

Assembly Bill 1875 – Extended Replacement Costs

Assemblymember Jim Wood

EXISTING LAW

When a residential property insurance policy is issued, existing law requires insurers to disclose the limits of liability for specified items including, the structure and personal property.

BACKGROUND

When disaster strikes and thousands of properties are damaged all at once, the resulting shortage of labor and supplies dramatically increases the cost of rebuilding. In the aftermath of the North Bay fires last fall, it is estimated that as much as 90% of homeowners were underinsured.

Historically, insurance companies offered “guaranteed replacement cost” insurance policies that had no limit on the cost to replace a home so long as the homeowner could verify the expenses incurred. However as California’s fire seasons have become progressively worse these guaranteed policies are no longer issued by insurers.

Today, nearly all insurance policies place a limit on how much the insured will be reimbursed to replace their damaged property, even if the insured can establish the costs incurred are necessary to replace the property. In order to establish these coverage limits, the insurance company estimates the cost of replacing the property at the time the policy is issued and caps the funds available to replace the property at the amount of the estimate.

Almost all insurance companies offer extended replacement cost insurance, which allows property owners to purchase limits above the replacement cost policy limits, which are typically based upon the insurance companies estimated cost of replacement. However, those extended coverage limits may range from a single “option” of 20% to options of 50, 75, or 100% with other insurers. Unfortunately many consumers are never given options nor are they told how much, or little, the various increased

coverage options, if available, will impact their monthly premiums.

BILL SUMMARY

This bill would require insurance companies to offer a policy that covers 50% extended replacement cost coverage above the replacement cost limits.

SUPPORT

Department of Insurance

STATUS

Assembly Insurance Committee

FOR MORE INFORMATION

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