Assemblymember Cecilia Aguiar-Curry, 4th Assembly District

AB 1772 – Fire Insurance: Extending Policy Limits for Full Replacement Cost Coverage

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SUMMARY

AB 1772 extends the amount of time a home or business owner has to rebuild an insured property from 2 to 3 years after a declared wildfire emergency and receive the full replacement costs to which they are entitled. Extending the time a policy holder has to recoup their losses after a devastating fire will prevent stressful battles with insurance companies and bring families greater peace of mind.

BACKGROUND

In October 2017, California experienced the most devastating wildfire in state history. 44 Californian lives were claimed. More than 14,700 homes and 728 businesses were damaged or destroyed, totaling over 9 billion dollars worth of insurable damage. This disaster struck while Lake and Calaveras Counties were still in process of rebuilding from the Valley and Butte Fires of 2015, which destroyed more than 3,000 structures and 1,700 homes.

In homeowners insurance, "full replacement cost" coverage ensures a property owner will receive the full amount it would cost to replace their property, as opposed to the cash value of the lost property itself. This level of coverage is helpful, as the cost to rebuild a home today is often higher than the depreciated cash value of the home that burned down. Policy holders who opt for full replacement cost coverage usually pay a higher premium for this greater level of coverage.

After losing a home or business in a fire resulting in a declared state of emergency, current law provides a policy holder at least 2 years to rebuild their property and receive the full replacement cost coverage they paid for. However, experience shows that 2 years is often insufficient time for families to rebuild the insured property.

Large regional rebuild efforts place a significant strain on resources and contractors available to finish extensive amounts of work. Rebuild timelines for the North Bay fires of 2017 are expected to be just as, if not more, time consuming than rebuild efforts from the Butte and Valley Fires, which are still underway after more than 2 years.

Although current law allows a policy holder to extend their full replacement cost coverage by 6 months for "good cause," this standard places the power to decide what good cause means in the hands of the insurer. The good cause rule can be applied inconsistently by insurers and adjusters, which creates uncertainty and stress for policy holders who are still experiencing the devastation of their loss.

THIS BILL

AB 1772 will provide wildfire victims an additional year to rebuild their homes and businesses after a catastrophic wildfire and collect the full replacement cost coverage to which they are entitled.

Specifically, this bill amends Insurance Code Section 2051.5 by extending from 24 to 36 months the minimum amount of time a policy holder has to replace their home and still receive the full replacement cost coverage they paid for. This statute is specific to an insured loss caused by a fire that resulted in a declared state of emergency. AB 1772 maintains the insurer's responsibility to extend this policy limit by an additional 6 months for good cause.

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