Earthquake Risk: Is Your Business Covered with a 'Differences in Conditions' Policy?

It's not just California that is susceptible to earthquakes. Other parts of the country from the Midwest to the South are exposed to earthquake risk, and companies that don't have proper coverage may not get the claims payments they expect if their business is damaged in a quake.

Unfortunately, many business owners are surprised to learn after the fact that their commercial property policy won't cover damage from an earthquake. To fill this gap, you can turn to a "Differences in Conditions" (DIC) policy, which will often cover risks that an underlying property policy won't.

While the risk of earthquake is not as great as on the West Coast, as well as in Hawaii and Alaska, other parts of the country are also at risk. In fact, 42 of the 50 states have a reasonable chance of experiencing damaging ground-shaking from an quake within 50 years, according to the US Geological Survey.

For example, there is a 7-10% chance of a magnitude 7.0 or greater earthquake on the New Madrid Fault Line (which stretches across Illinois, Tennessee, Missouri, Arkansas and Kentucky) in the next 50 years, according to the USGS. There is a 25-40% chance for a magnitude 6.0 or greater during that same time.

What policies cover

DIC coverage is an insurance product that provides extended coverage for property owners. While the details of the policies depend on the insurance company providing them, this coverage generally offers protection against major natural disasters, such as flooding, mudslides and earthquakes.

DIC policies sometimes provide excess limits over flood and earthquake coverages made available by endorsements to a commercial property policy or through the National Flood Insurance Program. But the DIC policy definition for floods and earthquakes often differs from other policies, so it's good to understand what it covers.

DIC policies usually contain separate limits for flood and earthquake. The types of limits vary from policy to policy. Some contain both per-occurrence limits and aggregate limits. Others contain only aggregate limits.

All DIC policies contain deductibles, and they are usually larger than those found on standard commercial property policies. DIC deductibles are often based on a percentage of insured values.

Furthermore, because a DIC policy is often written as a type of inland marine insurance, it also may be used to address other risks that may not be covered in commercial property policies, such as property in transit, property overseas, or business interruption claims arising from an earthquake or transit loss.

Often, the terms and conditions in a DIC policy can vary in important ways from one insurer to the next, so you need to choose carefully. Opting for a DIC policy with terms and definitions that conflict with your underlying commercial property policy can cause coverage problems.

Talk to us so we can go through the policy language and find you a policy that best fits your situation and risk.

Does your business need a DIC policy?

You need to ask yourself if you need more protection than that provided by standard property insurance, especially with regard to flood and earthquake perils. If you live in an area that could be hit by an earthquake and your commercial property policy excludes such events, you may need it.

Since quake losses can be catastrophic, no one insurer may be willing to write a DIC policy with the limits requested or needed by the insured. In such cases, two or more insurers may be willing to share the risk on a layered basis or through a quota share (an agreed-on percentage) approach.

We are here to help you by comparing coverages and exclusions of various DIC policies to find which one would best fit your needs.

Summary of coverage

A commercial DIC policy can provide earthquake and/or flood coverage for:

- Buildings.
- Tenant improvements and betterments.
- Business property, machinery and/or inventory.
- Loss of business income, rental income or if you incur extra expenses.

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