the things we seemed to have heard today is that some companies performed admirably and some companies did not. In an unofficial response, obviously, if the law required all companies to do certain things patterned after what good companies do versus bad companies, therefore having a more uniform approach, from your perspective, how would you view that?

MR. SHILLER: I think that, speaking unofficially, I think that we would view changes in policy in California that are -- that are economically sound and that benefit consumers are things that we would have a difficult time not agreeing with.

CHAIRMAN GREEN: Good answer. See, you thought that through real well. (laughter)

MR. SHILLER: Thank you.

CHAIRMAN GREEN: Thank you very much. The next -- the National Association of Independent Insurers and the Association of American Insurers have opted to testify in San Francisco next week and that puts us through our schedule, except for asking if there’s anyone else to -- that wishes to testify in the audience here today? Are there any other companies here that would like to testify? Got to do this legally because I don’t want to get in trouble later.

All right. Then that puts us through it and before I close, Dan, do you have anything that you would like to say?

SENATOR MCCORQUODALE: No.

CHAIRMAN GREEN: Then my closing would be that we have had good testimony here today. We have heard some -- a lot of good stories and some of the horror stories.
But in the experience I had at this period of time after the Whittier quake to what is happening here today and the testimony we've had here today, I think there's a terrific amount of difference and I think Bill Gage would sit here and say to me the same thing. Is that I think that the companies -- I believe the municipalities and I believe a lot of the homeowners and business owners here in this county and in this city have experienced a lot of knowledge from two years ago because I don't hear a lot of those mistakes. And that's why that key question was issued -- asked to those responsible parties in the audience today? What did we learn and what are we going to put in practice for tomorrow? Because I feel that we did learn a lot in Whittier and I feel that a lot of the companies and municipalities and even people put a lot of that experience and knowledge that we learned then to work now. And I can see things happening in the future and -- that maybe we can do a little more to do a little better job next time. Because I see that as happening in this last two years.

This Subcommittee is pledged to see if we can't work an affordable earthquake insurance, working a risk pool for the state of California, and as I said earlier in my opening, we'll probably be making some announcements of what it is in our February hearing. And with that in mind, is anyone else wishing to say anything? Not seeing so, then thank you all for coming. Thanks, staff, for doing an outstanding job providing witnesses and the outline and I'd like to thank this City for furnishing this very wonderful meeting room and the facilities for us to use. And of those of you that will not be in San Francisco, and before the holidays and a Merry Christmas and a Happy New Year to all. Thank you all very much. And we are closed.