

California lawmakers propose bills to beef up disaster insurance coverage

Kathleen Pender

State legislators have introduced a package of bills that would beef up or extend insurance coverage to policyholders following declared disasters, but only one would be retroactive and apply to victims of the recent wildfires.

Critics say the bills could drive up insurance premiums and reduce competition in California.

Under SB897, insurers would have to offer policyholders, following a declared state of emergency, a settlement equal to 80 percent of their contents coverage without requiring them to submit a detailed inventory. This provision would apply to claims filed July 1, 2017, or later by homeowners and renters. Most insurers require policyholders to compile a detailed list of every item they lost — down to socks and aspirin bottles — along with its original price and purchase date. This can be a long and painful process. The bill's author, state Sen. Mike McGuire, D-Healdsburg, said his office is getting calls from "survivors literally experiencing PTSD, having to relive the most horrific night of their lives" in an attempt to "put a price on their most priceless possessions. It's simply too much to ask." His bill would not preclude them from seeking 100 percent of their policy limit if they're willing to put up with the hassle.

In December, California Insurance Commissioner Dave Jones asked insurers to voluntarily provide up to 100 percent of contents coverage to fire victims without a detailed inventory and let his office know by Jan. 8 if they planned to comply. His office has not yet compiled results of that request.

Allstate said that in response to that request it is providing "100 percent of an insured's claim without requiring an inventory of personal property, provided that the policy is a personal lines policy with replacement cost coverage and the claim is a covered total loss," unless fraud is suspected.

Jones and other legislators announced their package of bills in a news conference Tuesday.

Most homeowner policies have separate limits for their primary structure, outbuildings, contents and additional living expense. Under SB894, future disaster victims who had too little coverage on their main structure but more than enough under their other limits could apply that unused coverage to their structure. This bill also would require insurers to offer to renew policyholders who experience a total loss

for at least two renewals or 24 months, whichever is greater. Under current law, they must renew it only once. It also would extend the time consumers have to collect additional living expenses following a disaster to 36 months, up from 24 months currently.

AB1722 would extend the time a policyholder has to rebuild and collect the full replacement cost to 36 months, up from 24 months currently, following future declared disasters.

AB1800 would clarify that policyholders have a right to collect the full replacement cost of their home after a total loss, whether they decide to rebuild, replace at another location or purchase an existing home elsewhere. Jones said in an interview that some insurers have not been letting customers who purchased additional coverage — such as extended replacement cost or building code upgrade — collect on it if they bought or rebuilt at a new location. This bill would ensure they could.

AB1797 would require insurers to conduct a replacement cost estimate when they sell or renew a residential policy. Current regulations do not require insurers to do a replacement cost estimate, but if they do, they must follow the insurance department's "consistent and comprehensive" methodology, Jones said. This bill would require them to do the estimate according to those rules.

Assemblyman Jim Wood, D-Healdsburg, plans to introduce a bill that would require insurers to offer extended replacement cost coverage of no less than 50 percent upon issue or renewal of a residential insurance policy to make sure customers are adequately insured.

Amy Bach, executive director of consumer group United Policyholders, applauded the bills, especially McGuire's. Most insurance companies require not only a detailed contents inventory, they also require customers with replacement cost coverage to actually replace each item and provide a receipt if they want to collect its full replacement cost, rather than just its depreciated value. "I have never seen the logic on a disaster claim of requiring people to replace all their stuff," she said. "I could see on an individual claim, it's an anti-fraud measure." But in a wildfire, "you know the person didn't burn their house" just to collect insurance money, she said.

Under the bill, people who settled for 80 percent of their contents limit would not have to replace lost items, McGuire said.

These bills are "solutions in search of a problem," said Robert Hartwig, director of the University of South Carolina's Center for Risk and Uncertainty Management. Hartwig previously was president of the Insurance Information Institute, an insurance trade group.

"While perhaps well intended, most of these bills would require additional coverages or higher limits on coverages to be provided to many if not most customers, whether they want it or not," he said. "Because there is no such thing as a free lunch ... these bills could have a material impact on the cost of insurance in the state and in some cases could reduce competition because some insurers would simply not offer

some coverages in these markets.”

Jones said anyone who thinks these are not real problems should “spend a minute talking to one of the fire survivors” in California. “These are very reasonable, common-sense solutions,” he said.

Janet Ruiz, a spokeswoman for the institute in California, said in an email that the industry “will work with the Legislature on the wildfire bills. We are committed to helping communities recover, rebuild and become resilient.”