
SENATE COMMITTEE ON INSURANCE

Senator Susan Rubio, Chair
2021 - 2022 Regular

Bill No:	AB 2450	Hearing Date:	June 22, 2022
Author:	Valladares		
Version:	June 9, 2022 Amended		
Urgency:	No	Fiscal:	Yes
Consultant:	Brian Flemmer		

SUBJECT: Insurance: reporting

DIGEST: Would require the Insurance Commissioner (IC) to convene a working group, on or before July 1, 2023, to study the feasibility, potential implications, and advisability of allowing insurers to offer homeowners and commercial insurance policies that include a separate deductible for covered losses resulting from wildfires (wildfire deductible) and post the report of findings to the California Department of Insurance (CDI) website by July 1, 2024.

ANALYSIS:

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.).

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' and commercial property insurance policies that include a deductible for covered losses resulting from wildfire.
- 2) Requires the Commissioner to identify industries, including but not limited to farming, that have struggled to obtain affordable commercial property coverage due to increased wildfire risk, and have the working group study the utility and risks a commercial policy with a wildfire deductible could have for those industries. Also

requires that additional financial strategies that could support the use of a wildfire deductible be identified.

- 3) Requires the working group to include all of the following, at a minimum: CDI staff, representatives from the insurance industry, consumer advocates, representatives from the fair access to insurance requirements (FAIR) plan, representatives from the industries the commissioner identifies, staff from both houses of the Legislature, and staff from the Governor's Office.
- 4) 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.

Background

According to the 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.

How to divide the growing risk? 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.

A wildfire deductible is just what it sounds like, it is a specific deductible the insured pays when recovering from an insurer for damage or loss of their home due to wildfire. This deductible would be higher than the deductible for other losses, given the higher risk of loss due to wildfire, but would be based on the same homeowners policy with one premium payment. The trade off to including a second, higher deductible is that the policy's premium should be lower than a policy that does not separate out wildfire from other fire perils.

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.

Suggested Amendments

The bill requires one technical amendment in Section 12922.1 (c) to change the word, "commission" to "commissioner."

Related/Prior Legislation

AB 1816 (Daly, Chapter 833, Statutes of 2019) allowed insurers participating in the FAIR Plan to be proportionately relieved of their assessment liability for voluntarily writing basic property insurance on risks in high or very high fire hazard severity zones, as determined and mapped by the Department of Forestry and Fire Protection.

SB 901 (Dodd, Chapter 626, Statutes of 2018) addressed numerous issues concerning wildfire prevention, response and recovery, including funding for mutual aid, fuel reduction and forestry policies, wildfire mitigation plans by electric utilities, and cost recovery by electric corporations of wildfire-related damages.

SUPPORT:

None on file.

OPPOSITION:

None on file.

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