

Instant claims for earthquake damage

In earthquake-prone California, 87 percent of homeowners don't have insurance because it is considered unaffordable.

This is despite comprehensive advertising by the state to promote earthquake insurance. This, coupled with the fact that 62 percent of Americans have less than \$1,000 of savings, means that millions of residents lack the means to recover if a devastating quake were to hit the Golden State.

Lloyd's is addressing this by underwriting parametric insurance in partnership with retail broker Jumpstart, based in Oakland, California, and coverholder AmWINS. Jumpstart offers a new, more affordable and more accessible alternative to traditional earthquake insurance.

Fast and effective

Parametric policies differ from traditional insurance by paying out a pre-agreed level of compensation when a clearly defined parameter is exceeded. The triggering process relies on independent data from third-party indices and metrics that measure objective parameters such as excessively high temperatures, commodity prices falling below a predetermined value or an earthquake of a certain magnitude. There are several benefits for customers: the buying process is fully automated, claims payments are automatic and since there is no need for a loss adjuster's assessment, funds can be released in a matter of days.

Innovative opportunity

Jumpstart's chief executive officer, Kate Stillwell, recognised some years ago that many people in California did not have savings or insurance to cover earthquake damage and so designed a parametric insurance product to fill the gap.

"Every natural disaster causes surprises," Stillwell says. "They mess up life for everyone, and not just for those who experience physical damage. Disruption costs money for everyone. The problem is only a tiny fraction of disaster costs flow back into an affected community, partly because the low buy-rates of insurance mean claims payments are small in aggregate, but also because people don't have the savings to fund recovery."

Reliable cover

Triggered by US Geological Survey data earthquake measurements, Jumpstart's policy does not pay for all the damage to customers' property caused by an earthquake but pays \$10,000 to each policyholder quickly to cover their immediate costs post disaster. After an earthquake occurs, Jumpstart sends a text message to every policyholder in the affected area asking them if they have incurred costs. If the answer is yes, Jumpstart pays the money directly into customers' bank accounts within a few days.

"Jumpstart helps individuals begin adapting to the 'new normal' post disaster," says Stillwell. "The payment is meant to be enough money to tip the balance in favour of people staying to rebuild, rather than leaving to get on with their lives elsewhere. When individuals stay, the whole community recovers more quickly."

Made to measure

According to one Jumpstart customer, the parametric policy is a much simpler way to insure his property. "If the ground shakes more than a certain amount, I get money in my account within a few days," he says. "There are no claims forms to fill out and no loss adjuster interviews. You just get the money, meaning you can start your recovery immediately."

Tamara Solomon, a JumpStart investor, believes one of the key advantages of parametric insurance is that it cuts through the red tape to the benefit of customers. "Insurance is tough to deal with at the best of times," she says. "In a disaster situation, it's even worse and can take years to sort out a claim."

In California, where the threat of earthquakes is omnipresent and where so many people are uninsured or have few financial resources, parametric insurance offers an alternative, effective way to protect property, livelihoods and communities.