

Date of Hearing: April 20, 2022

ASSEMBLY COMMITTEE ON INSURANCE
Tom Daly, Chair
AB 2450 (Valladares) – As Amended April 18, 2022

SUBJECT: Insurance: reporting

SUMMARY: Requires the Insurance Commissioner (Commissioner) to convene a working group to study the feasibility, potential implications, and advisability of allowing admitted insurers to offer homeowners' insurance policies that include a deductible for covered losses resulting from wildfire and to prepare a report summarizing the working group's findings and recommendations, as specified. Specifically, **this bill:**

- 1) On or before July 1, 2023, requires the Commissioner to convene a working group to study the feasibility, potential implications, and advisability of allowing admitted insurers to offer homeowners' insurance policies that include a deductible for covered losses resulting from wildfire.
- 2) Requires the working group to include all of the following, at a minimum: staff from the Department of Insurance (CDI), representatives from the insurance industry, consumer advocates, representatives from the fair access to insurance requirements (FAIR) plan, staff from both houses of the Legislature, and staff from the Governor's Office.
- 3) On or before July 1, 2024, requires the Commissioner to prepare a report summarizing the working group's findings and recommendations and to post that report on its internet web site.

EXISTING LAW:

- 1) Requires all fire policies on subject matter in California to be written on the California Standard Form, as specified (Insurance Code Section 2070 et seq.).
- 2) Prohibits an insurer from omitting any portion of the standard form, except as specified, but requires that if a change is made to the standard form, coverage with respect to the peril of fire must be substantially equivalent to or more favorable to the insured than that contained in a standard form fire insurance policy (Insurance Code Section 2070).
- 3) Authorizes the FAIR Plan as the property insurer of last resort, to assure the availability of basic property insurance, encourage maximum use of the normal insurance market provided by admitted insurers and licensed surplus line brokers, and provide for the equitable distribution among admitted insurers of the responsibility for insuring qualified property for which basic property insurance cannot be obtained through the normal insurance market (Insurance Code Section 10090 et seq.).

FISCAL EFFECT: Unknown.

COMMENTS:

- 1) **Author's statement.** According to this bill's author, "Tens of thousands of California homeowners have seen their insurance premiums skyrocket or their policies non-renewed

just because they live in a high wildfire risk area. My bill, AB 2450, will require California's Department of Insurance to evaluate proposed solutions that can reduce premiums and expand coverage. In doing so, the bill will outline ways the state can help reduce insurance costs for Californians living in high wildfire risk areas."

- 2) **Background and Discussion.** Recent damaging and deadly wildfires in numerous regions throughout California have led to a well-documented crisis of homeowners' insurance availability and affordability. As California's wildfires have become more common, destructive, and deadly, tens of thousands of Californians have had homeowners' policy premiums increase dramatically or had their policies non-renewed by their insurance carriers. Although the FAIR Plan remains an option of last resort for homeowners whose policies have been non-renewed, FAIR plan policies are expensive and typically provide less coverage than the non-renewed policies they replace.

According to the author's office, in 2016, a number of major California homeowners' insurers began offering their policyholders the option of selecting a higher policy deductible for wildfire claims, in exchange for lower overall premiums. However, CDI disallowed those deductibles, because existing law governing the Standard Form requires fire policies to cover all fire perils equally.

An earlier version of this bill proposed to change existing law to allow wildfire-specific deductibles, thus adding an additional option for possible use by insurers to bridge the homeowners' insurance availability and affordability gap. However, a number of policy and implementation concerns were raised about the language of that bill, including its lack of definitions clearly delineating the difference between fire damage and wildfire damage, its potential to exacerbate the existing problem of under-insurance among homeowners, its conflict with the provision of existing law that requires modifications to the standard fire policy to be more protective of homeowners, its potential impact on the willingness of financial institutions to issue mortgages on homes with high wildfire deductibles, and its potential overlap with FAIR plan policies. The current version of this bill directs CDI to convene a working group to discuss these and other potential issues and develop a recommendation regarding the extent to which the underlying idea in the original version of this bill can be effectively implemented.

REGISTERED SUPPORT / OPPOSITION:

Support

None received.

Opposition

None received.

Analysis Prepared by: Eileen Newhall / INS. / (916) 319-2086