

THIRD READING

---

Bill No: SB 876  
Author: Padilla (D), et al.  
Amended: 5/14/26  
Vote: 21

---

SENATE INSURANCE COMMITTEE: 5-2, 4/8/26  
AYES: Padilla, Becker, Menjivar, Richardson, Rubio  
NOES: Niello, Jones

SENATE JUDICIARY COMMITTEE: 11-2, 4/21/26  
AYES: Umberg, Allen, Ashby, Caballero, Durazo, Laird, Reyes, Stern, Wahab,  
Weber Pierson, Wiener  
NOES: Niello, Valladares

SENATE APPROPRIATIONS COMMITTEE: 5-2, 5/14/26  
AYES: Cervantes, Cabaldon, Grayson, Richardson, Wahab  
NOES: Seyarto, Dahle

---

**SUBJECT:** Fire and residential property insurance

**SOURCE:** Insurance Commissioner Ricardo Lara/California Department of Insurance

---

**DIGEST:** This bill (1) expands coverage available for dwelling loss to comply with the cost of building code upgrades. (2) Clarifies and expands options available to policyholders using additional living expenses after a dwelling loss. (3) Requires insurers to assign and make a primary claims adjuster available when multiple adjusters are assigned to claims, and to provide a timely written status report. (4) Requires regular updates to policyholders about the costs necessary to rebuild or replace their insured structures and allows policyholders to combine coverages to do so. (5) Requires insurers to develop, maintain, and submit to the California Department of Insurance, a detailed disaster response plan. (6) Increases liability for penalties fixed by the Insurance Commissioner for unfair insurance practices,

and (7) expands the Insurance Commissioner's authority to order restitution by insurers or licensees for losses arising from their conduct.

### **ANALYSIS:**

Existing law:

- 1) Establishes civil penalties, fixed by the Insurance Commissioner (Commissioner) within certain limits, for anyone who is deemed to engage in any unfair method of competition or any unfair or deceptive act or practice.
- 2) Specifies that in the event of a total loss of an insured structure, policies cannot contain a provision that limits or denies payment of the building code upgrade cost or the replacement cost, because the insured decided to rebuild at a new location or to purchase an already-built home at a new location.
- 3) States that in the event of a loss under a homeowners' insurance policy when the insured has made a claim for additional living expenses (ALE), the insurer must provide a list of items the insurer believes may be covered. For a covered loss relating to a state of emergency, coverage for ALE lasts for at least 24 months from the loss, as specified, with a possible extension of up to 12 months, for a total of 36 months, if an insured encounters a delay in reconstruction because of circumstances beyond their control.
- 4) Requires under the standard form of fire insurance policy if within a six-month period, an insurance company assigns three or more adjusters to a claim that the insurer must provide the insured with a written status report in a timely manner. This status report must include a summary of any decisions or actions that are substantially related to the disposition of a claim, including, but not limited to, the amount of losses to structures or contents, the retention or consultation of design or construction professionals, the amount of coverage for losses to structures or contents, and all items of dispute.
- 5) States that a policy of residential property insurance must provide information on the declarations page explaining among other things, that under such a policy that provides replacement cost coverage, the policy provides building code upgrade coverage for the increased costs of repairing or replacing damage to the insured dwelling caused by a covered loss because of building ordinances or laws regulating the repair or replacement. The policy may note restrictions on coverage for compliance with applicable building codes that take effect after the date of loss, but before the issuance of required building permits.

- 6) Stipulates that in an offer of a policy of residential property insurance, a disclosure must be provided to the applicant stating policies offering extended replacement cost coverage of at least 50% may be available for that property, as specified. Such insurers must notify the California Department of Insurance (CDI) of the amount of extended replacement cost coverage offered for each policy or product it sells in California if the amount is different than the previous year.
- 7) Requires an insurer that provides replacement cost coverage to provide an estimate every other year, of the cost necessary to rebuild or replace the insured structure, as specified, at the time an offer to renew a policy of residential property insurance is made to the policyholder.
- 8) In the event of a covered loss relating to a state of emergency, an insured under a residential property insurance policy can combine payments for claims for losses up to the policy limits for the primary dwelling and other structures, to rebuild or replace the damaged or destroyed dwelling, if the policy limits for coverage to rebuild or replace the primary dwelling are insufficient to do so.
- 9) Authorizes the Commissioner to require an unlicensed person subject to the Commissioner's jurisdiction to pay restitution for a loss arising from the unlicensed person's conduct, as specified.
- 10) Requires an insurer to provide a homeowner submitting a disaster claim with a written status report and a primary point of contact if the adjuster assigned to the claim is changed three times in a six-month period. States that the primary point of contact be available to the homeowner and remain assigned to the claim until its completion, and requires the primary point of contact to refer the homeowner to a supervisor upon request.

This bill:

- 1) Specifies that a person who engages in an unfair method of competition, or an unfair or deceptive act or practice in the business of insurance relating to a state of emergency, is liable for a civil penalty, fixed by the Commissioner, of at least \$5,000 for each act, up to a \$10,000 limit, or, if the act or practice was willful, a civil penalty of at least \$10,000 for each act, up to a \$20,000 limit. Additionally allows the Commissioner to order a person who engages in an unfair claims settlement practice to provide restitution for a loss arising from the person's conduct, as specified.

- 2) Requires in the case of a total loss, if the insured decides to rebuild at a new location or to purchase an already-built home at a new location, the amount of building code upgrade cost payable under a policy includes all costs as if the insured structure been completely rebuilt at its original location.
- 3) States that if there is a loss under a homeowner's insurance policy for which the insured has made a claim for ALE, the insurer must provide, either electronically or in hardcopy, a written list of items that the insurer believes may be covered under the policy as additional living expenses.
- 4) Clarifies that additional living expense coverage under a homeowners' insurance policy includes reimbursement for all reasonable additional expenses incurred by the insured to maintain a comparable standard of living while the insured dwelling cannot be lived in, up to policy limits. These additional costs include temporary housing, furniture rental, food, transportation, storage, and boarding of pets.
- 5) Allows an insured to choose, under a covered loss ALE claim, to collect the monthly fair rental value for the time the insured dwelling is not habitable, rather than seek reimbursement for itemized expenses. Fair rental value is the amount the furnished insured dwelling could have been rented for at the time of the loss.
- 6) Specifies that ALE be provided both while the insured premises are uninhabitable, and also 15 calendar days beyond the time when the insured can return to the premises in order for them to make necessary arrangements to do so.
- 7) Prohibits the issuance or renewal of a homeowner's insurance policy unless the applicant is offered extended ALE coverage of at least 50 percent above the standard limit. This offer must clearly state the additional premium cost to the consumer.
- 8) States that the ALE provisions described above apply to homeowners' policies that describe these types of benefits, whether they are identified as ALE, loss of use, or fair rental value.
- 9) Requires under the standard form of fire insurance policy if an insurance company assigns more than one adjuster to a claim, the insurer must provide the insured with a written status report within five business days. This status

report must include, among other things, the amount of coverage for losses to structures or contents, the dollar amount of claims paid to date for each portion of coverage, and all items of dispute or pending.

- 10) Specifies that building code coverage includes costs to repair or replace a dwelling in compliance with the building codes and zoning laws in effect at the time of, or required for, rebuilding.
- 11) States that under a policy of residential property insurance dealing with a loss related to a state of emergency, building code upgrade coverage must be provided at no less than 20% of the dwelling coverage policy limits.
- 12) Requires residential property insurance policies to offer, and disclose the premiums for, extended replacement cost coverage of no less than 50% of coverage above the policy limits for the primary dwelling and other structures. If an applicant or policyholder declines this additional coverage, they must sign an agreement acknowledging that extended replacement cost coverage of at least 50% was offered and is being declined.
- 13) States that residential property insurance insurers must notify CDI by February 1 of each year of the amount of extended replacement cost coverage they offered for each policy or product sold in California if the amount is different than what was reported in the previous year. This information will be updated annually on the Homeowners Coverage Comparison Tool on CDI's website.
- 14) Requires all residential property insurers that provide replacement cost coverage, including the California FAIR Plan, to provide an estimate to the policyholder of the cost necessary to rebuild or replace the insured structure. This estimate must be provided every other year at the time an offer to renew a policy of residential property insurance is made to the policyholder. Insurers that do not comply with this requirement will be liable for up to the full replacement cost of the insured property after a loss.
- 15) Allows an insured, during a state of emergency, under a residential property insurance policy to combine claims payments for losses up to the policy limits for the primary dwelling, other structures, and contents (personal property) for any of the covered expenses reasonably necessary to rebuild or replace the damaged or destroyed dwelling, if the policy limits are insufficient to do so.

- 16) Requires residential property insurers to submit a detailed disaster response plan to CDI by April 1, 2027 and at least every two years thereafter, outlining how the insurer will handle claims arising from a disaster, including communication with policyholders, customer service continuity, adjuster training and deployment, ability to track disaster claims data, and overall operations staffing during disasters. The Commissioner may require post-disaster progress reports or a performance review of an insurer's disaster response plan, issue guidance regarding the content of the plan, and require updates on disaster claims and loss data.
- 17) Specifies if there is a covered loss relating to a state of emergency, a residential property insurer must:
  - a) Provide the claimant, within 15 days of receiving the claim, a copy of the most recent annual notice CDI prepares and delivers to admitted insurers and licensed insurance adjusters describing the most significant state laws pertaining to property insurance policies, including those related to a state of emergency, as well as a telephone number that an affected claimant may call for answers to questions, including questions about the claim and coverage under the policy.
  - b) Report to the Commissioner within 15 calendar days of a state of emergency being declared, the losses, claims, and estimated total incurred losses for review. The Commissioner will then make a determination based on the initial information as to how often claims data should be updated and whether or not to publish aggregate data on CDI's website.
- 18) Specifies that during a state of emergency, if a licensee receives a written or oral inquiry from CDI concerning a claim, they must immediately, but no more than 15 calendar days of receipt of that inquiry, provide a complete written response based on the facts as then known, along with any documentation and claim or underwriting files requested.
- 19) Allows the Commissioner to order licensed insurers, surplus lines brokers, and licensees to provide restitution for a loss arising from their conduct, or to order cancellation of contract.
- 20) Stipulates that if there is a loss-related claim involving one or more coverages under a policy of residential property insurance relating to a state of emergency, the insurer must assign a primary responsible claims adjuster to the

claim. If the insurer later assigns a subsequent adjuster to this task, the insurer, within five business days of the assignment, must provide the insured with a written status report, along with one or more direct means of communication with the primary point of contact, which must be assigned, even if multiple adjusters may be responsible for different coverages under the claim.

- 21) Defines a “written status report” as a summary of decisions or actions that are substantially related to the disposition of a claim, including the amount of losses to structures or contents, the retention or consultation of design or construction professionals, the amount of coverage for losses to structures or contents, the dollar amount of claims paid to date for each portion of coverage, and all items of dispute or pending.

## **Background**

*Additional Living Expenses.* Also known as Loss of Use or Fair Rental Value, ALE covers the additional costs when a property is not safe to live in due to a covered peril, such as a wildfire. Policyholders may be required to itemize and account for any covered expenses. Additional living expenses include items such as food and housing costs, extra transportation costs to and from work or school, relocation and storage expenses, and furniture rental for a temporary residence.

*Extended Replacement Cost Coverage.* Provides for the cost to repair or replace a damaged or destroyed dwelling without a deduction for physical depreciation. Many policies pay only the dwelling’s actual cash value until the insured has begun or completed repairs or reconstruction on the dwelling. Extended Replacement Cost provides additional coverage above the dwelling limits up to a stated percentage or specific dollar amount.

*Building Code Upgrade Cost Coverage.* Also called Ordinance and Law coverage, covers additional costs to repair or replace a dwelling to comply with the building codes and zoning laws in effect at the time of loss or rebuilding.

## **Related/Prior Legislation**

AB 2199 (Kehoe, Chapter 311, Statutes of 2004). Specified that in the event of a loss relating to a declared state of emergency, no time limit of less than 24 months may be placed on the insured to collect the full replacement cost of the loss, subject to the policy limit. This bill also stated insurers are not prohibited from allowing the insured additional time to collect the full replacement cost.

AB 1772 (Aguiar-Curry, Chapter 627, Statutes of 2018). Extended the minimum time for homeowners to rebuild or replace their homes after a declared disaster from 24 to 36 months while still receiving full replacement cost coverage.

SB 894 (Dodd, Chapter 618, Statutes of 2018). After a total loss of a home in a declared disaster area, required an insurer to renew a residential insurance policy for at least two annual renewal periods or 24 months. Required an insurer to grant an additional 12-month extension for a total of 36 months for additional living expenses if an insured acting in good faith and with reasonable due diligence encounters a delay, subject to policy limits. Allowed an insured to combine payments for actual losses up to the policy limits for the primary dwelling, other structures and contents, limited to the amount necessary to rebuild or replace the home if the policy limits for the dwelling are insufficient. Specified that the payments for losses shall be full replacement value without requiring the replacement of the other structures or contents.

SB 240 (Dodd, Chapter 502, Statutes of 2019). Required CDI to publish a bulletin regarding significant California laws pertaining to property insurance policies and an insurance adjuster handbook. Required specified unlicensed independent insurance adjusters to read and understand those materials. Required insurers to provide a claimant with the contact information of an individual or team who will be familiar with the claim if the insurer assigns a third or subsequent adjuster to the claim within a six-month period.

SB 872 (Dodd, Chapter 261, Statutes of 2020). Expanded several consumer protections related to additional living expenses, time to collect replacement value, contents coverage, and relocation after a loss.

SB 1040 (Rubio, Chapter 540, Statutes of 2022). Authorized the Insurance Commissioner to require an unlicensed person subject to the Commissioner's jurisdiction to pay restitution for a loss arising from the unlicensed person's conduct.

SB 877 (Pérez) of the current legislative session, would expand the definition of "claim-related documents" under the California Standard Form Fire Insurance Policy to include all documents that relate to the evaluation of damages, whether preliminary or final, that relate in any way to the amount of loss, covered damage, and cost of repairs.

SB 878 (Pérez) of this legislative session, would establish timelines for insurers to acknowledge, investigate, and determine the status of fire insurance claims, and require documented justifications for any delays. Also requires that certain

payments be issued within 30 days of claim acceptance, the date of loss, or the execution of a replacement contract, with interest accruing on any late payments, as specified.

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

According to the Senate Appropriations Committee:

CDI reports a fiscal impact of \$69,000 to review updated filings and California Standard Form Fire Insurance Policy (standard form) from insurers (Insurance Fund). CDI notes that because the bill requires insurers to comply by July 1, 2027, this would result in a one-time impact in Fiscal Year 2026-27.

Staff notes there may be other potential increases in administrative and enforcement workload for CDI to monitor compliance with the bill's expanded regulatory framework, including the review of required disaster response plans. The broadened authority of the Insurance Commissioner to order restitution and penalties may also result in increased investigative and enforcement activities. New mandates regarding payment timelines and coverage could lead to a higher volume of consumer service inquiries and subsequent complaint intake and enforcement actions. Total administrative and enforcement costs to CDI are unknown, but may range from absorbable to the hundreds of thousands of dollars.

**SUPPORT:** (Verified 5/14/26)

Insurance Commissioner Ricardo Lara/California Department of Insurance  
(source)

AARP

California Environmental Voters

City of Los Alamitos

City of Laguna Beach

City of Los Angeles

San Gabriel Valley Economic Partnership

United Policyholders

**OPPOSITION:** (Verified 5/14/26)

American Property Casualty Insurance Association

California Building Industry Association

Civil Justice Association of California

National Association of Mutual Insurance Companies

Pacific Association of Domestic Insurance Companies

Personal Insurance Federation of California

## **ARGUMENTS IN SUPPORT:**

Insurance Commissioner Ricardo Lara, sponsor of this bill, states in support of a previous version this bill:

“I write in strong support of your SB 876, which would strengthen consumer protections in residential property insurance by requiring regularly updated replacement cost estimates, access to meaningful coverage options, and timely claim payments after a wildfire or other covered disaster. SB 876 also requires insurers to offer extended and guaranteed replacement cost coverage, provide sufficient building code upgrade coverage, and follow clear timelines for issuing claims benefits. These reforms are designed to reduce underinsurance, prevent delays, and support faster, more stable recovery for disaster-impacted families and communities.

California’s wildfire season has become longer, more destructive, and more expensive, leaving thousands of families displaced each year. Many homeowners only discover after a total loss that their insurance coverage is far below the true cost to rebuild. Rising construction costs, and updated building codes have widened the gap between policy limits and actual rebuilding expenses. Survivors also frequently encounter delays in receiving claim payments, which prolongs displacement, increases financial strain, slows community recovery and deepens the long-term impacts of catastrophic events.

Underinsurance has become widespread across California, leaving many families unable to rebuild after catastrophic loss. Replacement cost estimates are frequently outdated or inaccurate, and homeowners are not consistently offered coverage options that reflect real rebuilding costs. Building code upgrades required during reconstruction are often not fully covered, creating unexpected financial gaps. Survivors also face delays and fragmented claim payments that slow recovery, increase out-of-pocket expenses, and prolong displacement. These systemic issues undermine the stability of families and communities following disasters.

SB 876 addresses these challenges by requiring insurers to provide accurate and regularly updated replacement cost estimates and to offer extended and guaranteed replacement cost coverage options that better reflect actual rebuilding costs. This bill strengthens building code upgrade coverage to ensure that homeowners can rebuild safely and in compliance with modern standards. It also establishes firm timelines for issuing actual cash value and replacement cost payments, improving transparency and consistency in claim handling. Together, these reforms reduce underinsurance, accelerate recovery, and support long-term community resilience.”

## **ARGUMENTS IN OPPOSITION:**

The insurance associations known as the “Trades” state in opposition to a previous version of this bill:

“SB 876 is an incredibly far-reaching measure that contains more than 20 different policy proposals, which impact insurers and policyholders in a variety of adverse ways. Among its most troubling provisions, it imposes costly mandates such as higher additional living expense limits and full contents payouts that will significantly raise premiums and further strain California’s insurance market. These mandates shift insurance away from its core function of indemnification toward more standardized, enhanced benefits, increasing the price that Californians must pay for their insurance regardless of their needs or choices.

SB 876 includes numerous provisions that are priceable but will result in major premium increases for all Californians. For example, imposing retroactive coverage expansions like mandatory additional 50% extended replacement cost and doubling additional living expense coverage after a disaster may sound beneficial to policyholders, but once the increased exposure from these coverage mandates are priced into every Californian’s homeowner’s insurance policy regardless of need or consumer choice, the “sticker shock” will be significant. This impact will not be limited to high-risk areas; it will be felt statewide, including by residents in lower-risk regions. If the Legislature’s goal is to improve affordability, these provisions will have the opposite effect.

SB 876 also substantially expands administrative penalties and restitution authority in ways that raise serious due process and market stability concerns. The bill automatically escalates penalties for alleged unfair practices during a declared state of emergency, regardless of whether the conduct caused actual consumer harm, and authorizes restitution untethered from demonstrated financial loss.

At a time when the market is already unstable, the provisions of SB 876 significantly inflate claim severity, deplete cash reserves, reduce fraud controls, and impose outsized administrative penalties, breaking the connection between priced limits and actual exposure. By decoupling coverage from underwriting and rating—without any mechanism for expedited rate relief, the bill creates substantial retroactive exposure during catastrophes when capital is already strained. This risk is especially acute in wildfire prone regions, where demand surge is extreme, and reinsurance capacity is limited. Rising compliance costs and expanded liabilities will make it harder for insurers to continue writing new or renewal policies, especially in high-risk- areas, forcing more carriers to scale back or leave the state.”

Prepared by: Brandon Seto / INS. / (916) 651-4110  
5/16/26 12:17:15

\*\*\*\* **END** \*\*\*\*