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UNFINISHED BUSINESS

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Bill No: SB 824  
Author: Lara (D), et al.  
Amended: 8/24/18  
Vote: 21

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SENATE INSURANCE COMMITTEE: 9-0, 4/25/18

AYES: Glazer, Galgiani, Hernandez, Hueso, Lara, Mitchell, Newman, Portantino, Roth

NO VOTE RECORDED: Gaines, Berryhill, Moorlach, Morrell

SENATE APPROPRIATIONS COMMITTEE: 5-1, 5/25/18

AYES: Lara, Beall, Bradford, Hill, Wiener

NOES: Nielsen

NO VOTE RECORDED: Bates

SENATE FLOOR: 27-5, 5/29/18

AYES: Allen, Atkins, Beall, Bradford, Cannella, De León, Dodd, Galgiani, Glazer, Hernandez, Hertzberg, Hill, Hueso, Jackson, Lara, Leyva, McGuire, Mitchell, Monning, Newman, Pan, Portantino, Roth, Skinner, Stern, Wieckowski, Wiener

NOES: Anderson, Morrell, Nguyen, Stone, Vidak

NO VOTE RECORDED: Bates, Berryhill, Fuller, Gaines, Moorlach, Nielsen, Wilk

ASSEMBLY FLOOR: 79-0, 8/28/18 - See last page for vote

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**SUBJECT:** Insurers: declared disaster: homeowners' insurance policies

**SOURCE:** Author

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**DIGEST:** This bill prohibits an insurer from canceling or refusing to renew a homeowners' insurance policy for one year from the date of a declaration of a state of emergency, as specified; and requires admitted insurers with at least \$10 million in written premiums in California to biennially report to the California Department

of Insurance (CDI) specified fire risk information on residential property policies, as specified.

*Assembly Amendments* narrow the geographic region in which insurers are prohibited from canceling or non-renewing a homeowner's policy from the declared disaster county to a home within the fire perimeter or in a ZIP code adjacent to the fire perimeter; require the Department of Forestry and Fire Protection (CalFire) to provide the CDI with mapping data sufficient to allow the Insurance Commissioner (IC) to determine which ZIP codes are adjacent; require the IC to notify insurers of the area in which policies may not be non-renewed or cancelled; add additional exemptions to the requirement to renew homeowners' policies in the fire zone; and include clarifying changes and double-jointing language to SB 894 (Dodd) to prevent chaptering conflicts.

### **ANALYSIS:**

Existing law:

- 1) Requires insurers to comply with certain requirements relating to the cancellation of insurance policies, as specified.
- 2) Provides that an insurer cannot cancel coverage while a primary insured structure is being rebuilt after a total loss, except for specified reasons, including non-payment of premium, fraud or negligent acts, as specified.
- 3) Requires an insurer to offer to renew, at least once, a homeowners' insurance policy if there was a total loss of a residential property caused by a declared disaster, as defined.
- 4) Authorizes the IC to require information on specified topics from insurers by means of a data call.

This bill:

- 1) Makes specified findings regarding the increasing risk of catastrophic wildfires due to climate change and the need for the IC to collect more data.
- 2) Provides an insurer shall not cancel or refuse to renew a policy of residential property insurance for a property located in any ZIP Code within or adjacent to the fire perimeter, for one year after the declaration of a state of emergency, as defined, based solely on the fact that the insured structure is located in an area in which a wildfire has occurred, as specified.

- 3) Specifies the fire perimeter shall be determined by CalFire in consultation with the Office of Emergency Services, and CalFire shall provide the IC with data describing the fire perimeter sufficient for the IC to determine which ZIP Codes are within or adjacent to the fire perimeter and requires the IC to issue a bulletin to inform insurers which ZIP Codes are subject to the requirement to renew.
- 4) Provides specified exceptions to 2) above, including if willful or grossly negligent acts or omissions by the insured materially increase the risks insured against, or there are losses after and unrelated to the disaster that render the property ineligible for renewal.
- 5) Requires on or before April 1, 2020, and every two years thereafter insurers with written premium of \$10 million or more to report to the IC specified residential property experience data for policies written in California for the two previous years, and increases the threshold reporting amount every five years thereafter, as specified.
- 6) Directs the IC to specify, by bulletin, the form and information to be included in the report.
- 7) Provides that the information submitted pursuant to this requirement is exempt from the California Public Records Act as proprietary information of the insurers.
- 8) Requires the IC to post to the CDI Web site a report on wildfire risk compiled from the data reported, and to update that report every two years with new data submitted by insurers.
- 9) Imposes a civil penalty on insurers who fail to submit the required information, as specified.

## **Background**

In 2017 California experienced the largest and most destructive wildfire season in its history. Nearly 9,000 wildfires tore through the state, burning 1.2 million acres of land, destroying more than 10,800 structures—more than the previous nine years combined--and killing at least 46 people. In addition, mudslides following and resulting from the Thomas fire in Santa Barbara County destroyed or damaged more than 400 homes and killed at least another 21. Insured fire losses for 2017 exceed \$11 billion. The requirement that insurers offer at least one renewal for a total loss property after a declared disaster was enacted by AB 2962 (Pavley, Chapter 602, Statutes of 2004) after multiple fires destroyed or damaged more than

2,800 structures in San Diego, San Bernardino, Ventura, and Los Angeles Counties in 2003.

There has been a great deal of discussion, and largely anecdotal evidence that many insurers are withdrawing from high fire risk areas. According to data from the CDI, more than 10,000 homeowners in high risk counties were non-renewed by their insurer in 2016. More than 36 thousand homeowners in those counties chose to not renew their policies, however, presumably because of steep premium increases or lower coverage reasons. The data does not detail if these homeowners subsequently found insurance with other insurers, although there has been little policy growth to date in the homeowners' insurer of last resort—the Fair Access to Insurance Requirements Plan.

Losses in homeowners insurance can swing widely from year to year, unlike relatively constant losses in auto insurance. For some smaller companies in the homeowners' insurance market, loss ratios can swing widely. Even large companies can experience higher losses in concentrated catastrophic events like the Tubbs fire depending on a particular insurer's penetration of a regional market.

Given the possibility of catastrophic fires that destroy hundreds of thousands of acres and thousands of homes, some insurers not surprisingly are seeking to limit their exposure to the highest risk areas and to reduce their exposure in any areas where they might have had too high a concentration of policies, leading to non-renewals of some homeowners. There is little solid data, however, on the responses of insurers to restrict issuing or renewing policies following major fire events. This bill extends the existing one year renewal requirement for total loss homes to all homes in the defined disaster area, based on the premise that insurers will likely be reexamining their exposure and the risks in the area, which could make it more difficult for all homeowners in the area to find new insurance if they are non-renewed soon after the event.

The Senate Insurance Committee held its second informational hearing on the impact of drought, climate change and wildfires on the homeowners' insurance market on March 20, 2018. One of the key findings was the lack of data to really understand the impact of climate change and the growing wildfire risk on both the availability and affordability of homeowners' insurance in high and extreme fire risk areas. This bill addresses that data gap by authorizing the CDI to conduct a data call on insurer losses related to fires and wildfires, including data on issues such as premiums in high risk areas, the use of fire risk scores, losses by zip code and other important information, and requiring CDI to issue a report summarizing

the findings both to help insurer assessment of risk and guide policymakers in determining what additional steps might need to be taken.

**FISCAL EFFECT:** Appropriation: No Fiscal Com.: Yes Local: No

According to the Assembly Appropriations Committee:

- Ongoing costs to CDI of about \$130,000 to \$140,000 per year for additional workload for data validation and reporting processes development, publishing the required report, and investigation and enforcement activities.
- Unknown revenue from civil penalties imposed on insurers for failing to submit a report.

**SUPPORT:** (Verified 8/28/18)

California Department of Insurance  
California State Association of Counties  
City of Oakland  
Consumer Attorneys of California  
Placer County Board of Supervisors  
Rural County Representatives of California  
United Policyholders

**OPPOSITION:** (Verified 8/28/18)

None received

**ARGUMENTS IN SUPPORT:** United Policyholders supports SB 824 because it will slow the pace of non-renewals, extend existing renewal protections that are now available to total loss disaster survivors to their neighboring homeowners. The Rural County Representatives of California support SB 824 because it is concerned that the frequency of insurance cancellations and non-renewals will increase exponentially and expand throughout the state as the entirety of California becomes more prone to wildfire. This bill will help preserve coverage for those homeowners who did not suffer a total loss in the wake of wildfires and other disasters.

**ASSEMBLY FLOOR:** 79-0, 8/28/18

**AYES:** Acosta, Aguiar-Curry, Travis Allen, Arambula, Baker, Berman, Bigelow, Bloom, Bonta, Brough, Burke, Caballero, Calderon, Carrillo, Cervantes, Chau, Chávez, Chen, Chiu, Choi, Chu, Cooley, Cooper, Cunningham, Daly, Eggman,

Flora, Fong, Frazier, Friedman, Gabriel, Gallagher, Cristina Garcia, Eduardo Garcia, Gipson, Gloria, Gonzalez Fletcher, Gray, Grayson, Harper, Holden, Irwin, Jones-Sawyer, Kalra, Kamlager-Dove, Kiley, Lackey, Levine, Limón, Low, Maienschein, Mathis, Mayes, McCarty, Medina, Melendez, Mullin, Muratsuchi, Nazarian, Obernolte, O'Donnell, Patterson, Quirk, Quirk-Silva, Reyes, Rivas, Rodriguez, Rubio, Salas, Santiago, Steinorth, Mark Stone, Thurmond, Ting, Voepel, Waldron, Weber, Wood, Rendon  
NO VOTE RECORDED: Dahle

Prepared by: Erin Ryan / INS. / (916) 651-4110  
8/28/18 21:31:11

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